

PAPER NO. WRWA **23-01**

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	9 th February 2023
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 0208 871 2788) 26th January 2023
SUBJECT	Report of the Treasurer on the Authority's Budget and Levy for 2023/24 and the prospects for 2024/25 and beyond.
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STATUS	Open-circulation of this paper is not restricted.
BACKGROUND PAPERS	Budget Forecast Paper No. WRWA 22-32. including Appendices A - C – considered at the meeting of the Authority on 23 rd November 2022.

	Report on charging for HWRC; Paper No. WRWA 22-24 considered at the meeting of the Authority on 21 st September 2022
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EXECUTIVE SUMMARY

1. This budget report updates the budget forecast report considered at the Authority meeting on 23rd November 2022 (Paper No. WRWA 22-32). The original budget of the Authority (at the time the levy and rates for 2022/23 were set in Paper No WRWA 22- 03) 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 2023/24 and prospects for future years. The report also sets out the results of a consultation with the constituent Council’s on proposed changes to the charging agreement with regard to the Household Waste and Recycling Centre (“**HWRC**”).

BACKGROUND - CHARGING ARRANGEMENTS

- 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. HWRC 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 expiring in March 2025.
4. In September 2022 the Authority agreed to consult with the constituent councils on amending the current agreement so that waste disposed of at the HWRC is charged for via usage by the boroughs’ residents rather than via the Levy (Paper No. WRWA 22-24). The consultation exercise took place through a virtual meeting with the borough’s Chief Finance Officers or their representatives with earlier circulation of background papers. Following that meeting the constituent councils were given until early January to give a view. For the agreement to be varied, agreement is required of all four councils. One of the councils has stated that they do not wish to vary the current arrangements and accordingly these will continue until the agreement expires in March 2025.

5. Under the agreement, rates per tonne are required for all waste streams. The recommended rates per tonne for 2023/24 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 A of the General Manager's report (Paper No. WRWA 23- 05 elsewhere on this agenda).

EXPERIENCE IN 2022/23

6. When setting the 2022/23 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 2022 in Paper No. WRWA 22-03 this would have utilised £2.587 million of reserves.
7. The Budget Forecast report (Paper No. WRWA 22-32) to the Authority meeting in November 2022 outlined the latest position regarding the 2022/23 budgets based on information at the end of September 2022. The latest forecast incorporates the most up to date tonnage data (including December 2022) and electricity prices. In November, the expectation was that the level of subsidy anticipated when setting the rates for 2022/23 would not be utilised due to positive movements in respect of income from recycle and energy prices and that at that time there would be an over achievement of income of £2.943 million due to those two factors. This gives the Authority some flexibility when deciding rates for 2023/24 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. 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 decrease by 3.5 % and 13.1% respectively compared to the previous year (although there are large fluctuations across the constituent councils). Estimates set out in this paper do not incorporate any continued reduction in 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 17.2% compared to budget. The 2023/24 budget does not predict that this trend will continue and as in previous years assumes constant tonnage levels in future years.

9. The updated forecast for the year is outlined in the Financial Summary at Appendix A which demonstrates that the surplus on the Direct Tonnage costs is expected to be slightly improved on that outlined in the November paper at approximately £3.24 million. Electricity prices were predicted to average £82.45/MWh over the financial year but the average price is now predicted to be at £84.51/MWh based upon the demand for energy in the current climate. The level of recycle income is still expected to be £1,200,000 as forecast in November. It should be noted that income from this source has been reducing since the Summer.
10. Members will be aware that at the November Authority meeting they were advised of the current high level of inflation. 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 12.4%, at the end of November it was 13.5%. Each 1% increase in that index, assuming all other factors remain unchanged, adds £1.56 to the cost of each tonne of waste sent to Belvedere. Based on a tonnage of 280,000 tonnes the estimated cost increase as a result of a 13.5% inflation rate is nearly £6 million, before taking into account electricity income or costs.

