

**PAPER NO: WRWA 20-27****WESTERN RIVERSIDE WASTE AUTHORITY**

<b>MEETING</b>	11th November 2020
<b>REPORT AUTHOR/ DATE</b>	Treasurer (Chris Buss-Tel 020 871 2788) 2nd November 2020
<b>SUBJECT</b>	The budget forecast for 2020/21 and the prospects for Apportionment of Waste Disposal Costs (AWDC) rates and the Levy are provided through to 2021/22.
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<b>STATUS</b>	Open - circulation of this paper is not restricted.
<b>BACKGROUND PAPERS</b>	None.

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## **WESTERN RIVERSIDE WASTE AUTHORITY**

### **BUDGET FORECAST 2020/21 -2021/22**

#### **EXECUTIVE SUMMARY**

##### **BACKGROUND**

1. The budget forecast compares the original budget of the Authority for 2020/21 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 2021/22 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 12<sup>th</sup> 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 15<sup>th</sup> 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 £66.37 per MWh in 2020/21). However, below this threshold the Authority incurs a charge (above a floor currently £45.51 per MWh in 2020/21). 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 who strive 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 20-25).
- (iv) Contamination levels in the recycle.
- (v) Legal and consultancy costs in relation to discussions with Battersea Power Station and Cory with regard to Cringle development and Cory regarding the Riverside Energy Project.

### **EXPERIENCE IN 2020/21**

5. The Reserve balances 1<sup>st</sup> April 2020 were as follows:

General Fund Reserve	£3,313,000
Stabilisation Reserve	£10,186,000
Loan Repayment Reserve	£0
Recycling Reserve	£250,000
Pension Liability Reserve	£1,800,000
<b>Total Usable Reserves</b>	<b>£15,549,000</b>

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. The

underspend of just over £2m in 2019/20 was transferred to the Stabilisation Reserve in order to fund the planned subsidisation of the General Waste Rate, further detail below.

6. When the budget was set in February 2020, the general waste rate was set at a charge of £154.00 for the constituent boroughs in 2020/21. This price was set with an expected subsidisation from the Stabilisation Reserve of £4.19 per tonne equivalent to £1,176,000 from the reserve. The actual position is outlined in the Financial Summary at Appendix A which demonstrates the latest forecast for 2020/21 is very similar to that estimate with a deficit of around £1,158,000 on AWDC rates. The position reflects a difference of £0.03 on the General Waste Rate with electricity performing worse than expected but offset by slight changes in the other elements of the rate as outlined in the table below (and in Paper No. WRWA 20-28). Electricity prices were predicted to average £46.77/MWh over the financial year (2.7% above the predicted floor level) but the average price is now predicted to be at the floor level of £45.51/MWh all year based upon the demand for energy in the current climate.
7. Members will be aware that damage to the turbine at the Belvedere facility prevented the generation of electricity during the period 10<sup>th</sup> October 2018 to 29<sup>th</sup> May 2019. Discussions around the benefits for the Authority in relation to the insurance arrangements Cory entered into have been outlined to the Authority before. There is a potential that a final agreement may be reached before the end of 2020/21, provision for which has not been reflected in the accounts to date. This payment will also reflect the benefit if RRRL had successfully achieved the Triad payments. Similarly Triad payments are also due for the 2019/20 financial year when two of the three target dates were achieved, at an estimated £1.4m. Triad payments are never assumed within the budget setting process. The inclusion of these payments allow the optimistic position outlined below for 2021/22, using a higher level of reserves to subsidise rates.
8. As outlined in Paper No. 20-25, Development Consent has been granted for the Riverside Energy Park, triggering payment of the first tranche of monies to the Authority. £175,000 has been received but further discussions with the auditors are required in order to agree the treatment of these funds i.e. whether this amount should be spread over the remaining life of the WMSA in a similar way to previous receipts. This income has therefore not been assumed in full in 2020/21 at this stage. Further information will be included in the Budget setting paper.

