

**ITEM 5****PAPER NO. WRWA 22-03****WESTERN RIVERSIDE WASTE AUTHORITY**

|                                |  |
|--------------------------------|--|
| <b>MEETING</b>                 | 25th January 2022  |
| <b>REPORT AUTHOR/<br/>DATE</b> | Treasurer (Chris Buss-Tel 0208 871 2788)<br>17th January 2021  |
| <b>SUBJECT</b>                 | Report of the Treasurer on the Authority's Budget and Levy for 2022/23 and the prospects for 2023/24 and beyond.   |
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| <b>STATUS</b>                  | Open-circulation of this paper is not restricted.  |
| <b>BACKGROUND PAPERS</b>       | Budget Forecast Paper No. 21-27 including Appendices A - C – considered at the meeting of the Authority on 10th November 2021.   |

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## **EXECUTIVE SUMMARY AND BACKGROUND**

1. This budget report updates the budget forecast report considered at the Authority meeting on 10th November 2021 (Paper No. 21-27). The original budget of the Authority (at the time the levy and rates for 2021/22 were set in Paper No 21-01) is compared with the revised budget for the year. The report then provides recommendations for the Levy and Apportionment of Waste Disposal Costs (AWDC) rates for 2022/23 and prospects for future years.
2. The Authority's income is substantially derived from charges to constituent councils for the disposal costs of waste, AWDC charges and levies upon those councils. The Authority has a statutory duty to apportion levies among the constituent councils for each financial year to meet liabilities for which provision is not otherwise made.
3. Since February 2009, constituent councils have been charged differential rates for individual waste streams which does not distinguish between household and commercial tonnages. All waste streams delivered by constituent councils are subject to specified rates per tonne to reflect the estimated cost to the Authority of the individual waste stream in the year of account. Household Waste and Recycling Centre waste and Authority overheads are apportioned among constituent councils on the basis of their council tax-bases as required by statute. This agreement was entered into by the constituent Councils and the Authority on a voluntary basis and has worked well. The agreement has been formally extended for a further eight years from April 2017.
4. Under the agreement, rates per tonne are required for all waste streams. The recommended rates per tonne for 2022/23 are compared with the current year's charged rates at paragraph 18 for approval. Predicted rates for future years are also presented for information. Actual and estimated tonnages for the period covered can be found in Appendix B of the General Manager's report (Paper No. WRWA 22-02 on this agenda).
5. In the current financial year the Authority is forecasting the overall tonnage of general waste and co-mingled recyclables, delivered by the constituent councils, to increase by 2.6 % and 0.2% respectively compared to budget as a result of changes to behavioural habits during the Covid pandemic compared to the previous year (although there are large fluctuations across the constituent councils). Estimates set out in this paper do not incorporate any reduction to previous levels for future years. Constituent councils are advised, as in previous years, to make their own assumptions regarding tonnage levels when setting their own budgets. Tonnage

delivered to the Household Waste and Recycling Centre (HWRC) is currently forecast to result in an overall decrease of around 5% compared to budget. These estimates do not predict that this trend will continue and instead predict constant tonnage levels in future years.

## EXPERIENCE IN 2021/22

6. When setting the 2021/22 budget, rates and levy, the Authority agreed to utilise reserves to reduce the rates for both general waste and co-mingled recycle. Based on the budget agreed in January 2021 in Paper No. 21-01 this would have utilised £2.785 million of reserves. Prior to the budgeted use of reserves balances as at 1<sup>st</sup> April 2021 were as follows:

|                              |                    |
|------------------------------|--------------------|
| General Fund Reserve         | £3,312,000         |
| Stabilisation Reserve        | £9,575,000         |
| Loan Repayment Reserve       | £3,000,000         |
| Recycling Reserve            | £250,000           |
| Pension Liability Reserve    | £1,800,000         |
| <b>Total Usable Reserves</b> | <b>£17,936,000</b> |

7. The Budget Forecast report (Paper No. WRWA 21-27) to the Authority meeting in November 2021 outlined the latest position regarding the 2021/22 budgets. The latest forecast incorporates the most up to date tonnage data (including November 2021) and electricity prices. In November, the expectation was that the level of subsidy anticipated when setting the rates for 2021/22 would not be utilised due to positive movements in respect of income from recycle and energy prices. This gives the Authority some flexibility when deciding rates for 2022/23 whilst still ensuring that the Authority has adequate reserves to meet additional costs which will accrue in the near to medium term future relating to future capital expenditure.
8. When the budget was set in February 2021, the general waste rate for 2021/22 was set at a charge of £157.00 per tonne for the constituent boroughs. This price was set with an expected subsidisation from the Stabilisation Reserve of £4.53 per tonne equivalent to £1,268,000 from the reserve. Similarly, the co-mingled recyclable rate was also subsidised by £21.54 per tonne expecting the use of £1,519,000 from the reserve.
9. The current forecast for the year is outlined in the Financial Summary at Appendix A which demonstrates that the deficit on the Direct Tonnage costs is expected to be

slightly improved on that outlined in the November paper at approximately £372,000, relying on the commodity income as outlined below. Electricity prices were predicted to average £46.38/MWh over the financial year (equal to the predicted floor level) but the average price is now predicted to be slightly higher at £50.12/MWh based upon the demand for energy in the current climate. The actual rate to the Authority has been £49.31 so far in 2021/22.