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 £72.12 per MWh in 2022/23). However, below this threshold the Authority incurs a charge (up to a floor currently £49.46 per MWh in 2022/23). The 2022/23 budget assumed electricity prices on average of £61.79 /MWh, which resulted in an electricity charge to the Authority of £6.60 per tonne. The estimated electricity value for 2022/23 in the November Forecast paper was £82.45/MWh based upon the demand for energy in the current climate – equal to an income of £6.91 per tonne. The actual energy price achieved month by month has varied considerably between £58.92/MWh to £155.81/MWh. The actual electricity price achieved since the Forecast paper was written for the last two months were £76.40 and £85.63 per MWh respectively. Based on current rates the likely income from electricity is expected to be £2.3 million or £8.21 per tonne.

PROPOSALS FOR 2023/24

AWDC RATES

12. The November 2022 estimates for 2023/24 AWDC rates have been amended in the Budgeted AWDC Costs and Income at Appendix A following the experience of waste streams managed to 31st December 2022. 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 £81.26 per MWh in 2023/24). However, below this threshold the Authority incurs a charge (up to a floor expected to be £55.72 per MWh in 2023/24). Unlike previous years the cost or income from electricity is much more difficult to predict due to the instability in the Energy market caused largely by the war in Ukraine. This is illustrated by the monthly range in the current year referred to in paragraph 11. The November forecast reflected this instability and offered a very wide range of three electricity cost scenarios ranging from a low of £55.72/MWh up to a high price of £150/MWh equating to between costs of £16.28 per tonne to income of £49.89 per tonne. Since the November forecast the forward price of electricity has continued to be unpredictable with a significantly reduced level of forward purchasing in the market compared to earlier years. Due to this uncertainty a prudent electricity price has been assumed when setting the rate of £100 per MWh, generating an average income of £12.03 per tonne of general waste. This rate assumes that there is minimal impact on the electricity generated by the Authority's waste from the new windfall tax which was introduced in the Autumn statement and is close to the mid-point of the range of electricity scenarios referred to in the November forecast. The use of this rate in assessing the charge to the councils minimises the risk of the Authority having to consider issuing a supplemental levy or increasing charges in the event of a significant in-year reduction in energy costs. If energy income is higher during the year then the Authority can take a view on whether it wishes to offer rebates to councils at a later date when income has been realised.
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 2023/24 would be £165.28 per tonne or 3.3% above 2022/23 levels without any subsidy. This is within the range of prices referred to in the November forecast. The Authority could however choose to keep the rate at the current rate of

£160/tonne by utilising current year surpluses. This is discussed further in paragraph 32.

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 2023/24 is likely to be £60.57 per tonne. As agreed in previous year's budget papers, 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. In 2022/23 the rate was fixed at £32.00 per tonne.
16. This budget therefore proposes a co-mingled charge of £32.00 per tonne for 2023/24 for boroughs as outlined in the November forecast, requiring a £28.57 per tonne subsidy or £1.753 million from the reserve. Any co-mingled recyclate 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 next 4 years would require the following subsidy:

	Estimated contract rate	Borough Charge	Subsidy	Reserve use
	£/ tonne	£/ tonne	£/ tonne	£000
2023/24	60.57	32.00	28.57	1,753
2024/25	64.21	44.26	19.95	1,224
2025/26	66.78	56.52	10.26	630
2026/27	68.78	68.78	0	0
Total				3,607

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 £29.37. 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 £1.05 million 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 paragraphs 30 and 31.

All Rates

18. The Authority needs to approve a scale of rates for all waste streams managed for 2023/24. The current rates for 2022/23, the proposed rates for 2023/24 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 2023/24. 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 year rates are before any subsidy from the Authority.