9. The original budget for AWDC (see para 1 for definition) rates income for 2020/21 and the Annual Levy for each borough is shown below:-

	<b>AWDC Charges £'000</b>	<b>Annual Levy £'000</b>	<b>Total £'000</b>
Hammersmith & Fulham	9,133	849	9,982
Kensington and Chelsea	9,673	1,028	10,701
Lambeth	14,301	1,175	15,476
Wandsworth	12,459	1,427	13,885
<b>Total</b>	<b>45,566</b>	<b>4,478</b>	<b>50,044</b>

10. 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 and £8,150 in May 2019, 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. Commodity income arrangements are part of the new co-mingled rate outlined below for 2021/22.
11. Borough rebates for closure of HWRC. As the HWRC was closed for the period from 24<sup>th</sup> March – 11<sup>th</sup> May, the boroughs received proportionate rebates on the Levy element of the charge to represent the reduced tonnage delivered and hence disposal costs incurred by the Authority. Therefore Levy income for the year is £223,000 lower than budgeted. Since the site has reopened, officers have been monitoring tonnage levels. Based upon data up to the end of September, the current prediction is a reduction in total waste of 15.1% and a reduction in General Waste of 10.5%. However, in the four months since re-opening the General Waste tonnage has been 22% higher than the same period last year. Hopefully additional data will be available for the budget setting paper in order to provide a more accurate forecast of the surplus/deficit on the Levy position.

### **FORECAST PROJECTIONS 2021/22 ONWARDS**

12. Reserve Levels. As outlined above, the Authority is expecting to receive from Cory:

2018/19 Insurance settlement	£1,522,000
2019/20 Triad payment	£1,383,000
<b>Total</b>	<b>£2,905,000</b>

Neither of which have been factored into the accounts or budgets to date as too uncertain. If successfully received, these amounts will be able to be applied to 2020/21 accounts and added to reserves. It is likely that I will request authority to transfer these sums either to the Stabilisation Reserve, bringing the balance to £11,933,000 assuming the estimated use during 2020/21 of £1,158,000 outlined above or to the Loan Repayment Reserve which is currently at a nil balance. The Authority has outstanding loans of £3m redeemable with £2m in 2021/22 and £1m in 2025/26.

13. 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 20-25 elsewhere on this agenda. The cost per tonne is:

	2020/21			2021/22	
	Budget	Forecast	Variance	Estimate Optimistic	Estimate Pessimistic
	£/ tonne	£/ tonne	£/ tonne	£/ tonne	£/ tonne
TOTAL	158.19	158.22	0.03	160.20	160.42
Borough Charge	154.00	154.00	0	157.00	158.50
Subsidy	4.19	4.22	0.03	3.20	1.92

14. The electricity price included in the forecast for 2021/22 ranges from the estimated floor level of £46.04/MWh to the latest estimate from Cory at £46.38/MWh. The current prediction for 2020/21 is the floor level of £45.51/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 during the pandemic and beyond Brexit is currently uncertain, at this stage, the assumptions in the table above are prudent for the 2021/22 budget and further information may be able to inform the position when the budget is set in February. RRRL have not traded any electricity for summer or winter 2021 yet.
15. The table above assumes that the total General Waste rate charge for constituent councils is subsidised by the Authority using the Stabilisation Reserve. The optimistic scenario suggests a 2% increase in the General Waste rate for boroughs

to bring the price to £157.00 per tonne. Depending upon tonnage levels, the inflationary rates and price of electricity, this will require the use of £890,000 of the Stabilisation Reserve. Based upon the pessimistic assumptions for boroughs, with a smaller subsidy of £530,000 from Reserves or £1.92 per tonne, the General Rate charge could be £158.50.

16. Co-mingled Recycling Rates. The revised contract rate for co-mingled recycling outlined to the Authority in June 2020 will take effect from April 2021. Based upon the latest inflation estimates, the contract rate for 2021/22 is likely to be £50.54 per tonne. As the Authority has reserves available to subsidise this rate as well as the General Waste rate, I am mindful to offer a smoothing of the increase from the current charge of £28.00 per tonne to the new contract rate.

17. The table below outlines the estimated charge and subsidy required for an optimistic and pessimistic scenario for the constituent councils over both 5 year and 3 year price alignment proposals:

Optimistic for Boroughs over 5 years	Estimated contract rate	Borough Charge	Subsidy	Reserve use
	£/ tonne	£/ tonne	£/ tonne	£000
2021/22	50.54	33.44	17.20	1,206
2022/23	51.55	38.88	12.87	902
2023/24	52.58	44.32	8.56	600
2024/25	53.63	49.76	4.27	299
2025/26	54.71	54.71	-	-
<b>Total</b>				<b>3,008</b>