10. Members will be aware that at the November Authority meeting there were discussions regarding the current high level of inflation and the Authority's ability to mitigate the impact for boroughs in the short term by the use of reserves. At that time the primary index used to inflate rates within the payment mechanism of the WMSA (RPIX) - which makes up 85% of the price mechanism - stood at 5%, two months later it is at 7.2%. Each 1% increase in that index, assuming all other factors remain unchanged, adds £1.38 to each tonne of waste sent to Belvedere. The increase since November forecast has added £890,000 to cost pressures.

## **Electricity**

11. The electricity generated at the Belvedere EfW plant forms part of the General Waste rate under the contract with Cory. 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 (up to a floor currently £46.20 per MWh in 2021/22). The 2021/22 budget assumed electricity prices on average of £46.38 /MWh (the expected floor level at the time), which resulted in an electricity charge to the Authority of £13.65 per tonne. The estimated electricity value for 2021/22 in the November Forecast paper was £50.32/MWh based upon the demand for energy in the current climate – equal to £10.94 per tonne. The actual electricity price achieved since the Forecast paper was written was marginally lower than predicted at £50.12/MWh or £11.08 per tonne.

## **PROPOSALS FOR 2022/23**

### **AWDC RATES**

12. The November 2021 estimates for 2022/23 AWDC rates have been amended in the Budgeted AWDC Costs and Income at Appendix A following the experience of waste streams managed to 30<sup>th</sup> November 2021. These in particular reflect the latest mix of inflation indices and latest estimates around electricity referred to in paragraphs 13 and 14.

13. As outlined above, the Authority receives income from the electricity generated if the market price exceeds the 'threshold' (uplifted under the terms of the contract, expected to be £71.83 per MWh in 2022/23). However, below this threshold the Authority incurs a charge (up to a floor expected to be £49.26 per MWh in 2022/23). The November forecast offered optimistic and pessimistic electricity cost scenarios ranging an average price of £59.40/MWh (based on current forward prices) up to an improved price of £61.07/MWh equating to between £5.89 and £7.33 per tonne. Current estimates expect the electricity price of £61.79/MWh, generating an average cost of £6.60 per tonne of general waste.
14. Using the assumptions set out above for electricity costs and no assumption of the achievement of triad payments for the Authority, the general waste rate charge for 2022/23 would be £163.41 per tonne or 4% above 2021/22 levels without any subsidy. This is higher than outlined in the November forecast paper of between £159.62 and £162.41 per tonne due to the increase in inflation rates referred to in paragraph 10. However, following a review of the reserves as discussed at the November meeting, and being mindful of the limits which constituent councils have on their ability to pass on costs through increases in Council tax, it is proposed to subsidise the General Waste rate charge for constituent councils using the Stabilisation Reserve and therefore set the price at £160.00 per tonne. Based upon the current assumptions, this will require a subsidy of £3.41 per tonne or £947,500 from the reserve. To note that the subsidy will not apply for contaminated recycle tonnage charged at the General Waste rate.

### **Co-mingled Recycling Rates**

15. The revised contract rate for co-mingled recycling outlined to the Authority in June 2020 took effect from April 2021. Based upon the latest inflation estimates, the contract rate for 2022/23 is likely to be £54.71 per tonne. As agreed in last year's budget paper, as the Authority has reserves available to subsidise this rate as well as the General Waste rate, it was agreed to smooth the increase from the 2020/21 charge of £28.00 per tonne to the new contract rate over a five year period.
16. This budget therefore proposes a co-mingled charge of £32.00 per tonne for 2022/23 for boroughs as outlined last year, requiring a £22.71 per tonne subsidy or £1,604,500 from the reserve. Any Co-mingled recycle which is contaminated will be recharged at the Cory contract rate not the subsidised rate. At this stage, an estimated smoothing of the rate over the 5 years would require the following subsidy:

|              | Estimated contract rate | Borough Charge | Subsidy  | Reserve use  |
|--------------|-------------------------|----------------|----------|--------------|
|              | £/ tonne                | £/ tonne       | £/ tonne | £000         |
| 2021/22      | 50.49                   | 29.00          | 21.54    | 1,518        |
| 2022/23      | 54.71                   | 32.00          | 22.71    | 1,605        |
| 2023/24      | 56.63                   | 42.00          | 14.63    | 1,033        |
| 2024/25      | 58.61                   | 51.00          | 7.61     | 538          |
| 2025/26      | 60.66                   | 60.66          | -        | -            |
| <b>Total</b> |                         |                |          | <b>4,694</b> |

The overall impact of this proposal on reserves is outlined later in this paper in paragraphs 29 to 31.

17. As previously outlined, the revised contract rate with Cory for co-mingled recycling 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 (all figures in 2020/21 terms). 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. During the current year income of £1,091,000 has been received to date but there is no certainty that this can be relied on in future years due to the volatility of commodity income. Constituent councils are advised to make their own assumptions regarding income levels for the year bearing this in mind. The use of the income received to date in the current year on reserves is discussed in paragraph 30.

