

PAPER NO: WRWA 23-32

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	22 nd November 2023
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 020 871 2788) 14th November 2023
SUBJECT	The budget forecast for 2023/24 as at the end of September 2023 and the indicative Waste Disposal Costs (AWDC) rates and Levy costs for 2024/25 & future years.
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STATUS	Open - circulation of this paper is not restricted.
BACKGROUND PAPERS	None.

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WESTERN RIVERSIDE WASTE AUTHORITY

IN YEAR BUDGET FORECAST- 2023/24 AND FORWARD LOOK INTO 2024/25 AND FUTURE YEARS

EXECUTIVE SUMMARY

1. The in year budget forecast compares the original budget of the Authority for 2023/24 with expenditure to date & forecasted outturn for the year. The Authority set a budget in February 2023 of £55.6m, of that sum £51.2m was to be recovered from the constituent councils and planned income with the balance of £4.4m to be met from reserves or income from other sources. Based upon activity to the end of September 2023 expenditure is forecasted to be £45.7m and income to be £53.5m, giving an estimated surplus of £7.8m. This is due to the impact of higher output energy prices reducing the cost of disposal.
2. The cost envelope for 2024/25 is uncertain due to highly volatile energy prices. Based on current data there is significant uncertainty regarding the impact of electricity prices on the contract rate from Cory due to the volatility of the energy market. Based on current high and low estimates the likely contract rate for residual waste will be between £169 and £189 per tonne compared to the current charge of £160 per tonne in the current year. There may be greater certainty around inflation and energy prices when the budget is set in February 2024 and accordingly any decision regarding the use of reserves to either subsidise the rates charged to boroughs or repatriate reserves to the boroughs should be made at that time.

BACKGROUND- Charging Mechanism

3. The majority of the Authority's costs are driven by the weight and composition of waste collected and delivered by constituent councils. These are recharged to the constituent councils at a specified rate per tonne set when the budget is produced each year which reflects the estimated cost to the Authority under the disposal contract with Cory. The basis of this recharge is set out in an agreement between the constituent councils and the Authority dated 12th February 2009 (see Paper No. WRWA 629). The Authority and constituent councils have agreed to the extension of the current agreement from April 2017 for a period of a further eight years (i.e. until March 2025). In the event that the agreement is not renewed and there is no replacement agreement between all four Councils, charging from 2025/26 would be on the statutory default basis.

4. The General Running Costs of the Authority comprises all costs which are not allocated to the individual waste streams and include the cost of Household Waste and Recycling Centre (“HWRC”) waste and Authority overheads, including business rate costs. These costs are apportioned as a residual Levy among constituent councils on the basis of their council tax-bases. This basis of charge is set out in The Joint Waste Disposal Authorities (Levies) Regulations (England) 2006.

