



Councils working together

## Dorset Waste Partnership Joint Committee

Date of Meeting	5 November 2018
Officer	Director of the Dorset Waste Partnership and Treasurer to the Dorset Waste Partnership
<b>Subject of Report</b>	<b>Draft Revenue Estimates 2019-20</b>
Executive Summary	<p>This report contains draft revenue estimates for 2019-20, and assumptions of capital spend for both 2019-20 and the longer term.</p> <p>The draft revenue estimates are presented to Joint Committee for noting and comment. Responsibility for approval of the draft revenue estimates sits with the Dorset Council Shadow Executive Committee, and so the budget finally approved may differ from the estimates in this report.</p> <p>The report examines the assumptions and drivers of the budget and some of the sensitivities and risks. These issues have been explored during presentations at Budget Task &amp; Finish Groups in August and September 2018.</p> <p>All figures within the draft budget have been scrutinised and challenged by the DWP Senior Management Team, and had overview by the Treasurer, with a view to minimising costs.</p> <p>The budget has been prepared on the assumption that Dorset Council will continue to deliver services in the Christchurch area in 2019/20 on the same basis as the current service, in return for a financial contribution from the BCP council. The agreed "Disaggregation Template" for waste services puts the value of services in the Christchurch area at 11.8% of the total DWP costs, and the BCP financial contribution to Dorset Council is assumed to be the same. The finer detail of the financial arrangement will</p>

	<p>be put in writing in due course, once the formal agreements for delegation of services have been agreed by both DC and BCP.</p> <p>The budget assumes income of circa £200k from Weymouth Town Council in respect of beach cleaning costs. This has yet to be formally agreed.</p> <p>The resulting budget proposal is an increase in net costs of just under £1.2m, of which around £141k (11.8%) would be funded by BCP.</p>
<p>Impact Assessment:</p>	<p>Equalities Impact Assessment: The services covered by this report have been subject to an Equalities Impact Assessment where appropriate.</p> <p>Use of Evidence: The figures for the draft revenue estimates for 2019/20 have been drawn up taking account of information about service requirements and costs provided by a range of managers of the Dorset Waste Partnership.</p> <p>Budget:</p> <p>The budget proposal is an increase from 2018/19 in net costs of just under £1.2m, of which around £141k (11.8%) would be funded by BCP.</p> <p>Risk Assessment:</p> <p>Having considered the risks associated with these decisions using the County Council's approved risk management methodology, the level of risk has been identified as:</p> <p>Current Risk: HIGH Residual Risk: HIGH</p> <p>High risk areas are financial, reputational and critical service delivery.</p> <p>Financial: The operating environment for waste has potential for overspending arising from uncontrollable external factors (e.g. market prices for recyclates), local factors (e.g. changes in the level of waste generated by Dorset households) and is heavily dependent upon key external contractual relationships for our disposal arrangements.</p> <p>Reputational: Waste is a service that affects every household in Dorset, and therefore the potential for reputational damage is far-reaching.</p> <p>Critical Service Delivery: Waste collection is a vital service for Dorset households and the waste must be disposed of safely and efficiently.</p>

Draft Revenue Estimates 2019-20

	<p>Outcomes:</p> <p>All outcomes delivered by the waste service will be dependant upon the level of resources available to deliver them. This report allows the DWP Joint Committee to comment upon the level of resources.</p>
	<p>Other Implications:</p> <p>The Joint Municipal Waste Management Strategy for Dorset (Waste Strategy Review 2017) sets out a number of key policy objectives including achieving recycling rates of 65% by 2025 and an enhanced network of local waste facilities. This proposed budget supports these objectives.</p>
<p>Recommendation</p>	<p>The DWP Joint Committee is asked to note and comment on the contents of this report.</p> <p>The DWP Joint Committee is asked to support:</p> <p>(i) feeding the budget estimates into the Medium Term Financial Plan of Dorset Council  (ii) maintaining a reserve to deal with recycle price volatility under Dorset Council, as set out in paragraph 6.3.</p>
<p>Reason for Recommendation</p>	<p>Historically, Joint Committee annually considered the proposed DWP budget each year. Responsibility for financial decisions for 2019/20 and beyond rests with Dorset Council, rather than with the DWP Joint Committee.</p>
<p>Appendices</p>	<ol style="list-style-type: none"> <li>1. Summary of Dorset Council waste budget requirement for 2019/20.</li> <li>2. Pie chart of proposed Dorset Council waste budget for 2019/20.</li> <li>3. Capital programme assumptions for 2019/20.</li> <li>4. Longer term capital programme assumptions.</li> <li>5. Budget sensitivities for 2019/20.</li> </ol>
<p>Background Papers</p>	<p>None</p>
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## 1. Background