Pessimistic for Boroughs over 3 years	Estimated contract rate	Borough Charge	Subsidy	Reserve use
	£/ tonne	£/ tonne	£/ tonne	£000
2021/22	50.54	36.19	14.35	1,006
2022/23	51.55	44.39	7.16	502
2023/24	52.58	52.58	-	-
2024/25	53.63	53.63	-	-
2025/26	54.71	54.71	-	-
<b>Total</b>				<b>1,508</b>

18. A final decision on the subsidisation of this rate will be made when further information is available when the 2021/22 budget is set.
19. Commodity Income. The revised agreement with Cory also incorporates an improved income arrangement. The Authority will receive 50% of the commodity income over a basket price of £25, the gate fee would be reduced by £1.50 if commodity income was higher than £65 per tonne and again by a further £1.00 if commodity income exceeded £75 per tonne. No assumptions have been made within the budget for any income to be generated. All income will be retained by the Authority. If prices rise so much that these exceed the subsidy put in place by the Authority, this excess will then be transferred to the boroughs. Constituent councils are advised to make their own assumptions regarding income levels for the year bearing this in mind.
20. Summary of all AWDC rates. The constituent borough rates for 2020/21 and predictions for 2021/22 are detailed below. Predictions for 2022/23 will be available in the January budget paper.

**Predicted Rates per Tonne**

<b>Waste Type</b>	<b>Current contract cost 2020/21</b>	<b>Variable #</b>	<b>Current council charge 2020/21</b>	<b>Predicted Contract cost 2021/22</b>	<b>Predicted 2021/22 as at Feb 2020</b>
	£	£	£	£	£
General waste	158.22		<b>154.00</b>	See above	162.15
Co-mingled recyclables*	27.73		<b>28.00</b>	See above	54.13
Green waste	66.17	36.75	<b>103.00</b>	64.50	68.24
Batteries	60.92		<b>61.00</b>	60.00	62.52
Clinical	727.69		<b>600.00</b>	744.00	748.06
Detritus	82.44		<b>83.00</b>	83.50	84.57
Electricals	52.75		<b>53.50</b>	51.50	54.40
Fridges	51.88		<b>52.00</b>	52.00	53.17
Gas Bottles	139.03		<b>139.50</b>	139.00	142.50
Glass	31.47	0.00	<b>32.00</b>	30.53	31.29
Inert	31.04		<b>31.50</b>	30.50	31.98
Oil/Paint	131.99		<b>132.50</b>	130.00	135.46
Paper	27.76	-15.00	<b>18.00</b>	27.00	28.63
Scrap Metal	52.75	-75.47	<b>-21.97</b>	51.50	54.40
Textiles	20.36	-230.00	<b>-199.50</b>	20.00	21.00
Tyres	296.11		<b>297.00</b>	302.00	304.26
Wood	49.98	60.00	<b>110.50</b>	48.50	51.54

\*As outlined above the reduced rate negotiated with Cory in 2013 will be replaced with revised agreement from 2021/22

# 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.

21. 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.
22. 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.
23. 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 redevelopment. Current forecasts predict a similar Levy requirement to 2020/21 reflecting the full cost of the waste delivered to the CA site without using any reserves to subsidise this element but a slight reduction in tonnage. The LPFA 2019 valuation showed the Authority's proportion of the fund in surplus and therefore the Authority is no longer required to pay the LPFA a separate levy over and above the pension contributions for existing staff. The overall position will be considered further before setting a final levy in February. The Levy for 2021/22 will be agreed by the Authority at its meeting in February 2021, when the Tax Bases of the constituent Boroughs will be known. The indicative Levy requirement due in April 2021 for 2021/22 is approximately £4.5m charged to constituent councils (using 2020/21 council tax base apportionments as a guide) as follows:

	<b>2020/21</b>	<b>2021/22</b>
	<b>Actual</b>	<b>Proposed</b>
	<b>£'000</b>	<b>£'000</b>
Hammersmith & Fulham	849	847
Kensington and Chelsea	1,028	1,026
Lambeth	1,175	1,174
Wandsworth	1,427	1,424
<b>TOTAL</b>	<b>4,478</b>	<b>4,472</b>

24. This compares to the 2020/21 Levy requirement of £4.478m which had reduced from £6.910m in 2016/17, already a reduction of 35% over 5 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**

25. 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 22<sup>nd</sup> October 2020. The discussions centred around a preference for the Authority to consider weighting the subsidy provided on the co-mingled rate to the immediate future, thereby reducing the impact on the boroughs in the short-term acknowledging that this will require steep increases in later years. Any option to do this may require an increased use of the Authority's reserves. In any event, the co-mingled rate should increase by at least inflation in 2021/22. Options will be considered prior to setting the budget in February and will be shared with constituent councils prior to the Authority meeting.