### All Rates

18. The Authority needs to approve a scale of rates for all waste streams managed for 2022/23. The current rates for 2021/22, the proposed rates for 2022/23 and predicted rates for future years are detailed below. The table outlines the contracted element of the AWDC rates and where applicable the current variable market adjustments to these rates are incorporated into the proposed council charge for 2022/23. 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. The future years rate is before any subsidy from the Authority.

| Waste Type                          | Rates per Tonne (£)                               |                 |                                |                                |                 |  |                                 |                                 |                                 |
|-------------------------------------|---|-----------------|--------------------------------|--------------------------------|-----------------|--|---------------------------------|---------------------------------|---------------------------------|
|                                     | Current contract cost 2021/22                     | Market Variable | Current council charge 2021/22 | Proposed contract cost 2022/23 | Market Variable | Proposed council charge 2022/23 (exc. Market Variable if applicable) | Predicted contract cost 2023/24 | Predicted contract cost 2024/25 | Predicted contract cost 2025/26 |
| General waste                       | 158.38  |                 | 157.00                         | 163.41                         |                 | 160.00   | 169.13                          | 175.05                          | 181.18                          |
| Co-mingled recyclables <sup>1</sup> | 50.49   |                 | 29.00                          | 54.71                          |                 | 32.00  | 56.63                           | 58.61                           | 60.66                           |
| Green waste <sup>2</sup>            | 64.24   | 31.00           | 95.50                          | 71.06                          | 45.00           | 71.50  | 73.55                           | 76.12                           | 78.79                           |
| Batteries                           | 59.97   |                 | 60.00                          | 63.85                          |                 | 64.00  | 66.09                           | 68.40                           | 70.79                           |
| Clinical <sup>3</sup>               | 737.49  |                 | 744.00                         | 783.09                         |                 | 783.50   | 810.50                          | 838.87                          | 868.23                          |
| Detritus <sup>4</sup>               | 73.51   |                 | 83.50                          | 89.04                          |                 | 74.50  | 92.15                           | 95.38                           | 98.72                           |
| Electricals                         | 51.22   |                 | 51.50                          | 56.65                          |                 | 57.00  | 58.63                           | 60.69                           | 62.81                           |
| Fridges                             | 51.72   |                 | 52.00                          | 52.97                          |                 | 53.00  | 54.82                           | 56.74                           | 58.73                           |
| Gas Bottles                         | 138.61  |                 | 139.00                         | 141.96                         |                 | 142.00   | 146.93                          | 152.07                          | 157.39                          |
| Glass                               | 30.55   | 0.00            | 31.00                          | 33.79                          | 0.00            | 34.00  | 34.98                           | 36.20                           | 37.47                           |
| Inert                               | 30.28   |                 | 30.50                          | 33.27                          |                 | 33.50  | 34.43                           | 35.64                           | 36.89                           |
| Oil/Paint                           | 129.94  |                 | 130.00                         | 138.34                         |                 | 138.50   | 143.19                          | 148.20                          | 153.39                          |
| Paper/Cardboard                     | 26.94   | -20.00          | 7.00                           | 29.82                          | -70.00          | 30.00  | 30.86                           | 31.94                           | 33.06                           |
| Scrap Metal                         | 51.22   | -85.00          | -33.50                         | 56.65                          | -85.00          | 57.00  | 58.63                           | 60.69                           | 62.81                           |
| Textiles                            | 19.77   | -95.00          | -75.00                         | 21.87                          | -160.00         | 22.00  | 22.63                           | 23.42                           | 24.24                           |
| Tyres                               | 299.49  |                 | 302.00                         | 315.23                         |                 | 315.50   | 326.27                          | 337.69                          | 349.50                          |
| Wood                                | 48.52   | 37.50           | 86.00                          | 53.67                          | 65.00           | 54.00  | 55.55                           | 57.49                           | 59.51                           |
|                                     | <b>Rate per percentage point of contamination</b> |                 |                                |                                |                 |  |                                 |                                 |                                 |
| Co-mingled contamination            | 158.38  |                 | 157.00                         | 163.41                         |                 | 163.50   | 169.13                          | 175.05                          | 181.18                          |

<sup>1</sup>Co-mingled recyclables incur a separate contamination charge as agreed in Paper No. WRWA 723 in November 2012

<sup>2</sup> Less £20 per tonne for constituent councils that deliver all their green waste to the Authority.