- 1.1 The Dorset Waste Partnership was formed in April 2011, and has been a partnership of all seven Dorset councils since 1 April 2013. One of the primary objectives of the partnership was to replace the disparate waste collection systems with a single 'recycle for Dorset' scheme, which has been in place since October 2015. All properties in Dorset (over 200,000 households) now receive the service.
- 1.2 The Inter Authority Agreement (IAA) for the Dorset Waste Partnership requires the Joint Committee to approve a draft budget for the following year. However, decisions that affect the finances of Dorset Council, for 2019/20 and beyond, are decisions to be taken by the Shadow Executive Committee of Dorset Council.
- 1.3 The budget has been prepared on the assumption that Dorset Council will continue to provide services in the Christchurch area in 2019/20 on the same basis as the current service, in return for a financial contribution from the BCP council. The agreed "Disaggregation Template" for waste services puts the value of services in the Christchurch area at 11.8% of the total DWP costs, and the BCP financial contribution to Dorset Council is assumed to be the same. The finer detail of the financial arrangement will be put in writing in due course, once the formal agreements for delegation of services have been agreed by both DC and BCP.

## 2. Overview

- 2.1 A summary of the budget requirement for Dorset Council waste services in 2019/20, in comparison to the 2018/19 budget for DWP is attached at Appendix 1.
- 2.2 The DWP budget for 2018/19 is £33.5m. The proposed Dorset Council budget for 2019/20 is not directly comparable to that figure, due to a number of changes in accounting arrangements, prompted by the creation of the unitary council. These are discussed below. This report therefore focuses on the increase in budget requirement to maintain the current service.
- 2.3 The proposed budget does not include the cost of inter-council payments that the DWP would have met. These were typically payments for rent for facilities such as depots or HRCs. Whilst this is a reduction against the waste budget, Dorset Council is no better off, as the income budgets (elsewhere) will not be receiving income in respect of these facilities.
- 2.4 The proposed budget does not include the cost of support services and insurance contribution that the DWP would have met. These costs will no longer be a direct charge against the waste budget, in line with the accounting for the majority of departmental revenue service budgets. Whilst this is a reduction against the waste budget, Dorset Council is no better off, as the income budgets (elsewhere) will not be receiving income in respect of these services.
- 2.5 Changes in pension accounting mean that part of the employers cost for employing staff will be met from a central, corporate budget rather than directly from the waste revenue budget. The effect is that the cost of a FTE in

the 2019/20 waste budget appears to cost less than the same FTE in 2018/19.

- 2.6 A vacancy factor of 2% has been applied to non-frontline staff, in accordance with the advice given regarding all Dorset Council budgets.
- 2.7 No inflation has been applied to revenue budgets generally, except where annual uplift is a contractual condition (primarily the disposal contracts), in accordance with the advice given regarding all Dorset Council budgets.
- 2.8 The proposed budget assumes no significant change in the service model and includes both the costs and the income for servicing the Christchurch area. In the event that a delegation is not agreed, the overall figures remain unchanged, as both costs and income for servicing Christchurch would be eliminated.
- 2.9 The proposed budget assumes a change in collection method in the North, East, and Christchurch areas where the existing tristream/dualstream vehicles are due to be phased out as these vehicles reach the end of their life. Vehicles will not be replaced like for like, but will be replaced with the model used in the West of the County i.e. the model with standard refuse and recycling RCVs and a separate food waste collection.
- 2.10 Specific cost pressures and savings are discussed in the next section of this report. However, in overview, the budget proposal is an increase (from 2018/19) in net costs of just under £1.2m, of which around £141k (11.8%) would be funded by BCP.

