



Dorset Waste Partnership Joint Committee

Date of Meeting	7 November 2016
Officers	Treasurer to the Dorset Waste Partnership
Subject of Report	Draft Revenue Estimates 2017-18
Executive Summary	<p>This report contains draft revenue estimates for 2017-18. An updated Medium Term Financial Plan and Capital Programme are presented elsewhere on the agenda.</p> <p>The draft revenue estimates are presented at this early stage to facilitate comment from partner councils, before formal agreement at the January 2017 Joint Committee meeting.</p> <p>Sections of the report explain a number of the main aspects, assumptions and drivers of the budget and some of the sensitivities and risks. In broad terms, the budget reflects stability on the collection side now that the 'Recycle for Dorset' scheme is fully rolled out. The disposal side of the budget reflects expectations in volume growth and price increases are linked to inflation as part of the contractual arrangements for disposal. Recyclate price remains volatile, being linked to macro-economic factors, which in turn drive the market price.</p> <p>Details of the savings that are being applied to the budget for 2017/18 are shown, and explained in detail in the main body of the report.</p>

	<p>Update cost shares are also illustrated based on the draft estimates presented in accordance with the Inter Authority Agreement.</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 2017/18 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 contributions expected from each partner to fund the draft revenue budget for 2017/18 are set out in Appendix 2.</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 the Dorset Waste Partnership 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: The Dorset Waste Partnership is considered to be a good example of partnership working, with some initial reputational difficulties having now been countered by good financial and operational performance in recent times. However, the underlying risk remains and is reflected in the Dorset Waste Partnership risk register.</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>
<p>Other Implications: Sustainability</p> <p>A key objective of the Dorset Waste Partnership is to provide a harmonised service that maximises levels of recycling across the</p>	

	county. The current business plan sets out to achieve a level of 60%.
Recommendations	<p>The DWP Joint Committee is asked to consider the information in this report and:</p> <ul style="list-style-type: none"> i) Recommend the draft revenue estimates for 2017/18 to partner councils, for consideration at the next Joint Committee on 16 January 2016. ii) Note the savings proposals included within the revenue estimates for 2017/18. iii) Note the cost shares for each partner council.
Reason for Recommendations	The Inter Authority Agreement requires the Joint Committee to recommend a draft estimate for the following year to partner councils. This is to enable partners to give their views on the draft estimates and to reflect them in their own budgets.
Appendices	<ul style="list-style-type: none"> 1. Draft revenue estimates 2017/18. 2. Cost shares for each partner.
Background Papers	None
Report Originator and Contact	<p>Name: Andy Smith, Treasurer to the Dorset Waste Partnership, Tel: 01305 224031 Email: a.g.smith@dorsetcc.gov.uk</p> <p>Name: Paul Ackrill, Finance and Commercial Manager, Dorset Waste Partnership, Tel: 01305 224121 Email: Paul.Ackrill@dorsetwastepartnership.gov.uk</p>

1. Background

- 1.1 The Dorset Waste Partnership was formed in April 2011, and has been a partnership of the seven Dorset councils since West Dorset District Council and Weymouth and Portland Borough Council became fully active partners on 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 now receive the service, which is approximately 201,000 properties.
- 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. Partner councils must

consider the draft budget and respond to the Joint Committee by 16 January with any comments or proposed amendments to it.

- 1.3 Elsewhere on the agenda is an updated Medium Term Financial Plan which shows how the service will develop over the next few years. The updated Medium Term Financial Plan will also inform the financial planning of the partner councils.

2. Overview

- 2.1 The draft estimates for 2017/18 are contained in Appendix 1 together with a breakdown of costs for each partner council at Appendix 2.
- 2.2 The proposed cost of the service for 2017/18 is estimated to be £33.100M and includes net savings of £1.149m which will be needed to achieve the budget.
- 2.3 There are thought to be good practical prospects of achieving the level of savings stated above, ensuring that the budget has been set on a reasonable basis.

