

PAPER NO: WRWA 891

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	25 th November 2019
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 020 871 2788) 15 th November 2019
SUBJECT	The budget forecast for 2019/20 and the prospects for Apportionment of Waste Disposal Costs (AWDC) rates and the Levy are provided through to 2020/21.
CONTENTS	<p>Page 1 Executive Summary</p> <p>Page 1 Background</p> <p>Page 1 Key Assumptions at Budget Setting Time</p> <p>Page 2 Experience in 2019/20</p> <p>Page 4 Forecast Projections 2020/21</p> <p>Page 9 Recommendation</p> <p>Page 10 Appendix A – Projected AWDC Costs and Income</p> <p>Page 11 Appendix B – Levy Charge</p> <p>Page 12 Appendix C – Actual costs to date</p>
STATUS	Open - circulation of this paper is not restricted.
BACKGROUND PAPERS	None.

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WESTERN RIVERSIDE WASTE AUTHORITY

BUDGET FORECAST 2019/20 -2020/21

EXECUTIVE SUMMARY

BACKGROUND

1. The budget forecast compares the original budget of the Authority for 2019/20 with the revised budget for the year and provides prospective Levy and “Apportionment of Waste Disposal Costs” (AWDC) rates (i.e. the amounts charged to constituent Councils for the tonnage of waste delivered) for 2020/21 as a range of values.
2. The majority of the Authority’s costs are driven by the weight and composition of waste collected and delivered by constituent councils. These are recharged to the constituent councils at a specified rate per tonne which reflects the estimated cost to the Authority under the disposal contract with Cory. The basis of this recharge is set out in an agreement between the constituent councils and the Authority dated 12th February 2009 (see Paper No. WRWA 629). The Authority and constituent councils have agreed to the extension of the current agreement from April 2017 for a period of a further eight years.
3. The General Running Costs of the Authority comprises all costs which are not allocated to the individual waste streams and include the cost of Civic Amenity waste and Authority overheads, including business rate costs. These costs are apportioned as a residual Levy among constituent councils on the basis of their council tax-bases. This basis of charge is set out in The Joint Waste Disposal Authorities (Levies) Regulations (England) 2006.

KEY ASSUMPTIONS AT BUDGET SETTING TIME

4. The Treasurer in his statutory role under section 73 of the Local Government Finance Act 1985 has to make a number of assumptions when arriving at the final budget. Some of these are still in the assumption stage at the time the budget is set to meet the Statutory deadline for setting the Levy and rates of 15th February:

- (i) Inflation levels – a complex mix of indices make up each element of contractual disposal rates per waste stream. As per the contract, rates are based upon indices as at December each calendar year. These are not known in time to meet the statutory deadline.
- (ii) Electricity sold at Belvedere EfW plant. Under the contract, electricity prices form part of the General Waste rate. The Authority receives income from the electricity generated if the market price exceeds the ‘threshold’ (uplifted under the terms of the contract, currently £64.94 per MWh in 2019/20). However, below this threshold the Authority incurs a charge (above a floor, currently £44.53 per MWh in 2019/20). Electricity rates are variable depending upon the market price achieved for the energy. The energy portfolio is managed by via a Power Purchase Agreement with an energy provider which strives to achieve the best value via a mixture of selling in advance at a closed price and achieving an ‘open’ value based upon the day ahead price within the market. The volatility of electricity prices has been discussed in previous Authority papers.
- (iii) Tonnage levels – these are normally based on current trends (see Paper No. WRWA 892 elsewhere on this agenda).
- (iv) Contamination levels in the recyclate.
- (v) Legal and consultancy costs in relation to discussions with Battersea Power Station and Cory with regard to the Cringle Dock redevelopment and Cory in respect of the Riverside Energy Project.