<sup>3</sup> Less £130 per tonne as negotiated with Cory for all clinical waste

<sup>4</sup> Assumes alternative outlet not available and return to WMSA rates

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19. Constituent councils need to have due regard to price risk before introducing any new recycling initiatives based on the potential income from 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.
20. The table provides for all waste streams currently handled by constituent councils or directly by the Authority. Should other waste streams be brought on stream in future, authority has been delegated to the General Manager in consultation with the Treasurer to set rates for the new waste streams.
21. Appendix A outlines the potential direct tonnage cost and income for the Authority and hence the costs for each constituent council, however it must be stressed that it is for the constituent councils to make their own assumptions with regard to tonnage and contamination.
22. Estimates are based upon the following annual tonnage levels and average contamination rates experienced in 2021/22 with no allowance for increases:

|                        | Tonnes | General Waste | Co-mingled Recyclate | Other | Contamination | Total*  |
|------------------------|--------|---------------|----------------------|-------|---------------|---------|
| Hammersmith & Fulham   |        | 56,074        | 12,394               | 636   | 1,998         | 69,104  |
| Kensington and Chelsea |        | 53,537        | 14,049               | 1,299 | 1,521         | 68,885  |
| Lambeth                |        | 88,125        | 21,588               | 1,575 | 3,518         | 111,288 |
| Wandsworth             |        | 80,119        | 22,618               | 2,935 | 3,202         | 105,672 |

\*where the total excludes contamination as this is in effect a double count of co-mingled tonnage

23. Constituent councils have been advised to make their own assumptions regarding tonnage levels when setting their own budgets for Council tax purposes. A 1% increase in General Waste tonnage for each borough would cost the following:

|                        | £000 |
|------------------------|------|
| Hammersmith & Fulham   | 90   |
| Kensington and Chelsea | 86   |
| Lambeth                | 141  |
| Wandsworth             | 128  |

24. Constituent councils are also asked to note that Appendix A includes the contamination element at the cost of the General Waste rate (not subsidised),

however, the real additional cost of contamination is actually the Co-mingled rate of £54.71 per tonne or £32.00 per tonne for the boroughs which is calculated at the end of Appendix A for information.

## **THE LEVY**

25. Appendix B details the Household Waste and Recycling Centre waste and Authority overheads which are apportioned among constituent councils on the basis of council tax-bases through the Levy. Since 2013/14 the Authority agreed that as far as practicable, the Levy should be held stable so as to minimise the impact on constituent councils' council tax and reduce the risk of triggering a council tax referendum. This will continue to be kept under review for future years. The debt redemption policy assists in maintaining this objective.
26. Although much of the Levy costs are relatively fixed year on year, there are areas which vary due to one off demands such as the need to employ external legal and valuation advice on specific projects in addition to the significant potential variable of Household Waste and Recycling Centre tonnage. The Levy requirement due in April 2022 for 2022/23 remained static compared to 2021/22 at £4.405 million which was already a reduction from 2020/21 of £73,000, or 1.6%. It should be noted that in 2017/18 the Levy was £6.683 million and therefore there has been an overall reduction of £2.278 million or 34% over the past 6 years.
27. The proposed total Levy costs for 2022/23 are £5.409 million as set in Appendix B. After deducting income from other sources and planned use of reserves, the Levy would be £4.664 million. This is an increase of 5.9%, broadly in line with inflation. However, mindful of the limits placed on the constituent Councils with regard to their ability to increase Council tax without a referendum, it is proposed to limit the increase to £87,660 or 1.99%, with the balance of £172,000 being met from reserves. The charges to constituent councils compared to the 2021/22 levy requirement are outlined in the table below. The estimates use provisional 2022/23 council tax-bases. Councils are required to notify their approved tax bases for 2022/23 but not all of the formally approved figures were available at the agenda despatch date. It is recommended that authority be delegated to the Treasurer to apportion and formally issue the Levy once final tax-bases for 2022/23 have been confirmed by the constituent councils.

|                        | <b>2021/22</b> | <b>2022/23</b> |
|------------------------|----------------|----------------|
|                        | <b>£'000</b>   | <b>£'000</b>   |
| Hammersmith & Fulham   | 839            | 861            |
| Kensington and Chelsea | 1,006          | 1,023          |
| Lambeth                | 1,150          | 1,164          |
| Wandsworth             | 1,411          | 1,445          |
| <b>TOTAL</b>           | <b>4,405</b>   | <b>4,493</b>   |

28. Constituent council's Finance officers have been consulted by email on the charge rates regarding direct tonnage and the Levy. Any observations received will be reported verbally to the Authority meeting.

### RESERVE LEVELS

29. The Authority as set out in paragraph 6 had reserves at 1<sup>st</sup> April 2021 of £17.936 million. The intention had been to utilise £2.785 million of those reserves during the current year to reduce charges to the constituent councils. This has been done. However, increased commodity income, positive variances in electricity prices and other improvements have resulted in a smaller forecast net overspend of £9,000 in the current year. The total level of reserves as at the 31<sup>st</sup> March 2022 are estimated at £15.903 million after the use of £2 million for the repayment of the PWLB loan due. The proposed future subsidy outlined above utilises reserves as follows:

| <b>Subsidy from Reserve</b> | <b>2022/23</b> | <b>2023/24</b> | <b>2024/25</b> |
|-----------------------------|----------------|----------------|----------------|
| <b>£000</b>                 |                |                |                |
| General Waste rate          | 947            | -              | -              |
| Co-mingled                  | 1,605          | 1,033          | 538            |
| <b>Total</b>                | <b>2,587</b>   | <b>1,033</b>   | <b>538</b>     |

