

PAPER NO: WRWA 21-27

WESTERN RIVERSIDE WASTE AUTHORITY

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| MEETING | 10th November 2021 |
| REPORT AUTHOR/ DATE | Treasurer (Chris Buss-Tel 020 871 2788) 2nd November 2021 |
| SUBJECT | The budget forecast for 2021/22 and the prospects for Apportionment of Waste Disposal Costs (AWDC) rates and the Levy are provided through to 2022/23. |
| 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 2021/22</p> <p>Page 4 Forecast Projections 2022/23</p> <p>Page 8 Recommendation</p> <p>Page 9 Appendix A – Projected AWDC Costs and Income</p> <p>Page 10 Appendix B – Levy Charge</p> <p>Page 11 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 2021/22 -2022/23

EXECUTIVE SUMMARY

BACKGROUND

1. The budget forecast compares the original budget of the Authority for 2021/22 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 2022/23 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. (i.e. until March 2025)
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 Household Waste and Recycling Centre (“HWRC”) 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 £67.37 per MWh in 2021/22). However, below this threshold the Authority incurs a charge (above a floor currently £46.20 per MWh in 2021/22). 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 21-25).
- (iv) Contamination levels in the recyclate.
- (v) Legal and consultancy costs in relation to discussions with regard to Cringle development and the Residual Value Agreement.

EXPERIENCE IN 2021/22

5. The Reserve balances 1st April 2021 were as follows:

| | |
|------------------------------|--------------------|
| General Fund Reserve | £3,313,000 |
| Stabilisation Reserve | £9,575,000 |
| Loan Repayment Reserve | £3,000,000 |
| Recycling Reserve | £250,000 |
| Pension Liability Reserve | £1,800,000 |
| Total Usable Reserves | £17,936,000 |

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. The underspend of £2.4m in 2020/21 was transferred to the Loan Repayment Reserve,

along with £0.6m from the Stabilisation Reserve in order to fully provide for the repayment of the outstanding PWLB loans.

6. When the budget was set in January 2021, the general waste rate and the co-mingled rate for 2021/22 were both set with an expected subsidy from the Stabilisation Reserve as follows:

| | Council charge per tonne | Expected Subsidy per tonne | Reserve use |
|------------------------|--------------------------|----------------------------|-------------|
| General Waste | £157.00 | £4.53 | £1,268,000 |
| Co-mingled recyclables | £29.00 | £21.54 | £1,519,000 |
| Total Reserve use | | | £2,787,000 |

Further contributions from reserves in order to reduce costs to boroughs were also provisionally agreed for 2022/23 and future years as set out below:

| Subsidy from Reserve £000 | 2022/23 | 2023/24 | 2024/25 |
|----------------------------------|-------------------|-----------------|-----------------|
| General Waste rate | £1,559,000 | - | - |
| Co-mingled | £1,396,000 | £994,000 | £524,000 |
| Total | £2,954,000 | £994,000 | £524,000 |

7. The actual position is outlined in the Financial Summary at Appendix A which demonstrates the latest forecast for 2021/22 is an improved position, with a total estimated deficit of around £540,000 on AWDC rates. The position reflects two key differences:
- a) difference of -£3.28 on the General Waste Rate with electricity performing much better than expected as outlined in the table overleaf. Electricity prices were predicted to be at or below the floor level for the year at £46.38/MWh (£13.65/ tonne) but the average price is now predicted to be at the level of £50.32/MWh (£10.94/tonne) for the year based upon actual energy sales. A number of other elements had lower levels of inflation than predicted when the budget was set.
 - b) Achievement of £785,000 recyclate income for the first six months of the year, predicted to continue at similar levels, generating a total of £1.3m income. This is discussed further below.
8. The original budget for AWDC (see para 1 for definition) rates income for 2021/22 and the Annual Levy for each borough is shown below:-

| | Original Budget | | | Latest Estimates | | |
|------------------------|-----------------|--------------|---------------|------------------|--------------|---------------|
| | AWDC | Annual | Total | AWDC | Annual | Total |
| | Charges | Levy | | Charges | Levy | |
| £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | |
| Hammersmith & Fulham | 9,430 | 839 | 10,269 | 9,671 | 839 | 10,510 |
| Kensington and Chelsea | 8,005 | 1,006 | 9,010 | 9,299 | 1,006 | 10,305 |
| Lambeth | 15,207 | 1,150 | 16,356 | 15,297 | 1,150 | 16,447 |
| Wandsworth | 14,064 | 1,411 | 15,475 | 14,168 | 1,411 | 15,579 |
| Total | 46,706 | 4,405 | 51,111 | 48,434 | 4,405 | 52,840 |

Despite the better than estimated General Waste rate, borough costs have risen due to increases in tonnage levels above those expected when the budget was set. Further information regarding tonnage levels is elsewhere on this agenda.