EXPERIENCE IN 2019/20

5. The Reserve balances at 1st April 2019 were as follows:

General Fund Reserve	£4,621,000
Stabilisation Reserve	£6,829,000
Loan Repayment Reserve	£8,500,000
Recycling Reserve	£250,000
Pension Liability Reserve	£1,800,000
Total Usable Reserves	£22,000,000

The General Fund reserve covers the regular General Fund reserve requirement, plus £1.5 million set aside against the maximum risk the Authority could be liable for in relation to planning costs for the redevelopment of Cringle Dock. At the end of 2018/19 the Authority approved the transfer of £8.5m into the new Loan Repayment Reserve in order to fund the repayment of PWLB loans when they become due, leaving £4.6m in the General Fund reserve.

6. During 2019/20 the Loan Repayment Reserve will be used to repay £5.5m PWLB loans as they become due, leaving a balance of £3m. This will reduce overall usable reserves to £16.5m.
7. The Authority is also still in discussions with Deloitte, the external auditor, around the accounting treatment of the £3.5m facilitation payment from Cory in October 2018. This has been recognised in full as income in 2018/19 and therefore sits within reserves. However, Deloitte suggest that this income may require spreading over the remaining life of the contract, i.e. £250,000 per year. This would reduce overall usable reserves to £13.25m. The Authority has not yet been convinced by the auditor's arguments. As a result of continuing discussions with audit, a provision has been made for additional audit fees of up to £40,000 in the 2019/20 forecast.
8. The original budget for AWDC (see para 1 for definition) rates income for 2019/20 and the Annual Levy for each borough is shown below:-

	AWDC Charges £'000	Annual Levy £'000	Total £'000
Hammersmith & Fulham	9,345	906	10,252
Kensington and Chelsea	9,821	1,114	10,935
Lambeth	14,495	1,249	15,744
Wandsworth	12,812	1,523	14,335
Total	46,473	4,793	51,266

9. When the budget was set in February 2019, the general waste rate was set at a charge of £150.50 for the constituent boroughs in 2019/20. This price was set with no expected subsidisation from the Stabilisation Reserve. The actual position is outlined in the Financial Summary at Appendix A to this report, which demonstrates the latest forecast for 2019/20 is a deficit of around £508,000 on AWDC rates. The position reflects lower than budgeted electricity prices and minor changes to the other elements of the general waste rate as outlined in the table

below (and in Paper No. WRWA 896 elsewhere on this agenda). Electricity prices were predicted to average £54.90/MWh over the financial year (23% above the floor), but the average price (excluding any insurance adjustment) is now predicted to be £48.80/MWh, only 9% above the floor, due in part to warm weather and good capacity in the market suppressing prices over the summer.

10. Members will be aware that damage to the turbine at the Belvedere facility prevented the generation of electricity during the period 10th October 2018 to 29th May 2019. Discussions around the benefits for the Authority in relation to the insurance arrangements Cory entered into are still unresolved, but are expected to generate income to the Authority which was not reflected in the 2018/19 accounts. This payment will also reflect the benefit if RRRL had successfully achieved the Triad payments. Triad payments are never assumed within the budget setting process.
11. Commodity income. The constituent councils can receive commodity income on recyclables. This income is very volatile and, whilst £279,000 was received between April and September 2017, with the exception of £24,150 in July 2018 there has been no income since, primarily due to a fall in commodity prices generally and oversupply in the market following China imposing import restrictions from January 2018. Demand for mixed plastic is also low, although this only accounts for 1% of the MRF output, and there is no suggestion that this will improve. Constituent councils are advised to make their own assumptions regarding income levels for the year bearing this in mind.