30. The Authority has a number of potential costs of a capital nature arising in the near to mid future. In part some of these relate to legislative changes arising from the Environment Act 2021. Although the government has indicated that these will be cost neutral to Local Authorities there is at present no clear indication as to how any additional costs will be reimbursed if and when they are incurred by the Authority. Examples of costs include providing facilities for the handling of food and/or garden waste. In addition, the Authority will at some stage need to facilitate the redevelopment or reconfiguration of its transfer stations. The costs

of these would, if directly met by the Authority, fall on the Levy and be borne by the constituent councils. To try to mitigate future costs it is proposed to create a capital reserve which will be used to reduce future Levy costs. This will be created from the following sources: firstly if any underspend should arise in 2021/22, secondly any additional income accruing from Triad payments and lastly any commodity income accrued in 2022/23 up to the value of the proposed budgeted subsidy from reserves for the co-mingled recycling rate. This reserve will be utilised to either meet direct cost of works or to assist in financing costs if works are funded through borrowing.

31. The impact of the proposed subsidy and other use of reserves and creation of a capital reserve would mean the following predicted year end balances for the Authority's reserves:

| <b>£000</b>                  | <b>01/04/21</b> | <b>01/04/22</b> | <b>01/04/23</b> | <b>01/04/24</b> | <b>01/04/25</b> |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| General Fund Reserve         | 3,312           | 3,312           | 3,312           | 3,312           | 3,312           |
| Stabilisation Reserve        | 9,575           | 9,566           | 6,843           | 5,810           | 5,273           |
| Loan Repayment Reserve       | 3,000           | 1,000           | 1,000           | 1,000           | 1,000           |
| Recycling Reserve            | 250             | 225             | 200             | 175             | 150             |
| Pension Liability Reserve    | 1,800           | 1,800           | 1,800           | 1,800           | 1,800           |
| <b>Total Usable Reserves</b> | <b>17,936</b>   | <b>15,903</b>   | <b>13,155</b>   | <b>12,097</b>   | <b>11,535</b>   |

The Authority will have the opportunity to review annually the proposed reserve balances and to confirm or amend the planned use.

32. The current balance on the General Reserve is £3.3 million. In addition to the risk of one-off expenditure on the Levy requirement, there are a number of other uncertainties that could affect the 2022/23 budget. These are detailed in Appendix F. It is proposed to therefore leave the General Fund Balance at a level of £3.3 million in 2022/23 in order to provide against general future uncertainty. The reserve balances will be reviewed again when the 2021/22 accounts are closed.

## SECTION 25 STATEMENT

33. Under section 25 of the Local Government Act, the Chief Financial Officer of the Authority (The Treasurer) must report to the Authority on the following matters, when setting a budget: (a) the robustness of the estimates made for the purposes of the budget calculations, and (b) the adequacy of the proposed financial reserve. In presenting this budget the Treasurer confirms that the estimates are robust and that the reserves are adequate and that there are no matters of concern.

**SUMMARY OF COSTS TO CONSTITUENT COUNCILS**

34. Constituent councils are forecast to incur the following costs in 2022/23 based on the recommended Levy and 2022/23 tonnage levels at the proposed AWDC charges:

|                        | <b>AWDC<br/>Charges<br/>£'000</b> | <b>Annual<br/>Levy<br/>£'000</b> | <b>Total<br/>£'000</b> |
|------------------------|-----------------------------------|----------------------------------|------------------------|
| Hammersmith & Fulham   | 9,757                             | 861                              | 10,618                 |
| Kensington and Chelsea | 9,392                             | 1,023                            | 10,415                 |
| Lambeth                | 15,463                            | 1,164                            | 16,627                 |
| Wandsworth             | 14,389                            | 1,445                            | 15,833                 |
| <b>Total</b>           | <b>49,001</b>                     | <b>4,493</b>                     | <b>53,494</b>          |

The comparative figures for 2021/22 based on the original budget as reported in January 2021 are shown below:

|                        | <b>AWDC<br/>Charges<br/>£'000</b> | <b>Annual<br/>Levy<br/>£'000</b> | <b>Total<br/>£'000</b> |
|------------------------|-----------------------------------|----------------------------------|------------------------|
| Hammersmith & Fulham   | 9,430                             | 839                              | 10,269                 |
| Kensington and Chelsea | 8,005                             | 1,006                            | 9,010                  |
| Lambeth                | 15,207                            | 1,150                            | 16,356                 |
| Wandsworth             | 14,064                            | 1,411                            | 15,475                 |
| <b>Total</b>           | <b>46,706</b>                     | <b>4,405</b>                     | <b>51,111</b>          |

## **AUTHORITY BUDGETS**

35. The original and revised overall Authority budget for 2021/22, the proposed budget for 2022/23 and predicted budget for 2023/24 are shown in the Appendices with the budget methodology at Appendix C. The estimated gross cost for the Authority for 2022/23 compared to the amount as at budget setting in 2021 for 2021/22 is shown below:

|                           |               |
|---------------------------|---------------|
|                           | <u>£'000s</u> |
| Gross Expenditure 2022/23 | 56,962        |
| Gross Expenditure 2021/22 | <u>54,627</u> |
| Increase                  | 2,335         |
| Percentage increase       | <u>4.3</u>    |

The total budgeted and predicted costs to individual constituent councils are shown for the period from 2021/22 to 2022/23 in Appendix E.