9. Commodity income. As Members will be aware, the revised agreement with Cory for co-mingled recyclate also incorporates an improved income arrangement. The Authority receives 50% of the commodity income over a basket price of £25, the gate fee is reduced by £1.50 if commodity income is higher than £65 per tonne and again by a further £1.00 if commodity income exceeds £75 per tonne. As outlined in the January budget setting paper, all income is retained by the Authority whilst a subsidy is in place. Income received to the end of September 2021 totals £785,000. A prudent estimate for the full year of £1.3m has been incorporated in the forecast at this stage and will be reviewed when setting the budget in January.

FORECAST PROJECTIONS 2021/22 ONWARDS

10. 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 21-28 elsewhere on this agenda. The cost per tonne is:

| | 2021/22 | | | 2021/23 | |
|----------------|----------|----------|----------|------------------------|-------------------------|
| | Budget | Forecast | Variance | Estimate Optimistic | Estimate Pessimistic |
| | £/ tonne | £/ tonne | £/ tonne | £/ tonne | £/ tonne |
| TOTAL | 161.53 | 158.25 | -3.28 | 159.62 | 162.41 |
| Borough Charge | 157.00 | 157.00 | - | 160.00 | 162.50 |
| Subsidy | 4.53 | 1.25 | -3.28 | -0.38 | -0.09 |

11. 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. RRRL sold most of its 2021/22 capacity before the recent price rises and have currently sold approximately 70% of 2022/23 volume. The electricity price included in the forecast for 2022/23 ranges from the latest estimate from Cory of an average £59.40/MWh (based on current forward prices) up to an improved price of £61.07/MWh assuming the uncommitted value achieves a higher price. Further information may be able to inform the position when the budget is set in February. RRRL have not traded any electricity beyond March 2023 yet.
12. The table above assumes that the total General Waste rate charge for constituent councils does not require a subsidy from the Authority. The optimistic scenario suggests a 2% increase in the General Waste rate for boroughs to bring the price to £160.00 per tonne. Based upon the pessimistic assumptions for boroughs, the price would be £162.00 per tonne, an increase of 3.5%.
13. Co-mingled Recycling Rates. Based upon the latest inflation estimates, the contract rate for 2022/23 is likely to be £54.18 per tonne. This is higher than the expected 2022/23 rate when the budget was set in February 2021. At that time, it was proposed to smooth the rate, resulting in a charge of £32.00/tonne in 2022/23 or £19.80/tonne subsidy. Setting the rate at £32.00 will require a subsidy of £22.18, equivalent to £1.5m drawing from reserves, whilst providing a £19.80/tonne subsidy would require the rate to be set at £34.40 or £1.4m from reserves. The former has been included in the optimistic scenario and the latter the pessimistic.
14. A final decision on the subsidisation of this rate will be made when further information is available when the 2022/23 budget is set.
15. Commodity Income. The revised arrangements for commodity income are outlined above. No assumptions have been made within the pessimistic budget for any income to be generated but £1m has been reflected in the optimistic position, reducing the required contribution from reserves to £0.5m.

16. Summary of all AWDC rates. The constituent borough rates for 2021/22 and predictions for 2022/23 are detailed below. The contract uses RPI for an element of the inflationary increase which has been estimated at around 5% with any indices which are linked to current energy markets expected to be higher. Current Predictions for 2023/24 will be available in the February budget paper.

Predicted Rates per Tonne

| Waste Type | Current contract cost 2021/22 | Variable # | Current council charge 2021/22 | Predicted Contract cost 2022/23 | Predicted 2022/23 as at Feb 2021 |
|------------------------|--------------------------------------|-------------------|---------------------------------------|--|---|
| | £ | £ | £ | £ | £ |
| General waste | 158.25 | | 157.00 | See above | 165.56 |
| Co-mingled recyclables | 50.49 | | 29.00 | See above | 51.80 |
| Green waste | 64.24 | 31.00 | 95.50 | 68.61 | 65.80 |
| Batteries | 59.97 | | 60.00 | 63.30 | 61.41 |
| Clinical | 737.49 | | 744.00 | 773.50 | 762.26 |
| Detritus | 73.51 | | 83.50 | 86.55 | 85.44 |
| Electricals | 51.22 | | 51.50 | 54.69 | 52.46 |
| Fridges | 51.72 | | 52.00 | 53.75 | 53.01 |
| Gas Bottles | 138.61 | | 139.00 | 144.05 | 142.07 |
| Glass | 30.55 | 0.00 | 31.00 | 32.62 | 31.29 |
| Inert | 30.28 | | 30.50 | 32.18 | 31.05 |
| Oil/Paint | 129.94 | | 130.00 | 137.15 | 133.06 |
| Paper | 26.96 | -20.00 | 7.00 | 28.79 | 27.61 |
| Scrap Metal | 51.22 | -85.00 | -33.50 | 54.69 | 52.46 |
| Textiles | 19.77 | -95.00 | -75.00 | 21.11 | 20.25 |
| Tyres | 299.49 | | 302.00 | 311.92 | 309.16 |
| Wood | 48.52 | 37.50 | 86.00 | 51.82 | 49.70 |

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.