FORECAST PROJECTIONS 2020/21 ONWARDS

12. General Waste Rates. The general waste rate is made up of a Disposal Gate Fee, Transport Cost, Handling Fee, Landfill Tax (on residual 'fly ash'), Business Rates, Contract Contingency Rebate and Electricity Cost/ Income as per the contract with Cory. The breakdown of these elements is commercially sensitive and is reported in Paper No. WRWA 896 elsewhere on this agenda. The cost per tonne is:

	2019/20			2020/21	
	Budget	Forecast	Variance	Estimate Optimistic	Estimate Pessimistic
	£/ tonne	£/ tonne	£/ tonne	£/ tonne	£/ tonne
TOTAL	150.25	152.48	2.23	155.86	159.08
Borough Charge	150.50	150.50	0	154.00	154.00
Subsidy	-0.25	1.98	2.23	1.86	5.08

13. The electricity price included in the forecast for 2020/21 ranges from an average price of £48.00/MWh to an average price of £53.00/MWh, which compares to the current prediction for 2019/20 of around £49.00/MWh. To mitigate risk regarding the electricity price RRRL sell electricity ahead, which is advantageous to us in a falling market, but will reduce the reward in a rising market. As the future market beyond Brexit is currently uncertain, at this stage, the assumptions in the table above are prudent for the 2020/21 budget and further information may be able to inform the position when the budget is set in February. RRRL have not yet traded any electricity for summer or winter 2020 yet.
14. Another factor which has not been taken into consideration in the 2019/20 and 2020/21 budgets is the outcome of the European Commission's (EC) investigation into the UK's Capacity Market (CM) scheme state aid compliance.
15. The CM scheme was suspended on 15th November 2018 following a ruling, which found that the EC had erred on procedural grounds in granting state aid approval to the UK for the CM scheme in July 2014, but on 24th October 2019 the EC concluded that the CM scheme was clear to continue as it had not found any evidence that the CM scheme would put any capacity providers at a disadvantage with respect to their participation in it, nor was it concluded that the mechanism distorted competition in the single market.
16. The CM scheme is designed to ensure a reliable electricity supply with energy companies bidding to supply capacity to the national grid at times of stress and in return receive steady payments across the duration of the contract. The government holds these auctions four years in advance and this revenue visibility is meant to incentivise investment in new and existing generation assets.
17. While it may now be a formality, the CM scheme is still the subject of a High Court hearing in November 2019, but it is expected that the CM scheme will be reinstated shortly, with outstanding payments held back by the scheme's suspension free to be paid in full.
18. RRRL had CM contracts at £6.95/kW between October 2017 and September 2018, and £6.00/kW between October 2018 and September 2019, and it is anticipated that the Authority may receive a back payment of around £183,000 as a consequence. RRRL has CM contracts at £0.77/kW between October 2019 and September 2020, and £23.41/kW between October 2020 and September 2021,

which will provide a small benefit to the Authority in 2019/20, but could produce around £450,000 of additional income to the Authority in 2020/21.

19. Three forthcoming auctions are scheduled to take place between late January and early March 2020 which will secure power capacity out to 2023/24, the prequalification results for which are due to be published in November 2019. An update will be provided in February when the Budget is set if further information is known.
20. The projected total General Waste rate charge for constituent councils could be subsidised by the Authority using the Stabilisation Reserve. If a 2% increase was applied to the General Waste rate to bring the price to £154.00 per tonne, depending upon the inflationary rates and price of electricity, this will require at least the use of £500,000 of the Stabilisation Reserve based upon the assumptions in the optimistic scenario above. Based upon the pessimistic assumptions, a subsidy of £5.08 per tonne or £1,430,000 would be required to be funded from the reserve.
21. Co-mingled Recycling Rates. It is expected that the current rolling arrangement of a reduced co-mingled recycling rate with Cory will continue during 2020/21. It is expected that the rate will be able to be kept at a zero inflationary uplift remaining at the 2019/20 value of £28.00.
22. Summary of all AWDC rates. The constituent borough rates for 2019/20 and predictions for 2020/21 are detailed overleaf. Predictions for 2021/22 will be available in the February budget paper.