## **CIPFA CODE OF FINANCIAL MANAGEMENT**

36. The Authority received Paper No. WRWA 20-04 in January 2020 outlining CIPFA's new Financial Management Code based on six principles: Leadership, Accountability, Transparency, Standards, Assurance and Sustainability. These are then measured through seventeen financial management standards. The management team have considered this for the 2022/23 financial year and confirm that no changes are required.

## **RECOMMENDATIONS**

37. The Authority is recommended to:

- (a) approve a revised gross expenditure budget for the Authority of £53.2 million for 2021/22 (£48.4m directly determined by direct tonnage delivered and £4.9 million paid for by the Levy) and £57.0 million for 2022/23 (£51.6 million directly determined by direct tonnage delivered and £5.4 million paid for by the Levy), as presented in the Budgets for Direct costs and Levy costs in Appendices B and C;
- (b) approve the AWDC rates to apply for 2022/23 as detailed on page 6 and note the arrangements for recharging contaminated recycle;

- (c) approve the arrangements for setting up and funding a capital reserve including the transfer of any eventual underspend in 2021/22;
- (d) approve the basis of cost recovery as set out in the report, including the residual Levy figure of £4.493 million for 2022/23 for the Treasurer to apportion and issue the levy among the constituent councils in line with the actual constituent council's council tax bases for 2022/23; and
- (e) approve the Authority's proposed use of reserves for the period to 2024/25, which will be subject to review annually when budgets are set.

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Western Riverside Administration Office  
Smugglers Way  
Wandsworth  
SW18 1JS

CHRIS BUSS  
Treasurer

17th January 2022

**APPENDIX A****Budgeted AWDC Costs and Income**

| <u>Direct Tonnage costs (AWDC)</u><br>(tonnage assumed to remain constant) | <b>2021/22<br/>Budget<br/>£000</b> | <b>2021/22<br/>Revised<br/>£000</b> | <b>2022/23 as<br/>Predicted Dec<br/>£000</b> | <b>2022/23 as<br/>Predicted Dec<br/>£000</b> | <b>2022/23<br/>Budget<br/>£000</b> | <b>2023/24<br/>Predicted<br/>£000</b> |
|--|------------------------------------|-------------------------------------|--|--|------------------------------------|---------------------------------------|
| <u>Operating Expenditure</u>   |                                    |                                     | Optimistic –<br>less subsidy                 | Pessimistic –<br>large subsidy               |                                    |                                       |
| General Waste  | 45,250                             | 45,629                              | 46,504                                       | 47,319                                       | 47,081                             | 48,727                                |
| Co-mingled Recyclate   | 3,563                              | 3,567                               | 3,866  | 3,866  | 3,865                              | 4,001                                 |
| Other  | 677                                | 526                                 | 647  | 654  | 607                                | 628                                   |
| Recyclate Income   |                                    | -1,500                              | -1,000                                       | -  | -                                  | -                                     |
|  | 49,491                             | 48,222                              | 50,018                                       | 51,840                                       | 51,553                             | 53,356                                |
| <u>Direct Tonnage Income (AWDC)</u>  |                                    |                                     |  |  |                                    |                                       |
| General Waste  |                                    |                                     |  |  |                                    |                                       |
| Hammersmith & Fulham   | -8,731                             | -8,804                              | -9,087                                       | -9,229                                       | -8,972                             | -9,484                                |
| Kensington & Chelsea   | -7,304                             | -8,405                              | -8,708                                       | -8,844                                       | -8,566                             | -9,055                                |
| Lambeth  | -13,929                            | -13,836                             | -14,322                                      | -14,546                                      | -14,100                            | -14,905                               |
| Wandsworth   | -12,574                            | -12,579                             | -12,920                                      | -13,122                                      | -12,819                            | -13,550                               |
| Co-mingled Recyclate   |                                    |                                     |  |  |                                    |                                       |
| Hammersmith & Fulham   | -362                               | -359                                | -404   | -435   | -397                               | -521                                  |
| Kensington & Chelsea   | -361                               | -407                                | -447   | -480   | -450                               | -590                                  |
| Lambeth  | -642                               | -626                                | -692   | -744   | -691                               | -907                                  |
| Wandsworth   | -680                               | -656                                | -740   | -795   | -724                               | -950                                  |
| Contamination*   |                                    |                                     |  |  |                                    |                                       |
| Hammersmith & Fulham   | -256                               | -314                                | -324   | -329   | -327                               | -338                                  |
| Kensington & Chelsea   | -218                               | -239                                | -229   | -233   | -249                               | -257                                  |
| Lambeth  | -497                               | -552                                | -523   | -532   | -575                               | -595                                  |
| Wandsworth   | -473                               | -503                                | -503   | -511   | -524                               | -542                                  |
| Other  |                                    |                                     |  |  |                                    |                                       |
| Hammersmith & Fulham   | -81                                | -58                                 | -73  | -74  | -62                                | -64                                   |
| Kensington & Chelsea   | -121                               | -113                                | -130   | -131   | -128                               | -133                                  |
| Lambeth  | -139                               | -100                                | -108   | -109   | -97                                | -100                                  |
| Wandsworth   | -337                               | -298                                | -339   | -341   | -322                               | -333                                  |
|  | -46,706                            | -47,850                             | -49,550                                      | -50,453                                      | -49,001                            | -52,323                               |

|                         |       |     |     |       |       |       |
|-------------------------|-------|-----|-----|-------|-------|-------|
| AWDC (surplus)/ deficit | 2,785 | 372 | 468 | 1,387 | 2,551 | 1,033 |
|-------------------------|-------|-----|-----|-------|-------|-------|