Waste Type	Rates per Tonne (£)								
	Current contract cost 2022/23	Market Variable	Current council charge 2022/23	Proposed contract cost 2023/24	Market Variable	Proposed council charge 2023/24 (exc. Market Variable if applicable)	Predicted contract cost 2024/25	Predicted contract cost 2025/26	Predicted contract cost 2027/28
General waste	147.94		160.00	165.28		160.00	175.19	182.20	187.67
Co-mingled recyclables ¹	53.73		32.00	60.57		32.00	64.21	66.78	68.78
Green waste ²	69.17	45.00	71.50	79.61	54.00	80.00	84.39	87.76	90.40
Batteries	62.92		64.00	72.87		73.00	77.25	80.34	82.75
Clinical ³	792.04		783.50	974.87		975.00	1,033.36	1,074.70	1,106.94
Detritus	73.99		74.50	75.03		75.50	79.53	82.71	85.19
Electricals	55.14		57.00	63.47		63.50	67.27	69.97	72.06
Fridges	52.97		53.00	56.41		56.50	59.79	62.18	64.05
Gas Bottles	141.96		142.00	151.17		151.50	160.24	166.65	171.65
Glass	32.89	0.00	34.00	37.86	0.00	38.00	40.13	41.73	42.99
Inert	32.51		33.50	37.16		37.50	39.39	40.96	42.19
Oil/Paint	136.33		138.50	157.89		158.00	167.37	174.06	179.28
Paper/Cardboard	29.02	-70.00	30.00	33.40	-35.00	33.50	35.41	36.82	37.93
Scrap Metal	55.14	-85.00	57.00	63.47	-130.00	63.50	67.27	69.97	72.06
Textiles	21.28	-160.00	22.00	24.50	-150.00	24.50	25.97	27.00	27.81
Tyres	318.32		315.50	381.44		381.50	404.33	420.50	433.12
Wood	52.24	65.00	54.00	60.13	65.00	60.50	63.73	66.28	68.27
	Rate per percentage point of contamination								
Co-mingled contamination	158.38		163.50	165.28		165.50	175.50	182.50	188.00

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

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

³ Less £130 per tonne as negotiated with Cory for all clinical waste

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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 2022/23 with no allowance for increases:

	Tonnes	General Waste	Co-mingled Recyclate	Other	Contamination	Total*
Hammersmith & Fulham		52,465	11,028	713	1,840	64,207
Kensington and Chelsea		55,731	14,015	1,186	1,755	70,931
Lambeth		85,880	17,168	2,351	2,676	105,400
Wandsworth		74,167	19,156	2,967	2,564	96,289

*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	84
Kensington and Chelsea	89
Lambeth	137
Wandsworth	119

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 £60.57 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. Since the 2022/23 Levy was set, additional income has been accrued from the payments received from Cory for REP reaching financial close plus land which equates to £291,000 a year for the remainder of the length of the WMSA and forecast additional income from Treasury management of £150,000. 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 LPFA Triennial Valuation as at 31 March 2022 calculated that the WRWA element of the fund is over 128% funded. The actuarial valuation recommended that LPFA align all employers to around 120% funded to cover current and future liabilities for their fund as a whole. As a result they are proposing to implement a negative secondary rate of -10% or a reduction in cost of around £35,000 per year. This has been incorporated within the proposed Levy.

28. The proposed total Levy costs for 2023/24 are £5.372 million as set in Appendix B. After deducting income from other sources including those set out in paragraph 26 and planned use of reserves, the Levy required would be £4.165 million. This does not assume any specific costs for the planning application at Cringle Dock which

will be the subject of a separate report to the June Authority meeting and will be funded from the Capital Reserve. The proposed Levy is a reduction of 7.3% compared to the 2022/23 charge. The charges to constituent councils compared to the 2022/23 levy requirement are outlined in the table below. The estimates use provisional 2023/24 council tax-bases. Councils are required to notify their approved tax bases for 2023/24 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 2023/24 have been confirmed by the constituent councils.