### **3. Issues, assumptions and cost pressures affecting the draft estimates for 2019/20.**

- 3.1 Inflation. No inflation has been added to general revenue budget lines, as per the advice from corporate finance. Inflation has only been added to budget lines where it is a condition of the contract i.e. the HRC contract, and the various waste disposal contracts (gate fees). In these areas, inflation has been assumed at 3%, at a cost of almost £320k in total.
- 3.2 Recyclate market conditions. As members are aware, the price paid (or income received) each month for Dorset recyclate is extremely volatile as international market conditions change. The assumption in the attached proposed budget is £20/tonne, for 31,500 tonnes. Together with an assumed income on glass, the total increase required on this budget line is £609k. It must be recognised that this budget line comes with risk, as the price paid is entirely outside of the control of Dorset Council and varies on a monthly basis.
- 3.3 Annual pay award. Dorset Council will have around 400 FTEs employed in waste, of which around 310 are front line service delivery operatives (drivers, loaders, and street cleansing staff). Staff receive an annual pay award as agreed nationally. For 2019/20, this has already been agreed as a 2% increase, plus uplifts in the minimum wage which for some staff can see uplifts in the region of 4% to 5%. The effect of the pay award on the budget is estimated at a £350k increase.
- 3.4 Additional collection resource – housing growth. Pressure arising from new housing development is assumed to be absorbed within existing capacity,

and therefore there is no allowance for additional collection resource in the 2019/20 proposed budget.

- 3.5 Additional collection resource – change in service model. Changes in the service model to move away from the tristream/dualstream model to the separate food waste vehicle model requires additional staffing, particularly in respect of drivers. This is estimated at just over £400k for a full year, but assumed to be just 3 months for the 2019/20 proposed budget as new vehicles would not be expected to arrive before this point. It should be noted that the change in collection method will deliver savings in the 2020/21 budget, once the new vehicles and routes are in place, through both reduced vehicle maintenance costs on the new vehicles and efficiency savings through changes to tipping arrangements.
- 3.6 Increase in the capital financing requirement. The proposed 2019/20 budget increase assumes that capital expenditure is financed using the previous model that was used for the DWP i.e. that all capital expenditure is financed from borrowing, and repaid over the life of the asset (7 years for vehicles, 15 years for containers, and 25 years for infrastructure) plus interest. Unlike other Dorset County Council services those capital repayments are provided for in the proposed revenue budget in 2019/20 as in previous years. The capital financing budget line requires an increase of almost £1.1m, based on commitments incurred from prior year capital purchases, plus assumptions of spend in 2019/20. The proposed 2019/20 capital programme spend can be seen at Appendix 3.
- 3.7 Capital spend priorities for Dorset Council, including waste, are due to be considered at a later date by the Shadow Executive Committee. It can be seen at Appendix 3 that significant capital spend is due in 2019/20, particularly on replacement of end of life vehicles, and construction of replacement HRC and waste transfer infrastructure at Blandford.
- 3.8 The vehicles due for replacement have been the subject of a report to September 2018 DWP Joint Committee and are primarily replacement of the “tristream” vehicles purchased at the formation of the DWP. If capital funds are reduced or unavailable to replace these vehicles, then significant service disruption may result, and additional revenue costs will be incurred through additional vehicle maintenance and/or significant hire of vehicles, and the cost of dealing with escalating complaints. Short term emergency hire of vehicles on a large scale is not considered to provide best value for money (e.g. in 2014/15 the DWP spent £2million on vehicle hire budget, with minimal budget).
- 3.9 The proposed replacement infrastructure scheme at Blandford has also been subject of previous reports to DWP Joint Committee and is a priority savings project in the DWP business plan to deliver a more efficient and effective service.
- 3.10 Vehicle fuel budget realignment. The vehicle fuel budget has been realigned based on latest fuel prices / trends, at an additional budgeted cost of £166k for 2019/20. Medium / long term fuel forecasts are not particularly reliable and therefore this budget line will require ongoing close monitoring.
- 3.11 The total cost pressures detailed above, plus other minor changes, produce a total cost pressure of over £2.8m for the 2019/20 budget. However, the proposed budget also includes savings/additional income generation and

other budget reductions of more than half of the cost pressure; these are set out below.

