



Dorset Waste Partnership Joint Committee

Date of Meeting	6 November 2017
Officers	Treasurer to the Dorset Waste Partnership and Finance and Commercial Manager of the DWP
Subject of Report	Draft Revenue Estimates 2018-19
Executive Summary	<p>This report contains draft revenue estimates for 2018-19. An updated Medium Term Financial Plan and Capital Programme are presented elsewhere on the agenda.</p> <p>The draft revenue estimates are presented to Joint Committee in November 2017 to facilitate comment from partner councils, before formal agreement at the January 2018 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. These issues were explored in some depth at informal budget workshops with elected members of all partner councils as well as finance colleagues from partner councils. The resulting budget proposal is a standstill budget of £33.1mill, which satisfies the affordability questions for partners, which leaves some parts of the budget exposed to greater risk than has previously been the case. This risk is to some extent balanced by the sum of £1m held in the Budget Equalisation Reserve (BER), funds put aside specifically to deal with budget risk going forward but on a 'one off' basis. The level of funds held in the BER are anticipated to be sufficient to deal with all but the most extreme and unforeseen circumstances in 2018/19.</p> <p>Details of the main budget elements, and associated risks, are given in the body of the report.</p>

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	<p>Cost shares for each partner authority are also illustrated based on current tax base figures for each partner. These will be updated when autumn 2017 figures are known, in accordance with the cost sharing 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 2018/19 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 2018/19 are set out in Appendix 2 based on current tax base figures which will be updated in accordance with the cost sharing agreement.</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 historical reputational difficulties having now been countered by good financial and operational performance for several years. 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>

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	<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 county. The current strategy sets out to achieve a level of 65% by 2025.</p>
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 2018/19 to partner councils, for consideration at the next Joint Committee on 15 January 2018. ii) Note the level of savings proposed, totalling around £700k within the revenue estimates for 2018/19. iii) Note the cost shares for each partner council.
Reason for Recommendations	<p>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.</p>
Appendices	<p>Appendices –</p> <ul style="list-style-type: none"> 1. Draft revenue estimates 2018/19. 2. Cost shares for each partner – based on current tax base. 3. Analysis of budget changes from 2017/18 to 2018/19 and an illustration of savings for 2018/19.
Background Papers	<p>None</p>
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 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 now receive the service, which is expected to be around 205,000 properties in 2018/19.

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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 15 January 2018 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 is estimated to 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 2018/19 are contained in Appendix 1 together with a breakdown of costs, based on current tax base figures, for each partner council at Appendix 2, and a high level analysis of budget changes is shown at Appendix 3.

2.2 The proposed cost of the service that Joint Committee are asked to approve for 2018/19 is £33.1m.

2.3 Informal budget workshops have been held in October 2017 with elected members, senior managers, and finance representatives of all partner councils, to consider the affordability of the 2018/19 budget, and consider options where there might be a greater appetite for risk, and/or desire to reduce the service in order to achieve further financial savings. The informal workshops considered the proposal for an “as is” budget requirement of £33.8m, and although various views were expressed, the majority view was that in order to meet the criteria of the budget being affordable for all partners it needed to reduce to £33.1m.

2.4 The following issues were considered at the informal budget workshops:

- Recyclate price volatility, and whether additional risk could be taken with regard to the assumptions made in budget setting for 2018/19.
- Predictions of the volume of waste arising, and whether further risk could be taken with regard to the assumptions made in budget setting for 2018/19.
- Whether changes to the Household Recycling Centre service should be actively considered, in order to achieve further financial savings.
- To what extent the current year forecast of underspend, and the existing £1m Budget Equalisation Reserve, can be considered as a mitigating factor in setting a lower 2018/19 budget.