Predicted Rates per Tonne

Waste Type	Current contract cost 2019/20	Variable #	Current council charge 2019/20	Predicted Contract cost 2020/21	Predicted 2020/21 as at Feb 2019
	£	£	£	£	£
General waste	152.48		150.50	See above	155.51
Co-mingled recyclables	27.03		28.00	27.84	55.34*
Green waste	64.36	36.75	100.00	66.58	68.71
Batteries	58.87		60.00	61.00	61.97
Clinical	704.89		709.00	739.41	733.53
Detritus	80.60		81.50	82.98	84.05
Electricals	51.31		53.00	53.08	54.77
Fridges	50.00		50.50	51.88	51.75
Gas Bottles	134.00		134.50	139.03	138.69
Glass	30.60	0.00	38.00	31.66	32.67
Inert	30.29		31.50	31.20	32.23
Oil/Paint	127.55		130.00	132.16	134.26
Paper	27.00	-15.00	-27.00	27.93	28.83
Scrap Metal	51.31	-53.00	0.00	53.08	54.77
Textiles	19.80	-230.00	-209.50	20.49	21.14
Tyres	288.23		290.00	300.15	299.69
Wood	48.61	60.00	112.50	50.28	51.89

*Assumed the fall out of the reduced rate negotiated with Cory at this stage which was extended

The variable element relates to the income or cost derived from market fluctuations in the price of commodities as they are sold on the market.

23. The variable element can be subject to significant market volatility and constituent councils are recommended to make their own assumptions regarding the future likelihood of these costs. Constituent councils need to be cautious before introducing any new recycling initiatives based on an assessment of the potential income from what are, in fact, volatile market prices. The Authority attempts to secure fixed prices for the year January to December, or longer if possible, but due to the volatility in market prices the General Manager is authorised to adjust these prices during the year, in consultation with the Treasurer.

24. The table provides for all waste streams currently handled by constituent councils or directly by the Authority. Should other waste streams be introduced in future, authority has been delegated to the General Manager in consultation with the Treasurer to set rates for the new waste streams.
25. Levy Costs. Appendix B details the Authority costs which are funded by the Levy payments from constituent councils. The Administration & General costs continue to include consultancy and legal advice costs in relation to both Riverside Energy Project discussions and potentially additional costs regarding the Cringle Dock redevelopment. Current forecasts predict a maximum 4% increase in the Levy requirement reflecting the full cost of the waste delivered to the CA site without using any reserves to subsidise this element. This will be considered further before setting a final levy in February. The Levy for 2020/21 will be agreed by the Authority at its meeting in February 2020, when the Tax Bases of the constituent Boroughs will be known. The indicative Levy requirement due in April 2020 for 2020/21 is between £4.5m and £5.0m charged to constituent councils (using 2019/20 council tax base apportionments as a guide), as follows:

	2019/20 Actual £'000	2020/21 Proposed Optimistic £'000	Pessimistic £'000
Hammersmith & Fulham	906	851	945
Kensington and Chelsea	1,114	1,046	1,162
Lambeth	1,249	1,173	1,303
Wandsworth	1,523	1,430	1,589
TOTAL	4,793	4,499	5,000

26. This compares to the 2019/20 Levy requirement of £4.793m which had reduced from £6.910m in 2016/17, already a reduction of 31% over four years. However it should be noted that, when setting the 2013/14 Levy, I suggested that as far as practicable, the Levy would be held stable rather than having year on year fluctuations, so as to minimise the impact on boroughs' council tax and reduce the risk of triggering a council tax referendum. This will be kept under review and a final Levy recommended for approval in February.

CONSULTATION WITH CONSTITUENT COUNCILS

27. The proposed forecast outlined here has been discussed with the Section 151 Finance Officers (or their representatives) of all of the constituent boroughs at a meeting on 5th

November 2019. Some follow up questions were received which have been satisfactorily responded to by email. Any further comments received before the meeting will be verbally presented to Members.