Note: Contamination costs are shown in this table within the cost of the General Waste rate. However, contamination should really be put in the black bag in the first place so the real additional cost of contamination is actually the Co-mingled rate of £32.00 per tonne (2022/23 rates) which is analysed as follows for 2022/23:

|                        | £'000 |
|------------------------|-------|
| Hammersmith & Fulham   | 64    |
| Kensington and Chelsea | 49    |
| Lambeth                | 113   |
| Wandsworth             | 102   |

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

| LEVY cost   | 2021/22       | 2021/22       | 2022/23                        | 2022/23 as               | 2022/23       | 2023/24       |
|---|---------------|---------------|--------------------------------|--------------------------|---------------|---------------|
|   | Budget        | Revised       | as<br>Predicted<br>Dec<br>£000 | Predicted<br>Dec<br>£000 | Budget        | Predicted     |
|   | £000          | £000          | Optimistic                     | Pessimistic              | £000          | £000          |
| Employees   | 618           | 616           | 669                            | 702                      | 732           | 746           |
| LPFA Levy   | 4             | 4             | 4                              | 4                        | 4             | 4             |
| Business Rates  | 525           | 525           | 543                            | 543                      | 525           | 536           |
| Administration & General -Legal/<br>Consultancy costs | 490           | 490           | 490                            | 890                      | 900           | 918           |
| Administration & General - Other direct<br>costs      | 234           | 214           | 214                            | 214                      | 214           | 218           |
| WBC Financial support                                 | 64            | 64            | 65                             | 65                       | 69            | 70            |
| WBC Admin support                                     | 27            | 27            | 27                             | 27                       | 29            | 30            |
| HWRC site Tonnage and running costs                   | 3,076         | 2,836         | 2,914                          | 2,949                    | 2,900         | 3,002         |
| Capital Financing                                     | 99            | 99            | 37                             | 37                       | 37            | 37            |
| <b>Total Cost</b>                                     | <b>5,136</b>  | <b>4,875</b>  | <b>4,963</b>                   | <b>5,431</b>             | <b>5,409</b>  | <b>5,560</b>  |
| Miscellaneous Income                                  | -456          | -558          | -470                           | -470                     | -470          | -389          |
| Deferred Income                                       | -250          | -250          | -250                           | -250                     | -250          | -250          |
| Transfer from Reserves                                | -25           | -25           | -25                            | -25                      | -25           | -25           |
| <b>Levy Income</b>                                    | <b>-4,405</b> | <b>-4,405</b> | <b>4,218</b>                   | <b>4,686</b>             | <b>-4,493</b> | <b>-4,896</b> |
| <b>Total Income</b>                                   | <b>-5,136</b> | <b>-5,238</b> | <b>-4,963</b>                  | <b>-5,431</b>            | <b>-5,238</b> | <b>-5,560</b> |
| <b>Levy (surplus)/ deficit</b>                        | <b>0</b>      | <b>-363</b>   | <b>0</b>                       | <b>0</b>                 | <b>172</b>    | <b>0</b>      |

**Budget Methodology**

The overall budget methodology takes a realistic but prudent view of both income and expenditure. The budget mechanism allows surpluses from AWDC charges, the Levy and the General Reserve in one year to be carried forward to the following year.

Inflation The budget includes estimated inflation on costs to March of the relevant year, therefore providing estimates and predictions of full year costs. The budget projections currently allow 3.5% general inflation year on year after 2022/23.

General waste charges. General Waste tonnages delivered by constituent councils in 2021/22 have increased in the current financial year compared to the previous year but there are significant fluctuations across the constituent councils. Tonnages received at the Household Waste and Recycling Centre have reduced by around 5% compared to budget. Electricity is currently a charge to the Authority at an estimated £11.08 per tonne in 2021/22.

Recycling and minor waste streams. Recycling tonnages are forecast to be slightly higher than budgeted levels in 2021/22 and there is no prediction for movement in future years.

Business Rates. The current rating valuations for the site at Smugglers Way is £705,000 and Cringle Dock is £270,000 effective from 1<sup>st</sup> April 2017. The national multiplier applied to rateable values in 2021/22 is 51.2p in the pound plus a supplement of 2p. Rates budgets reflect the proposed freeze in the national multiplier in 2022/23 and an allowance for potential local supplements.

Employees. The budget for 2022/23 incorporates the uplift in National Insurance contributions, an estimate for salary inflation and the revised staffing structure outlined elsewhere on this agenda.