	2022/23	2023/24
	£'000	£'000
Hammersmith & Fulham	862	803
Kensington and Chelsea	1,019	935
Lambeth	1,165	1,078
Wandsworth	1,446	1,349
TOTAL	4,493	4,165

29. Constituent council's Finance officers have been consulted by email and a virtual meeting held on the 16th January 2023 regarding the charge rates for direct tonnage and the Levy and the level of reserves. The decision to use the in year surpluses to subsidise the general waste rate was welcomed, as was the continued subsidy of recyclate and the reduced Levy. The boroughs were content with the reserves strategy and the level of reserves proposed to be held for 2023/24.

RESERVE LEVELS

30. The Authority had reserves at 1st April 2022 of £18.636 million. Prior to the budgeted use of reserves, balances as at 1st April 2022 were as follows:

	£m
General Fund Reserve	£3.803
Stabilisation Reserve	£9.575
Loan Repayment Reserve	£1.000
Recycling Reserve	£0.250
Pension Liability Reserve	£1.800
Capital Reserve	£2.210
Total Usable Reserves	£18.636

The intention had been to utilise £2.587 million of those reserves during the current year to reduce charges to the constituent councils. This was not required due to increased commodity income and positive variances in electricity prices resulting in a projected net excess of income over expenditure of £3.803 million. The total level of reserves as at the 31st March 2023 are estimated to be £22.416 million.

31. 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 estimated cost of developing a food waste transfer station is estimated at between £5 million and £8 million. The costs of these would, if directly met by the Authority, fall on the Levy and be borne by the constituent councils. In order to mitigate future costs, a capital reserve has been created which will be used to reduce future Levy costs. Based on last year's budget paper this will be funded from the following sources: firstly any in year underspend arising, 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 the direct cost of works or to assist in financing costs if works are funded through borrowing. If the above principles were applied this year an estimated £3.799 million would be added to this reserve.
32. The Authority could however choose to use some of the surplus arising to maintain the general waste rate at its current level of £160 a tonne rather than the predicted rate of £165.28 rather than using existing reserves. This would require the use of £1.416 million of reserves. Following consultation with the constituent councils it is proposed to use the reserves for that purpose. As outlined above, the subsidy will not apply for contaminated recyclate tonnage charged at the general waste rate. This would leave an estimated balance of £2.387 million to be added to the Capital Reserve. When this is combined with the subsidy for comingled recycling the following use of reserves would be proposed in the year 2023/24 and future years:

Subsidy from Reserve £000	2023/24	2024/25	2025/26
General Waste rate	1,416	-	-
Co-mingled	1,753	1,224	629
Total	3,169	1,224	629

33. The impact of the proposed subsidy and other use of reserves and additions to the Capital Reserve would mean the following predicted year end balances for the Authority's reserves:

£000	01/04/22	01/04/23	01/04/24	01/04/25
General Fund Reserve	3,803	3,803	3,803	3,803
Stabilisation Reserve	9,575	10,991	7,825	6,601
Capital Reserve	2,210	4,597	4,597	4,597
Loan Repayment Reserve	1,000	1,000	1,000	1,000
Recycling Reserve	250	225	200	175
Pension Liability Reserve	1,800	1,800	1,800	1,800
Total Usable Reserves	18,636	22,416	19,225	13,379

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

34. The current balance on the General Fund Reserve is £3.8 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 2023/24 budget other than those covered by the specific earmarked reserves. These are detailed in Appendix E together with reasons for the retention of the specific earmarked reserves. It is proposed to therefore leave the General Fund Balance at a level of £3.8 million in 2023/24 in order to provide against general future uncertainty. The reserve balances will be reviewed again when the 2022/23 accounts are closed.

SECTION 25 STATEMENT

35. 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 as set out in the paper and as specified in Appendix E are adequate and that there are no matters of concern.