A range of other, longer term, issues were considered for further investigation, such as:

- change of working patterns
- double-shifting
- setting up an arm's length trading company for commercial activity
- review the policy regarding collection points
- investigate monthly glass collection

2.5 Whilst the outcomes of the budget workshops were neither formal nor definitive, the resultant discussion has satisfied the Treasurer and Director that a budget of £33.1m, if approved by the Joint Committee, whilst recognising an increased appetite for risk in some areas, is thought to have good practical prospects of being achieved, ensuring that the budget has been set on a reasonable basis.

3. Issues and Assumptions affecting the draft estimates for 2018/19

- 3.1 The starting point for the draft revenues estimates is the current 2017/18 position. Figures have been updated to take account of latest information and further knowledge of service delivery since previous medium term financial plans and budgets 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 2018/19 costs to partner councils.
- 3.3 Some significant assumptions have been made in forming the draft estimates for 2018/19 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. Some assurance can be taken from the existence of the Budget Equalisation Reserve (BER) with funds currently at £1m, to be able to absorb any arising overspend. Depending on the assumptions made on risk, the level of funds within the BER should prove sufficient for all but the most extreme and unforeseen circumstances. It should also be noted that, at the time of writing, the financial forecast for 2017/18 is favourable, which, if still the case at year end, will allow the Joint Committee to consider whether the BER could be further 'topped up' at that point, following the close of the 2017/18 financial year, particularly if circumstances have changed at that stage.
- 3.4 Significant issues and assumptions are listed below.
- 3.5 Inflation. A significant proportion of the revenue budget (approximately half) is contracted out, with the major contracts being for the Household Recycling Centres (HRCs), transfer stations, and various waste disposal arrangements. These contracts are subject to an annual uplift based on nationally recognised inflation indices (CPI and RPI). For the purposes of this budget, an inflation rate of 2.5% has been applied. Together with "catch-up" of inflation in respect of 2017/18 (for which inflation was budgeted at 1%, but has recently been as high at 2.9%) this adds almost £650k to the budget.
- 3.6 Annual pay award. The DWP has almost 400 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 2018/19, this has already been estimated at a 1% increase. The total pay budget increase required is almost £170k. There is speculation that the national pay award could rise above 1%, though there is nothing firm in terms of amounts or timing.
- 3.7 Additional collection resource. Pressure arising from new housing development is absorbed within existing capacity wherever possible. However, for 2018/19 existing collection is stretched and additional frontline resource of £166k is required.
- 3.8 Volumes of household waste arising. Pressure on the disposal contracts arising from further household growth will add £250k to the 2018/19 budget, based on a growth factor of 2.5%. This figure is speculative, and could be reduced if there is a greater appetite for risk.

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- 3.9 Recyclate price. The price paid for disposal of recyclate is dependent upon the market price, which is subject to international economic factors. Periodically, *income* has been received from the sale of high quality recyclate. For 2017/18 a cost of £17.32 per tonne had been assumed in the budget. The draft 2018/19 budget currently assumes a price per tonne paid of £9.47/tonne, being based on the trend pattern of the recyclate price in recent history and noting an expected worsening in the international market particularly due to the 'National Sword' operation in China, which is expected to have global repercussions. 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. Once again, this budget line could be reduced if there is a greater appetite for risk.
- 3.10 Garden Waste trading account. The draft revenue budget contains assumptions on that the Garden Waste customer base continues to expand, and increases the contribution to overheads accordingly. As agreed at last Joint Committee, the price for the service has been determined by the Chairman and Director and is set at £49.00 for 2018/19.
- 3.11 Commercial Waste trading account. The Joint Committee will be aware of the steady growth in the DWP Commercial Waste service. The 2018/19 budget aims for ambitious growth in income from £2.144m budgeted for 2017/18 to £2.347m as a target for 2018/19. However, due to the costs of needing to replace the ageing vehicle fleet, the bottom line contribution remains unchanged.
- 3.12 The capital charges budget effectively represents the repayment costs of capital borrowing on assets plus associated interest on borrowing of funding. The capital charges budget for 2018/19 is based on the latest expectations of the capital programme. A report elsewhere on this agenda sets out the latest expectations of capital spend going forward. This adds almost £350k to the budget for 2018/19