3. Issues and Assumptions affecting the draft estimates for 2017/18

- 3.1 The starting point for the draft revenues estimates is the updated 2016/17 budget. Figures have been updated to take account of later information and further knowledge of service delivery since previous Medium Term Financial Plans were presented.
- 3.2 The estimates represent the best level of knowledge that is available at the time of writing. The figures presented in this paper have been considered by the various DWP budget holders and the Senior Management Team, and are considered appropriate for the purpose of informing partner councils of the estimated cost of the service, including reasonable expectations around securing future savings and thus being able to indicate 2017/18 costs to partner councils.
- 3.3 Some significant assumptions have been made in forming the draft estimates for 2017/18 which brings a degree of risk around the robustness of the estimates, should the practical experience of running the service prove to be different from the assumptions made.
- 3.4 Significant issues and assumptions are listed below:
- 3.5 Inflation. A significant proportion of the revenue budget (approaching 50%) is contracted out, with the major contracts being for the Household Recycling Centres (HRCs) and various waste disposal arrangements. These contracts are subject to an annual uplift based on nationally recognised inflation indices. For the purposes of this budget, an inflation rate of 1% has been applied, in line with budget guidance issued by the host authority. This adds almost £194k to the budget.
- 3.6 Annual pay award. The DWP has approximately 390 FTE employees, of which around 310 are front line service delivery operatives (drivers, loaders, and street cleansing staff). As County Council employees, DWP staff receive an annual pay award as agreed nationally. For 2017/18, this has already been agreed at a 1% increase. This adds around £130k to the budget.

- 3.7 Volumes of household waste arising. The DWP are assuming that volumes of household waste arising will increase by, in the main, 2% (around 4,000 tonnes). This is in line with expectations of household waste growth anticipated in the waste local plan. This adds almost £312k to the budget.
- 3.8 Recyclate price. The price paid for disposal of recyclate is dependent upon the market price, which is subject to international economic factors. In the past, a considerable *income* had been received from the sale of high quality recyclate. For 2016/17 a *cost* of £20 per tonne had been assumed in the budget. The 2017/18 budget assumes a price per tonne *paid* of £17.32/tonne, giving a total budget of just over £521k, based on an assumption of 30,090 tonnes of material. The figure is £17.32 per tonne is based on an average price over the last 12 months, adjusted for a recent uplift in haulage. Whilst recent monthly prices have been more favourable for the DWP, this budget line will no doubt remain volatile, with current or past prices not necessarily being a guide to future prices. This budget line will continue to be monitored closely going forward.
- 3.9 Disposal arrangements. Disposal contracts make up a significant proportion of the overall DWP revenue budget, on an assumed total disposal tonnage of 201,432 tonnes at a total budgeted cost of £10.810m.
- 3.10 Charging for containers. The budget contains a new budget line for income arising from charging for containers, at a value of £83.5k.
- 3.11 Garden Waste trading account. The draft revenue budget contains assumptions on the Garden Waste trading account based on the decision taken by Joint Committee in September 2016 i.e. delivering a service to over 43,000 customers with a full year charge of £47.50. The trading account is budgeted to make a contribution to overheads of £614.3k. This is an improvement of £165k over the 2016/17 budgeted contribution (£449k).
- 3.12 Commercial Waste trading account. The Joint Committee will be aware of the steady growth in the DWP Commercial Waste service. The 2016/17 budget was set at a contribution to overheads of just over £100k, with the latest forecasts suggesting that this could be exceeded by £300k. The draft revenue budget presented here recognises this growth, though also recognises the costs that come with growth (i.e. additional collection and disposal costs) and in particular the cost of further replacement of old vehicles. The overall effect for 2017/18 is calculated as a contribution to overheads of £314k, which is an improvement of £213k over the 2016/17 budgeted position.
- 3.13 Savings identified in the 2016/17 budget round. The major item in the 2016/17 budget round was the route optimisation work in the areas of East Dorset and Christchurch. This work was initially estimated to save £250k per annum (revised to £234k on a later reiteration of the calculation). The Joint Committee will be aware that the route optimisation work was considered to be largely but not fully successful and as a result, some additional temporary resource in 2016/17 has had to be allocated in the area to catch up. The effect on the permanent levels of resource are not totally clear at the

time of writing, but a more prudent estimated saving of £117k per annum has been included in the budget for 2017/18, pending further clarification.