SUMMARY OF COSTS TO CONSTITUENT COUNCILS

36. Constituent councils are forecast to incur the following costs in 2023/24 based on the recommended Levy and tonnage levels at the proposed AWDC charges:

	AWDC Charges £'000	Annual Levy £'000	Total £'000
Hammersmith & Fulham	9,120	803	9,923
Kensington and Chelsea	9,773	935	10,708
Lambeth	14,971	1,078	16,050
Wandsworth	13,207	1,349	14,556
Total	47,071	4,165	51,236

The comparative figures for 2022/23 are shown below:

	AWDC Charges £'000	Annual Levy £'000	Total £'000
Hammersmith & Fulham	9,757	862	10,619
Kensington and Chelsea	9,392	1,019	10,412
Lambeth	15,463	1,165	16,628
Wandsworth	14,389	1,446	15,835
Total	49,001	4,493	53,494

AUTHORITY BUDGETS

37. The original and revised overall Authority budget for 2022/23, the proposed budget for 2023/24 and predicted budget for 2024/25 are shown in the Appendices with the budget methodology at Appendix C. The estimated gross cost for the Authority for 2023/24 compared to the amount as at budget setting in 2022 for 2022/23 is shown below:

Gross Expenditure 2023/24	<u>£'000s</u>
	55,609

Gross Expenditure 2022/23	<u>56,962</u>
Reduction	<u>1,353</u>
Percentage reduction	2.4

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

38. 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 2023/24 financial year and confirm that no changes are required.

RECOMMENDATIONS

39. The Authority is recommended to:

- (a) approve a revised gross expenditure budget for the Authority of £48.564 million for 2022/23 (£43.742 million directly determined by direct tonnage delivered and £4.822 million paid for by the Levy) and £55.609 million for 2023/24 (£50.237 million directly determined by direct tonnage delivered and £5.372 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 2023/24 as detailed on page 5 and note the arrangements for recharging contaminated recyclate;
- (c) approve the basis of cost recovery as set out in the report, including the residual Levy figure of £4.165 million for 2023/24 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 2023/24; and
- (e) approve the Authority's proposed reserves as set out Appendix E and the use of reserves as set out in paragraph 34, which will be subject to review annually when budgets are set.

Western Riverside Administration Office
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CHRIS BUSS
Treasurer

26th January 2023

APPENDIX A

<u>Direct Tonnage costs (AWDC)</u> (tonnage assumed to remain constant)	<u>Budgeted AWDC Costs and Income</u>					
	2022/23	2022/23	2023/24 as	2023/24 as	2023/24	2024/25
	Budget	Revised	Predicted Nov	Predicted Nov	Budget	Predicted
	£000	£000	£000	£000	£000	£000
<u>Operating Expenditure</u>			Optimistic	Pessimistic		
General Waste	47,081	40,992	33,729	36,100	45,795	48,544
Co-mingled Recyclate	3,865	3,297	3,748	3,849	3,717	3,940
Other	607	653	778	795	725	769
Recyclate Income	-	-1,200	-1,000	-	-	-
	51,553	43,742	37,255	40,744	50,237	53,253
<u>Direct Tonnage Income (AWDC)</u>						
General Waste						
Hammersmith & Fulham	-8,972	-8,394	-8,256	-8,256	-8,394	-9,191
Kensington & Chelsea	-8,566	-8,917	-9,001	-9,001	-8,917	-9,763
Lambeth	-14,100	-13,741	-13,488	-13,488	-13,741	-15,045
Wandsworth	-12,819	-11,867	-11,686	-11,686	-11,867	-12,993
Co-mingled Recyclate						
Hammersmith & Fulham	-397	-353	-349	-349	-353	-488
Kensington & Chelsea	-450	-448	-460	-460	-448	-620
Lambeth	-691	-549	-559	-559	-549	-760
Wandsworth	-724	-613	-612	-612	-613	-848
Contamination*						
Hammersmith & Fulham	-327	-301	-309	-309	-304	-322
Kensington & Chelsea	-249	-287	-281	-281	-290	-308
Lambeth	-575	-437	-430	-430	-442	-469
Wandsworth	-524	-419	-413	-413	-424	-449
Other						
Hammersmith & Fulham	-62	-64	-59	-60	-69	-73
Kensington & Chelsea	-128	-108	-114	-117	117	-124
Lambeth	-97	-206	-278	-284	-239	-253
Wandsworth	-322	-282	-328	-336	-303	-321
	-49,001	-46,986	-46,624	-46,642	-47,071	-52,029
AWDC (surplus)/ deficit	2,551	-3,244	-9,369	-5,898	3,166	1,224