Administration & General. Administration costs include the revised budgeted programme for the Recycle Western Riverside 2022/23 programme and project costs of £45,000 (as outlined in Paper No. WRWA 20-25) with a contribution of up to £25,000 from the Recycling Reserve if more than £20,000 is spent. The Administration & General costs include a provision of £900,000 consultancy and legal advice in relation to discussions with Cory around both Residual Value Agreement discussions and potentially additional costs regarding the Cringle redevelopment as well as other general advice.

Capital Financing. Included in the capital financing costs is the MRF funding repayment costs for PWLB loans. As outlined in Paper No. 21-01 in January 2021, this now excludes a technical adjustment for the repayment of debt (MRP provision) as full provision is set aside in the Loan Repayment Reserve.

Miscellaneous Income. £261,000 reflects the 2022/23 level of income from Westminster Council for the use of the Household Waste and Recycling Centre. An amount is also included in the budget for the rental income for the Feather's Wharf site in 2022/23. A lower allowance for this level of income has been made in 2023/24 onwards.

Deferred Income. The £3.5 million facilitation payment received in October 2018 has been agreed to be spread over the remaining life of the WMSA which equates to £250,000 per year which has been reflected in the budget.

**APPENDIX D****TOTAL BUDGETED/PREDICTED COSTS TO CONSTITUENT COUNCILS**

| <b>BUDGET PERIOD &amp;<br/>CONSTITUENT BOROUGH</b> | <b>AWDC<br/>CHARGES<br/>£000s</b> | <b>LEVY<br/>£000s</b> | <b>TOTAL<br/>£000s</b> |
|--|-----------------------------------|-----------------------|------------------------|
| <b>2021/22 Original Budget</b>                     |                                   |                       |                        |
| Hammersmith & Fulham                               | 9,430                             | 839                   | 10,269                 |
| Kensington and Chelsea                             | 8,005                             | 1,006                 | 9,010                  |
| Lambeth  | 15,207                            | 1,150                 | 16,356                 |
| Wandsworth   | 14,064                            | 1,411                 | 15,475                 |
| <b>Total</b>                                       | <b>46,706</b>                     | <b>4,405</b>          | <b>51,111</b>          |
| <b>2021/22 Revised Budget</b>                      |                                   |                       |                        |
| Hammersmith & Fulham                               | 9,535                             | 839                   | 10,374                 |
| Kensington and Chelsea                             | 9,165                             | 1,006                 | 10,171                 |
| Lambeth  | 15,114                            | 1,150                 | 16,264                 |
| Wandsworth   | 14,036                            | 1,411                 | 15,447                 |
| <b>Total</b>                                       | <b>47,850</b>                     | <b>4,405</b>          | <b>52,255</b>          |
| <b>2022/23 Budget</b>                              |                                   |                       |                        |
| Hammersmith & Fulham                               | 9,757                             | 861                   | 10,618                 |
| Kensington and Chelsea                             | 9,392                             | 1,023                 | 10,415                 |
| Lambeth  | 15,463                            | 1,164                 | 16,627                 |
| Wandsworth   | 14,389                            | 1,445                 | 15,833                 |
| <b>Total</b>                                       | <b>49,001</b>                     | <b>4,493</b>          | <b>53,494</b>          |
| <b>2023/24 Predicted</b>                           |                                   |                       |                        |
| Hammersmith & Fulham                               | 10,407                            | 939                   | 11,345                 |
| Kensington and Chelsea                             | 10,035                            | 1,115                 | 11,150                 |
| Lambeth  | 16,507                            | 1,268                 | 17,775                 |
| Wandsworth   | 15,375                            | 1,575                 | 16,950                 |
| <b>Total</b>                                       | <b>52,323</b>                     | <b>4,896</b>          | <b>57,220</b>          |

**APPENDIX E****GENERAL RESERVE REQUIREMENT 2022/23**

The General Reserve provides a buffer available to finance new expenditure and variations in costs not sufficiently definite to be built into the assessment of the formal budget requirement. Specific risks in 2022/23 and potential costs that could be associated with them are as follows:

| <b>RISK</b>   | <b>INDICATIVE<br/>POTENTIAL<br/>COST<br/>£000</b> |
|---|---|
| (1) Increase in costs beyond budget assessment due to higher than anticipated movements in indexation or other issues | 350   |
| (2) Extra legal/consultancy fees etc  | 400   |
| (3) Recycling commodity income replaced by additional charges   | 100   |
| (4) New expenditure initiatives – recycling, staffing, etc.   | 100   |
| (5) New legislation   | 250   |
| (6) Potential additional costs in relation to any development at Cringle Dock   | 650   |
| (7) Additional tonnage at CA Site   | 400   |
| <b>TOTAL</b>  | <hr/> <b>2,250</b> <hr/>                          |

Overall, in the light of recent experience, a General Reserve of £1.8 million in relation to the risks above is considered prudent, representing around 80% of the potential risks identified. In addition, £1.5 million is set aside against the maximum risk the Authority could be liable for in relation to planning costs for the redevelopment of Cringle Dock. The total of £3.3 million for 2022/23 represents approximately 6% of gross expenditure.