- 3.14 Vehicle workshop staff budget. The budget for 2017/18 assumes an increase in vehicles maintenance capacity.
- 3.15 Hire of vehicles. With the vehicle purchases that are due to arrive in autumn of 2016, no significant element of the DWP fleet will be on a hired basis in 2017/18. The budget for hiring vehicles is therefore reduced by £100k to just over £200k, which is considered to be the 'business as usual' level of hire – hire will always be expected on a small scale to deal with unforeseen breakdowns and seasonal variations (such as beach raking in summer).
- 3.16 Leased vehicles at Weymouth. The DWP uses leased vehicles at the Crookhill depot under a long term lease arrangement with Weymouth & Portland Borough Council. The number of vehicles leased has reduced over time, in line with the agreed lease schedule. The 2017/18 budget line sees a reduction of over £171k on leased vehicles. 2017/18 is the final year of using these leased vehicles under this arrangement. Replacement vehicles have been catered for as part of the vehicle replacement programme.
- 3.17 Leased sweepers. 2016/17 saw the DWP take ownership of 17 leased sweepers, at a cost of £564k per annum (including maintenance agreements), following a procurement exercise which indicated that leased sweepers presented better value for money than purchases. Although this is a new budget line, it is not an additional cost pressure – the budget line has been funded from existing budget lines for capital charges and maintenance, which would have borne the costs if these vehicles had been purchased.
- 3.18 Bin delivery resource has been identified as a pressure point. A sum of £50k has been included in the 2017/18 budget as an estimate to address this.
- 3.19 The capital charges budget effectively represents the write-off (depreciation) costs of capital expenditure on assets plus associated interest on borrowing of funding. The capital charges budget for 2017/18 is based on the latest expectations of the capital programme, which is the subject of a separate paper on this same agenda.
- 3.20 Insurance costs. DWPs insurance needs are dealt with via the host authority, whose approach is partly via self-insurance and partly via the insurance market. The insurance costs for 2017/18 will be the subject of a procurement exercise that the host authority is currently undertaking, and the results of that exercise will not be available in time for this budget setting exercise. This budget assumes an inflationary increase on the existing level. It is not anticipated that the procurement exercise will result in either significant increase or significant savings for the DWP, however it is not possible to be certain until the results are known.

4. Savings for 2017/18

- 4.1 Net savings of £1.149m have been applied to the 2017/18 budget as follows.

- 4.2 Reduction in host authority support service costs, of around £94k, bringing the budget from £1.075m (2016/17) to £993k (2017/18, including annual uplift). DWP have been working with support services to reduce costs wherever possible. These savings have been identified primarily through reduced contact centre demand and savings through financial transactional support, as well as reduced demand for use of the design and print services since the rollout of 'Recycle for Dorset' has completed. There is some ongoing work being pursued to agree further savings in ICT, finance and procurement support. Savings from the ongoing work cannot yet be considered as 'secure' but the size of potential savings is relatively small compared to the budgeted savings.
- 4.3 The full year effect of the new HRC contract delivers a saving of almost £523k for the 2017/18 budget.
- 4.4 The agreed changes to HRC opening hours in winter delivers a saving of almost £160k for the 2017/18 budget.
- 4.5 The changes to bring bank provision that took place in summer 2016 delivers a saving of almost £123k for the 2017/18 budget.
- 4.6 The capital charges budget sees an ongoing reduction of £250k due to the agreed changes in accounting for bin life over 15 years rather than 10 years.

5. Cost Sharing

- 5.1 The Inter Authority Agreement requires notification of residential properties by partner council every year as a driver for the agreed cost sharing formula. Data has been updated to reflect these numbers as at October 2016 in accordance with the agreement; updated figures are shown in Appendix 2. It should be noted that the County Council percentage will be unaffected by any changes in residential property numbers.
- 5.2 The budget will be presented again for final approval at the Joint Committee meeting of 16 January 2017.

6. Sensitivity and Risks

- 6.1 The assumptions made in the calculation of the draft estimates for 2017/18 are of course subject to varying degrees of risk. Listed below are an indication of the sensitivity and risk of each of the major factors used.
- 6.2 Recyclate price paid is assumed to be £17.32 per tonne. A variation of £1 per tonne would result in a change of around £30k in a full year.
- 6.3 The budget currently assumes household waste growth of 2%. A variation of 1% would result in a change of around £150k in a full year.
- 6.4 The fuel budget has been based on long term projections of industry experts. Nonetheless, prices for vehicle fuel can be subject to unforeseen fluctuations. The fuel

budget, excluding the trade waste and garden waste services, is £1.3m for the year. A 1% variation in prices paid would affect the DWP by £13k.

7. Budget Equalisation Reserve

- 7.1 The Joint Committee are reminded that, at the end of financial year 2015/16, it was agreed to set up a budget equalisation reserve. The following funds are currently held in the reserve:

Local Authority	Amount held in Budget Equalisation Reserve (£)
Dorset County Council	336,587
Christchurch BC	20,316
East Dorset DC	30,863
North Dorset DC	27,382
Purbeck DC	20,835
West Dorset DC	37,982
Weymouth & Portland BC	45,620
Total	519,584

8. Next Steps

- 8.1 The budget timetable as set out in the Inter Authority Agreement requires the Joint Committee to approve a budget at this Joint Committee for consideration and comment by partner councils. Final approval will be sought by the Joint Committee in January 2017, to allow partner councils to set their own budgets and council tax levels during February 2017.
- 8.2 Further work will continue in ensuring that the savings plan, as set out, can be achieved in practice and in a timely fashion.
- 8.3 The Dorset Finance Officers Group will be invited to review the draft estimates, together with the redrawn Medium Term Financial Plan, so that their views can be considered and to ensure that they the draft estimates and Medium Term Financial Plan meets the needs of all partners.

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