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	59
Kensington and Chelsea	56
Lambeth	86
Wandsworth	82

APPENDIX B

LEVY cost	LEVY CHARGE					
	2022/23	2022/23	2023/24	2023/24 as	2023/24	2024/25
	Budget	Revised	as	Predicted	Budget	Predicted
	£000	£000	Predicted	Dec	£000	£000
		Dec	£000	£000		
		Optimistic	Pessimistic			
Employees	732	615	773	792	773	789
LPFA Levy	4	-	-	-	-35	-35
Business Rates	525	519	519	571	519	529
Administration & General -Legal/ Consultancy costs	900	900	500	900	900	918
Administration & General - Other direct costs	214	214	214	214	214	218
WBC Financial support	69	69	70	70	71	73
WBC Admin support	29	29	29	29	30	31
HWRC site Tonnage and running costs	2,900	2,435	2,397	2,480	2,863	3,035
Capital Financing	37	37	37	37	37	37
Total Cost	5,409	4,818	4,538	5,093	5,372	5,594
Miscellaneous Income	-470	-567	-478	-478	-641	-509
Triad Income 2021/22		-42			-	-
REP Land Payment		-			-116	-116
Deferred Income	-250	-250	-250	-250	-425	-425
Transfer from Reserves	-25	-25	-25	-25	-25	-25
Levy Income	-4,493	-4,493	3,785	4,340	-4,165	-4,519
Total Income	-5,238	-5,377	-4,538	-5,093	-5,372	-5,594
Levy (surplus)/ deficit	172	-559	0	0	0	0

APPENDIX C**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 6% general inflation for 2024/25, 4% 2025/26 and 3% 2026/27 in line with latest forecasts.

General waste charges. General waste tonnages delivered by constituent councils in 2022/23 have reduced 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 17% compared to budget. Electricity is currently an income to the Authority at an estimated £8.21 per tonne in 2022/23.

Recycling and minor waste streams. Recycling tonnages are forecast to be lower than budgeted levels in 2022/23 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 1st April 2017. The national multiplier applied to rateable values in 2022/23 is 51.2p in the pound plus a supplement of 2p. Rates budgets reflect the proposed freeze in the national multiplier in 2023/24 and an allowance for potential local supplements.

Employees. The budget for 2023/24 incorporates an estimate for salary inflation and the revised staffing structure agreed in Paper No. 22-02 in January 2022.

Administration & General. Administration costs include the revised budgeted programme for the Recycle Western Riverside 2023/24 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 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. £282,000 reflects the 2023/24 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 2023/24. A lower allowance for this level of income has been made in 2024/25 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. In addition, REP close has generated a further payment of £1.75 million which spread over the remaining life equates to a further £175,000 per year, as well as an annual rent payment of £116,000 for the land.