#### **4. Savings / additional income generation / other budget reductions for 2019/20.**

- 4.1 Behaviour change campaigns and other waste disposal changes. In 2017/18 volumes of waste arisings were lower than anticipated, and more waste is being sent for treatment - at a lower cost than historic landfill costs. Volumes of waste arisings are not directly controllable by the DWP, but can be influenced by ongoing change campaigns undertaken by the DWP education team, along with national campaigns around plastic use, etc. As a result of these campaigns it is estimated that the 2019/20 budget can be reduced by £572k, reflecting the lower waste arisings.
- 4.2 Change in haulage arrangements. As a result of changes to disposal arrangements, in order to seek better value for money, the cost (distance) of haulage for 2019/20 proposed budget can be reduced by £333k.
- 4.3 Growth in Commercial Services. The Garden Waste service and Trade Waste service have seen considerable growth and success in recent years. Estimates for continued growth in 2019/20 should see the contribution to overheads increase by £200k compared to the current year. As agreed by Joint Committee, the price for the Garden Waste service is determined by the Chairman and Director, and is set at £50.50 for 2019/20.
- 4.4 Benefits of new ICT system (in-cab technology). In June 2017, the Joint Committee agreed to the procurement of replacement ICT system, including the 'back office' database and associated functions for Commercial Services. The rollout of the associated "in-cab" devices will initially be in Commercial Service vehicles, but may be rolled out to the domestic fleet if trialled successfully. An additional £100k of income generation resulting from the improved processes in commercial services has been incorporated into the 2019/20 budget.
- 4.5 Other minor budget realignments. Around £150k of minor budget realignments have been applied to the 2019/20 budget, including cessation of rental of third-party premises in West Dorset used for container storage.
- 4.6 Weymouth beach cleaning income. The budget assumes £200k of income from Weymouth Town Council in respect of beach cleaning costs.

#### **5. Budget sensitivity**

- 5.1 Some illustrations of the major budget sensitivities are attached at Appendix 5.

#### **6. Budget Equalisation Reserve**

- 6.1 The Joint Committee are reminded that the following funds are currently held in the reserve:

<b>Partner Council</b>	<b>Balance as at 1st April 2018 £</b>
DWP Reserve Christch	48,682
DWP Reserve DCC	793,325
DWP Reserve EDDC	73,050
DWP Reserve NDDC	65,850
DWP Reserve Purbeck	49,806
DWP Reserve W&PBC	96,406
DWP Reserve WDDC	103,105
	<b>1,230,224</b>

- 6.2 The reserve will be reduced by any overspend that is incurred at the end of 2018/19.
- 6.3 The Budget Equalisation Reserve (BER) was set up as a method to smooth out major impacts to DWP partner finances. As partner councils cease to exist due to local government reorganisation, there is arguably no need to keep the BER, as all risk will sit within Dorset Council. However, it is prudent to recognise that the fluctuations in recycle price caused by international market conditions are likely to continue to create “good years” and “bad years” in the waste budget, and for that reason it is suggested that a reserve be maintained under Dorset Council, albeit a reserve that forms part of an overall Dorset Council reserves strategy. The proposal to keep a reserve is in line with national guidance.
- 6.4 The DWP Joint Committee are asked to comment and support the proposal in paragraph 6.3 above, to maintain a reserve to deal with recycle price volatility.

## **7. Summary of increased budget requirement**

- 7.1 The figures presented show cost pressures of £2.8m, and savings and/or income generation of £1.6m applied to the budget, resulting in a net increase in budget requirement of just under £1.2m.
- 7.2 Members are reminded that, of this increased budget requirement, approximately half is attributable to the adverse shift in recycle price.
- 7.3 Members are also reminded that, of the net increase in budget requirement, around 11.8% will be funded by income from BCP in respect of maintaining the current service at Christchurch.