17. 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.

18. 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.
19. Levy Costs. Appendix B details the Authority costs which are funded by the Levy payments from constituent councils. The Administration & General costs include for the additional costs of the agreed new staffing structure and continue to include consultancy and legal advice costs in relation to both Residual Value Agreement discussions and potentially additional costs regarding the Cringle redevelopment. Current forecasts predict either a slight reduction in the Levy requirement for 2022/23 or a 6% increase due to additional consultancy and legal advice in relation to Cringle. The full cost of the waste delivered to the HWRC site has been included without using any reserves to subsidise this element. The overall position will be considered further before setting a final levy in February. The Levy for 2022/23 will be agreed by the Authority at its meeting in January 2022, with delegated authority to amend as and when the respective Tax Bases of the constituent Boroughs are known. The indicative Levy requirement due in April 2022 for 2022/23 is between £4.2m and £4.7m charged to constituent councils (using 2021/22 council tax base apportionments as a guide) as follows:

| | 2021/22 | 2022/23 | 2022/23 |
|------------------------|----------------|-------------------|--------------------|
| | Actual | Optimistic | Pessimistic |
| | £'000 | £'000 | £'000 |
| Hammersmith & Fulham | 839 | 803 | 893 |
| Kensington and Chelsea | 1,006 | 963 | 1,070 |
| Lambeth | 1,150 | 1,101 | 1,223 |
| Wandsworth | 1,411 | 1,351 | 1,501 |
| TOTAL | 4,405 | 4,218 | 4,686 |

20. 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.

21. Reserve Levels. As outlined above, the Authority was expecting to use £2.8m from reserves to subsidise the rate charged to the constituent boroughs in 2021/22. Current expectations suggest this level will be as low as £200,000. Current estimates for 2022/23 may use £1.4m. In addition, each year, 'Triad payments' may be awarded under the WMSA if RRRL meet the specific test of energy generation on three particular days of the year set by the National Grid. The amount awarded in 2020/21 was recognised in the 2020/21 final accounts. Triad payments are never assumed within the budget setting process.

22. The reserves will therefore be available to fund any new debt financing costs in 2022/23 if approval is given to acquire land for the future development of services. This will delay the impact on charges to the boroughs via the Levy until 2023/24 at the earliest.

CONSULTATION WITH CONSTITUENT COUNCILS

23. 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 27th October 2021. The discussions included a preference to keep the General Waste rate as close to the optimistic scenario as possible by using reserves. This option will be considered prior to setting the budget in January and will be shared with constituent councils prior to the Authority meeting.

RECOMMENDATION

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

Western Riverside Transfer Station
Smugglers Way
Wandsworth
London SW18 1JS

CHRIS BUSS
Treasurer

2nd November 2021

APPENDIX A

| Projected AWDC Costs and Income | | | | |
|--|----------------|-----------------|------------------------------------|-----------------------------------|
| <u>Direct Tonnage costs (AWDC)</u> (tonnage assumed to remain constant) | 2021/22 | | 2022/23 | |
| | Budget | Forecast | Predicted - PESSIMISTIC | Predicted - OPTIMISTIC |
| | £000 | £000 | £000 | £000 |
| <u>Operating Expenditure</u> | | | | |
| General Waste | 45,250 | 46,106 | 47,319 | 46,504 |
| Co-mingled Recyclate | 3,563 | 3,603 | 3,866 | 3,866 |
| Other | 677 | 573 | 654 | 647 |
| Recyclate Income | | -1,308 | - | -1,000 |
| | 49,491 | 48,974 | 51,840 | 50,018 |
| <u>Direct Tonnage Income (AWDC)</u> | | | | |
| General Waste | | | | |
| Hammersmith & Fulham | -8,731 | -8,916 | -9,229 | -9,087 |
| Kensington and Chelsea | -7,304 | -8,545 | -8,844 | -8,708 |
| Lambeth | -13,929 | -14,053 | -14,546 | -14,322 |
| Wandsworth | -12,574 | -12,678 | -13,122 | -12,920 |
| Co-mingled Recyclate | | | | |
| Hammersmith & Fulham | -362 | -367 | -435 | -404 |
| Kensington and Chelsea | -361 | -405 | -480 | -447 |
| Lambeth | -642 | -628 | -744 | -692 |
| Wandsworth | -680 | -671 | -795 | -740 |
| Contamination* | | | | |
| Hammersmith & Fulham | -256 | -318 | -329 | -324 |
| Kensington and Chelsea | -218 | -225 | -233 | -229 |
| Lambeth | -497 | -514 | -532 | -523 |
| Wandsworth | -473 | -494 | -511 | -503 |
| Other | | | | |
| Hammersmith & Fulham | -81 | -70 | -74 | -73 |
| Kensington and Chelsea | -121 | -124 | -131 | -130 |
| Lambeth | -139 | -102 | -109 | -108 |
| Wandsworth | -337 | -326 | -341 | -339 |
| | -46,706 | -48,434 | -50,453 | -49,550 |
| AWDC (surplus)/ deficit | 2,785 | 540 | 1,387 | 468 |