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

BUDGET PERIOD & CONSTITUENT BOROUGH	AWDC CHARGES £000s	LEVY £000s	TOTAL £000s
2022/23 Original Budget			
Hammersmith & Fulham	9,757	862	10,619
Kensington and Chelsea	9,392	1,019	10,412
Lambeth	15,463	1,165	16,628
Wandsworth	14,389	1,446	15,835
Total	49,001	4,493	53,494
2022/23 Revised Budget			
Hammersmith & Fulham	9,112	862	9,974
Kensington and Chelsea	9,760	1,019	10,780
Lambeth	14,933	1,165	16,098
Wandsworth	13,181	1,446	14,627
Total	46,986	4,493	51,479
2023/24 Budget			
Hammersmith & Fulham	9,120	803	9,923
Kensington and Chelsea	9,773	935	10,708
Lambeth	14,971	1,078	16,050
Wandsworth	13,207	1,349	14,556
Total	47,071	4,165	51,236
2024/25 Predicted			
Hammersmith & Fulham	10,075	871	10,946
Kensington and Chelsea	10,816	1,014	11,830
Lambeth	16,527	1,170	17,697
Wandsworth	14,612	1,464	16,075
Total	52,029	4,519	56,548

APPENDIX E**GENERAL RESERVE REQUIREMENT 2023/24 & SPECIFIC EARMARKED RESERVES****a) THE GENERAL RESERVE**

The General Fund 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 2023/24 and potential costs that could be associated with them are as follows:

RISK	INDICATIVE POTENTIAL COST £000
(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	500
(3) Recycling commodity income replaced by additional charges	100
(4) New expenditure initiatives – recycling, staffing, etc.	100
(5) New legislation	300
(6) Potential additional costs not covered by capital reserve in relation to any development at Cringle Dock	1,000
(7) Additional tonnage at CA Site	400
TOTAL	2,750

Overall, in the light of recent experience, a General Reserve of £2.3 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 £3.8 million for 2023/24 represents approximately 6% of gross expenditure.

b) SPECIFIC EARMARKED RESERVES

The Authority hold a number of specific earmarked reserves to guard against specific risks these are as follows (balances as at 1st April 2022 in brackets) :

Stabilisation Reserve (£9.575m)

This reserve is maintained to enable the authority to maintain costs passed onto the boroughs wherever possible within the restriction of the referendum limit for Council tax or to phase known price increases as in the case of co-mingled recycle. As set out in the report this is planned to be utilised in both the current and future years. Current uncertainty regarding electricity prices means that any further reduction in the reserve or repatriation to the boroughs would be a risk. A reduction in electricity income from £100 per MWh to £75 per MWh would lead to a reduction in income in 2023/24 of £4.305m, which would need to be met from this reserve.

Loan Repayment Reserve (£1.000m)

This reserve was established to provide for debt taken out to finance the Materials Recycling Facility. The Authority has £1 million of outstanding loans and the balance on the reserve will be sufficient to redeem the loan in full. Retaining the reserve means that the authority has no need to make an annual Minimum Revenue Provision charge in its accounts.

Recycling reserve (£0.250m)

This reserve is for the purpose of funding one off recycling initiatives across the four boroughs.

Pension Liability Reserve (£1.800m)

The Authority's staff have the right to be members of the Local Government Pension scheme (LGPS). The staff are members of the Scheme administered by the London Pension Fund Authority (LPFA). As referred to in the body of the report the LPFA carries out a triennial valuation as required by LGPS regulations the latest one of which was at 31st March 2022. This showed that the Authority's element of the scheme was in surplus and accordingly employer contribution rates will be reduced for the next three years. However, the accounting basis of the fund is different to the actuarial basis, the latter has to be valued and accounted for in line with the appropriate international accounting standard and at the 31st March 2022 on that basis the liabilities of the Authority's

element of the scheme exceeded assets by £2.513 million. The Authority would only be called upon to make good this deficit in the event of a crystallisation event such as no current members of staff being active members of the LPFA scheme. With the low level of staff employed by the Authority there is a risk of this occurring and as such the reserve should be maintained.

Capital Reserve (£2.210m)

This reserve is to provide for either the direct capital costs of future capital expenditure, including feasibility studies and other similar works, or to offset revenue costs of borrowing.