RECOMMENDATION

28. The Authority is recommended to note this report for information.

Western Riverside Transfer Station
Smugglers Way
Wandsworth
London SW18 1JS

CHRIS BUSS
Treasurer

15th November 2019

Projected AWDC Costs and Income

<u>Direct Tonnage costs (AWDC)</u> (tonnage assumed to remain constant)	2019/20		2020/21	
	Budget	Forecast	Predicted - OPTIMISTIC	Predicted - PESSIMISTIC
	£000	£000	£000	£000
<u>Operating Expenditure</u>				
General Waste	43,919	43,237	44,194	45,108
Co-mingled Recyclate	1,870	1,804	1,858	1,858
Other	684	649	666	666
	46,474	45,689	46,718	47,632
<u>Direct Tonnage Income (AWDC)</u>				
General Waste				
Hammersmith & Fulham	-8,677	-8,382	-8,577	-8,577
Kensington and Chelsea	-8,993	-8,764	-8,968	-8,968
Lambeth	-13,272	-12,999	-13,301	-13,301
Wandsworth	-11,466	-11,251	-11,513	-11,513
Co-mingled Recyclate				
Hammersmith & Fulham	-315	-324	-324	-324
Kensington and Chelsea	-450	-453	-453	-453
Lambeth	-560	-538	-538	-538
Wandsworth	-569	-555	-555	-555
Contamination*				
Hammersmith & Fulham	-262	-241	-246	-246
Kensington and Chelsea	-283	-262	-268	-268
Lambeth	-502	-407	-416	-416
Wandsworth	-435	-369	-378	-378
Other				
Hammersmith & Fulham	-91	-49	-50	-50
Kensington and Chelsea	-95	-148	-151	-151
Lambeth	-159	-144	-159	-159
Wandsworth	-342	-298	-305	-305
	-46,473	-45,181	-46,201	-46,201
AWDC (surplus)/ deficit	0	508	517	1,430

APPENDIX B**LEVY CHARGE**

LEVY cost	2019/20 Budget £000	2019/20 Forecast £000	2020/21 Predicted £000 Optimistic	2020/21 Predicted £000 Pessimistic
Employees	629	585	538	596
LPFA Levy	54	52	53	55
Business Rates	593	547	566	572
Administration & General -Legal/ Consultancy costs	345	345	345	500
Administration & General - Other direct costs	310	356	356	406
WBC Financial support*	60	60	61	61
WBC Admin support	27	25	25	25
CA site Tonnage and running costs	2,587	2,779	2,807	2,837
Capital charged to Revenue/ Refurb	230	156	-	-
Capital Financing	272	233	99	99
Total Cost	5,107	5,137	4,849	5,150
Miscellaneous Income	- 314	- 499	-350	-150
Levy Income	-4,793	-4,793	-4,499	-5,000
Total Income	-5,107	-5,292	-4,849	-5,150
Levy (surplus)/ deficit	0	-154	0	0

*** Breakdown of WBC support:**

<u>Financial Support</u>	<u>£'000</u>
Accounting & Budgeting	35
Financial Advice/Support	15
Internal Audit	6
Pensions/Payroll	2
Debt Management	2
	<hr/>
	60
<u>Admin Support</u>	<u>£'000</u>
Clerk & Admin Support	25
	<hr/>
	25

APPENDIX C

Actual costs up to end September 2019	2019/20 Mth 6 actual £000	2019/20 Original Budget £000
All Waste Tonnage costs, including CA site and running costs	20,858	49,061
Employees	274	629
LPFA Levy	26	54
Business Rates	328	593
Administration & General -Legal/ Consultancy costs	164	345
Administration & General - Other direct costs	100	310
WBC Financial support	30	60
WBC Admin support	12	27
Capital charged to Revenue/ Refurb	0	230
Capital Financing	3,136	272
Total Cost	<u>24,928</u>	<u>51,581</u>
Income from Boroughs	-18,104	-46,473
Miscellaneous Income	- 223	-314
Total Income	<u>-18,326</u>	<u>-46,787</u>
Total cost	6,602	4,793
Transfer from Loan Repayment Reserve	-3,000	
	<u>3,302</u>	<u>4,793</u>
Full annual Levy	-4,793	-4,793