4. Savings for 2018/19

- 4.1 The budget already includes savings and cost reductions in a number of areas as follows:
- End of inherited leasing arrangements for the Crookhill area. (Approximately £160k)
 - Changing waste disposal arrangements to more favourable prices / contracts (Approximately £160k)
 - Agreed reductions in support service costs (Approximately £45k)
 - Transport staffing changes (Approximately £30k)
- 4.2 On the assumption that the current DWP service, after a reassessment of budget assumptions, is estimated to cost £33.8m and that partner funding, in total, may be limited to £33.1m, additional savings of £0.7m need to be found to balance the budget. The major mitigations for dealing with this are discussed in outline at paragraph 2.4 above. Some of these suggestions require further investigation, consultation and specific Joint Committee approval before they can be implemented.
- 4.3 In order to deal with the requirement to consult partners on a draft 2018/19 budget, it is proposed that the savings to be found are established as a 'budget savings target' in the figures presented at this stage. An illustration of how this may be achieved is shown in the bottom half of Appendix 3.

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4.4 When the 2018/19 proposed budget is considered by the Joint Committee in January 2018 for formal approval, it will include greater detail on where the budget savings target will actually be found; potentially a combination of revised budget assumptions that introduce greater risk and actual changes in service delivery.

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 not yet been received to reflect these numbers as at October 2017 in accordance with the agreement; latest 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 Following consideration of these budget proposals by partner councils, the budget will be presented again for final approval at the Joint Committee meeting of 15 January 2018.

6. Budget Equalisation Reserve

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

Local Authority	Amount held in Budget Equalisation Reserve (£)
Dorset County Council	645,591
Christchurch BC	39,485
East Dorset DC	59,400
North Dorset DC	53,324
Purbeck DC	40,388
West Dorset DC	81,123
Weymouth & Portland BC	80,690
Total	1,000,000

6.2 The Joint Committee are reminded that should the forecast underspend for 2017/18 be realised that there will be options to consider around making a further contribution

to the Budget Equalisation Reserve and / or returning underspends to partners in accordance with the cost sharing agreement.

7. Risks and sensitivities

- 7.1 The section of the report is intended to give Joint Committee members a quantification of the major financial risks and sensitivities associated with the proposed 2018/19 budget.
- 7.2 Recyclate price. Using prices from the last two years as a basis, price swings of up to £0.5m in either direction are conceivable.
- 7.3 Vehicle fuel price. An upwards movement of 25p per litre, if in place for the whole year, would cost the DWP around £0.5m.
- 7.4 Residual waste. The highest price for residual waste disposal in 2018/19 almost £119 per tonne (before haulage), with around 62,000 tonnes expected during the year. A 1% variation in tonnages arising will have an effect of around £74k.
- 7.5 HRC charging arrangements. There is a threat that legislation may reverse the charging arrangements implemented at HRCs, which would cost the DWP at least £250k.
- 7.6 Closed landfill liabilities. The DWP has responsibility for numerous closed landfill sites. Unforeseen closed landfill failures will have a significant but unquantifiable cost.

8. Next Steps

- 8.1 The budget timetable as set out in the Inter Authority Agreement requires the Joint Committee to approve a draft budget at this Joint Committee for consideration and comment by partner councils. Final approval will be sought by the Joint Committee in January 2018, to allow partner councils to set their own budgets and council tax levels during February 2018.
- 8.2 Further work will continue in ensuring that the savings requirement (£700k), as set out, can be achieved in practice and in a timely fashion taking account of comments received from partners during the period of consultation, leading up to the January 2018 Joint Committee.

Andy Smith, Treasurer to the Dorset Waste Partnership
Paul Ackrill, Finance and Commercial Manager, Dorset Waste Partnership
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