### **RECOMMENDATION**

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

Western Riverside Transfer Station  
Smugglers Way  
Wandsworth London SW18 1JS

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CHRIS BUSS  
Treasurer

3rd November 2020

**Projected AWDC Costs and Income**

<u>Direct Tonnage costs (AWDC)</u> (tonnage assumed to remain constant)	2020/21		2021/22	
	Budget	Forecast	Predicted - OPTIMISTIC	Predicted - PESSIMISTIC
	£000	£000	£000	£000
<u>Operating Expenditure</u>				
General Waste	44,889	43,994	44,547	44,607
Co-mingled Recyclate	1,856	1,945	3,544	3,544
Other	703	658	659	659
	47,448	46,597	48,751	48,810
<u>Direct Tonnage Income (AWDC)</u>				
General Waste				
Hammersmith & Fulham	-8,569	-8,544	-8,710	-8,794
Kensington and Chelsea	-8,962	-6,919	-7,054	-7,121
Lambeth	-13,351	-13,598	-13,863	-13,996
Wandsworth	-11,516	-12,339	-12,580	-12,700
Co-mingled Recyclate				
Hammersmith & Fulham	-324	-347	-413	-448
Kensington and Chelsea	-450	-340	-405	-440
Lambeth	-536	-623	-742	-805
Wandsworth	-556	-654	-779	-845
Contamination*				
Hammersmith & Fulham	-240	-248	-253	-255
Kensington and Chelsea	-261	-202	-206	-208
Lambeth	-413	-495	-504	-509
Wandsworth	-387	-477	-486	-491
Other				
Hammersmith & Fulham	-53	-56	-58	-58
Kensington and Chelsea	-155	-122	-121	-121
Lambeth	-164	-157	-155	-155
Wandsworth	-334	-319	-327	-327
	-46,272	-45,439	-46,655	-47,272
AWDC (surplus)/ deficit	1,176	1,158	2,095	1,538

**APPENDIX B****LEVY CHARGE**

LEVY cost	2020/21 Budget £000	2020/21 Forecast £000	2021/22 Predicted £000
Employees	625	633	646
LPFA Levy	53	4	-
Business Rates	556	525	543
Administration & General -Legal/ Consultancy costs	480	480	480
Administration & General - Other direct costs	239	225	225
WBC Financial support*	62	62	63
WBC Admin support	26	26	26
CA site Tonnage and running costs	2,991	2,846	2,961
Capital Financing	182	182	153
<b>Total Cost</b>	<b>5,214</b>	<b>4,984</b>	<b>5,097</b>
Miscellaneous Income	-461	-538	-350
Deferred Income	-250	-250	-250
Transfer from Reserves	-25	-25	-25
<b>Levy Income</b>	<b>-4,478</b>	<b>-4,255</b>	<b>-4,472</b>
<b>Total Income</b>			
<b>Levy (surplus)/ deficit</b>	<b>0</b>	<b>-84</b>	<b>0</b>

**\* Breakdown of WBC support:**

<u>Financial Support</u>	<u>£'000</u>
Accounting & Budgeting	36
Financial Advice/Support	16
Internal Audit	6
Pensions/Payroll	2
Debt Management	2
	<u>62</u>
<u>Admin Support</u>	<u>£'000</u>
Deputy Clerk & Admin Support	26
	<u>26</u>

**APPENDIX C**

Actual costs up to end September 2020	2020/21 Mth 6 actual £000	2020/21 Original Budget £000
All Waste Tonnage costs, including CA site and running costs	21,682	50,438
Employees	312	625
LPFA Levy	4	53
Business Rates	315	556
Administration & General -Legal/ Consultancy costs	23	480
Administration & General - Other direct costs	31	239
WBC Financial support	31	62
WBC Admin support	13	26
Capital Financing	91	182
<b>Total Cost</b>	<b>22,502</b>	<b>52,661</b>
Income from Boroughs	-22,492	-46,272
Miscellaneous Income	- 274	-461
Recharges to Cory	-1	-
Deferred income	-125	-250
Transfer from Reserves	-	-25
<b>Total Income</b>	<b>-22,892</b>	<b>-47,008</b>
<b>Net cost</b>	<b>-390</b>	<b>5,653</b>
Full annual Levy	-4,255	-4,478