Tonnage assumptions in the above :

| | 2021/22 | |
|-----------------------------------|----------------|-----------------|
| | Budget | Forecast |
| General Waste (excl contaminated) | | |
| Hammersmith & Fulham | 55,614 | 56,791 |
| Kensington and Chelsea | 46,521 | 54,425 |
| Lambeth | 88,722 | 89,511 |
| Wandsworth | 80,090 | 80,749 |
| HWRC | 8,831 | 8,250 |
| Total | 279,778 | 289,726 |
| Co-mingled Recyclate | | |
| Hammersmith & Fulham | 12,469 | 12,640 |
| Kensington and Chelsea | 12,464 | 13,963 |
| Lambeth | 22,135 | 21,639 |
| Wandsworth | 23,437 | 23,121 |
| HWRC | 296 | 450 |
| Total | 70,800 | 71,812 |

APPENDIX B**LEVY CHARGE**

| LEVY cost | 2021/22 | 2021/22 | 2022/23 | |
|---|---------------|---------------|----------------------------|----------------------------|
| | Budget | Forecast | Predicted - PESSIMISTIC | Predicted - PESSIMISTIC |
| | £000 | £000 | £000 | £000 |
| Employees | 618 | 618 | 702 | 669 |
| LPFA Levy | 4 | 4 | 4 | 4 |
| Business Rates | 525 | 525 | 543 | 543 |
| Administration & General -Legal/ Consultancy costs | 490 | 490 | 890 | 490 |
| Administration & General - Other direct costs | 234 | 214 | 214 | 214 |
| WBC Financial support* | 64 | 64 | 65 | 65 |
| WBC Admin support | 27 | 27 | 27 | 27 |
| HWRC site Tonnage and running costs | 3,076 | 2,960 | 2,949 | 2,914 |
| Capital Financing | 99 | 37 | 37 | 37 |
| Total Cost | 5,136 | 4,939 | 5,431 | 4,963 |
| Miscellaneous Income | -456 | -611 | -470 | - 470 |
| Deferred Income | -250 | -250 | -250 | -250 |
| Transfer from Reserves | -25 | -25 | -25 | -25 |
| Levy Income | -4,405 | -4,405 | -4,68 | 218 |
| Total Income | | | | |
| Levy (surplus)/ deficit | 0 | -352 | 0 | 0 |

* Breakdown of WBC support:

| <u>Financial Support</u> | <u>£'000</u> |
|------------------------------|--------------|
| Accounting & Budgeting | 37 |
| Financial Advice/Support | 17 |
| Internal Audit | 6 |
| Pensions/Payroll | 2 |
| Debt Management | 2 |
| | <hr/> 64 |
| <u>Admin Support</u> | <u>£'000</u> |
| Deputy Clerk & Admin Support | 27 |
| | <hr/> 27 |

APPENDIX C

| Actual costs up to end September 2021 | 2021/22 Mth 6 actual £000 | 2021/22 Original Budget £000 |
|--|---------------------------------|---------------------------------------|
| All Waste Tonnage costs, including HWRC site and running costs | 20,905 | 52,567 |
| Employees | 266 | 618 |
| LPFA Levy | 2 | 4 |
| Business Rates | 259 | 525 |
| Administration & General -Legal/ Consultancy costs | 66 | 490 |
| Administration & General - Other direct costs | 31 | 234 |
| WBC Financial support | 32 | 64 |
| WBC Admin support | 13 | 27 |
| Capital Financing | 45 | 99 |
| Total Cost | 21,619 | 54,627 |
| Income from Boroughs | -20,154 | -46,706 |
| Miscellaneous Income | -298 | -456 |
| Recharges to Cory | -8 | - |
| Deferred income | -125 | -250 |
| Transfer from Reserves | - | -25 |
| Total Income | -20,585 | -47,437 |
| Net cost | 1,034 | 7,190 |
| Full annual Levy | -4,405 | -4,405 |