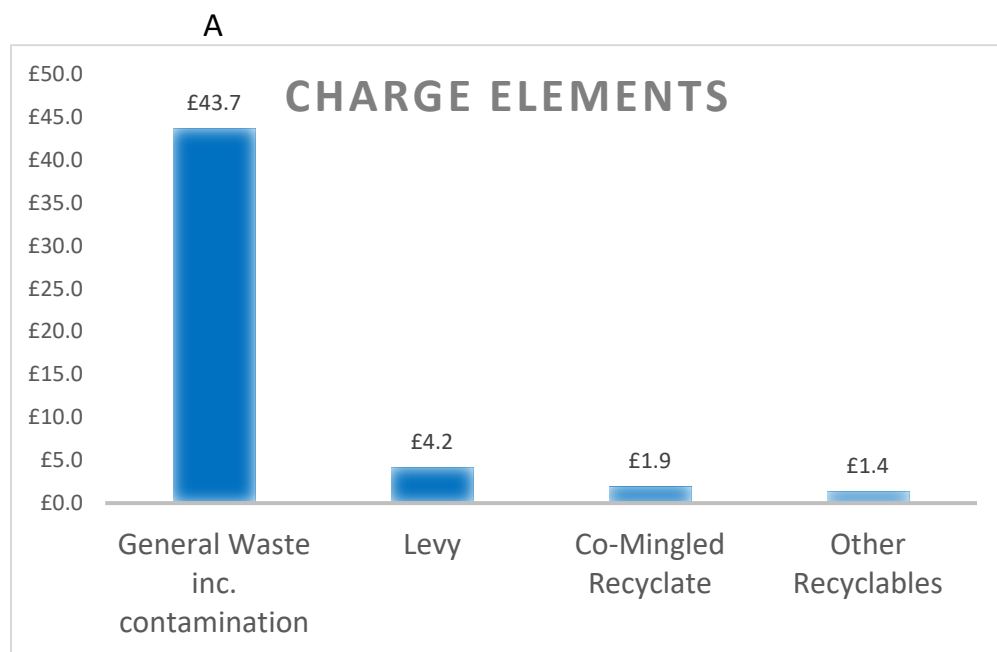
KEY ASSUMPTIONS AT BUDGET SETTING TIME

5. The Treasurer in his statutory role under section 73 of the Local Government Act 1985 has to make a number of assumptions when arriving at the final budget. Some of these are still in the assumption stage at the time the budget is set to meet the Statutory deadline for setting the Levy and rates of 15th February:
 - (i) Inflation levels – A complex mix of indices make up each element of contractual disposal rates per waste stream. As per the contract, rates are based upon indices as at December each calendar year. These are not known in time to meet the statutory deadline. The 2023/24 budget was set on an assumed rate of £165.28 for general waste sent to the EfW plant and £60.57 for co-mingled recycle.
 - (ii) Electricity sold at Belvedere EfW plant. Under the contract, electricity prices form part of the General Waste rate. The Authority receives income from the electricity generated if the market price exceeds a set ‘threshold’ (uplifted under the terms of the contract, currently £per MWh in 2023/24). However, below this threshold the Authority incurs a charge (above a floor currently £55.41 per MWh in 2023/24). Electricity rates are variable depending upon the market price achieved for the energy. The energy portfolio is managed via a Power Purchase Agreement with an energy provider who strive to achieve the best value via a mixture of selling in advance at a closed price and achieving an ‘open’ value based upon the day ahead price within the market. The 2023/24 budget was set on an assumed average energy rate of £100 per MWh across the year.
 - (iii) Tonnage levels – These are normally based on current trends (see Paper No. WRWA 23-34).
 - (iv) Contamination levels in the recycle.

- (v) Legal and consultancy costs in relation to discussions with regard to Cringle development, the Joint Waste Management Strategy and future procurement strategy.

EXPERIENCE IN 2023/24

- 6. When the Authority set its budget in February 2023 it expected to have gross expenditure of £55.61 million. This was broken down as shown in the diagram below.



Appendix A shows the detailed split between General Waste costs, co-mingled costs and other costs recovered via the Levy. These costs are recovered from the boroughs via the charge out mechanisms referred to in paragraphs 3 and 4.

- 7. When setting the budget both the general waste rate and the co-mingled rate for 2023/24 were subsidised with expected required drawing on the Stabilisation Reserve as follows:

	Council charge per tonne	Subsidy per tonne	Reserve Use £000
General Waste	£160.00	£5.28	£1,416
Co-mingled Recyclables	£32.00	£28.57	£1,753
Total Reserve use			£3,169

8. The position for the year is outlined in the Financial Summary at Appendix A which demonstrates the latest forecast for 2023/24 is an improved position, with a total estimated surplus on AWDC rates. The original budget for AWDC rates income for 2023/24 and the Annual Levy for each borough is shown below:

	Original Budget			Latest Estimates		
	AWDC	Annual	Total	AWDC	Annual	Total
	Charges	Levy		Charges	Levy	
£'000	£'000	£'000	£'000	£'000	£'000	
Hammersmith & Fulham	9,112	862	9,974	9,152	862	10,014
Kensington and Chelsea	9,760	1,019	10,780	9,435	1,019	10,454
Lambeth	14,933	1,165	16,098	15,037	1,165	16,202
Wandsworth	13,181	1,446	14,627	13,392	1,446	14,838
Total	46,986	4,493	51,479	47,016	4,493	51,509

9. The position above reflects the following key differences compared to the original budget:
- Increased energy income
 - Tonnage variance
 - Anything else.

10. Forecast. Based on the current forecast the Authority will be in an overall surplus compared to budget of £10.9m. This will be kept under review and that if a level of surplus is maintained at budget setting time a recommendation will be made to either redistribute some or all of it to the constituent Councils or to retain it to maintain stable prices for the constituent Councils in future years. The final decision on this will be made at the 2024/25 budget setting meeting.

FORECAST PROJECTIONS 2024/25

11. General Waste Rates. The general waste rate is made up of a Disposal Gate Fee, Transport Cost, Transfer Station Handling Fee, and Electricity Cost/ Income as per the contract with Cory.
12. The main variable in the general waste rate the impact of the income from the sale of electricity generated from the Energy from Waste plant. This is extremely

variable and depends upon when the energy is sold. The graph below illustrates the variation in general wholesale electricity prices in recent years:

Electricity Prices: Forward Delivery Contracts - Weekly Average (GB)



Information correct as of: November 2023

13. The impact of the energy prices on the rates for 2023/24 and predictions for 2024/25 and 2025/26 are shown in the table below in terms of cost per tonne and total general waste costs for boroughs:

	Budgeted Borough Charge	2023/24	
		Budgeted WRWA cost £/ tonne	Forecast £/ tonne
Operational Costs	177.31	177.31	175.58
Electricity	-12.03	-12.03	-43.16
Contribution from reserves	-5.28		
Total	160.00	165.28	132.42
Estimated cost to boroughs:	£000	£000	£000
Hammersmith & Fulham	8,699		
Kensington and Chelsea	9,207		
Lambeth	14,183		
Wandsworth	12,290		
TOTAL	44,379		

	2024/25		2025/26	
	Estimate Optimistic	Estimate Pessimistic	Estimate Optimistic	Estimate Pessimistic
	£/ tonne	£/ tonne	£/ tonne	£/ tonne
Operational Costs	190.61	190.61	200.14	200.14
Electricity	-21.13	-1.87	-21.13	-1.87
Total	169.48	188.74	179.01	198.27
Increase	5.9%	18.0%		

14. The table above shows that since last year's budget was set the impact of inflation on operational costs and predicted energy prices on electricity income has led to two contrasting pressures. Inflation increases operational costs which can be offset if electricity rates remain high, however a reduction in electricity rates means that the contract rate increases at a rate much higher than headline inflation. The estimated resulting charges for the boroughs has also been outlined in the table above.
15. These fluctuations in costs would normally be passed onto the constituent Councils should they occur unless the Authority were to utilise reserves to enable a smoothing of any increases arising. As stated earlier, the Authority is expecting to have a better view of future energy prices at the time of the budget setting report and for the purposes of initial budget planning the Constituent Councils should be advised that at present the Authority will, as a worst case scenario, attempt to keep charges for 2023/24 below any referendum limits for Council tax and therefore project a 5% increase as per the table below for 2024/25. Appendix A models the budget using a 5% charge increase for boroughs (at a rate of £168 per tonne) with energy prices at the mid point of the optimistic and pessimistic range below generating a cost to the Authority of £180.90 per tonne.

	2024/25	
	Estimate Optimistic	Estimate Pessimistic
	£/ tonne	£/ tonne
Operational Costs	190.61	190.61
Electricity	-21.13	-1.87
Subsidy	-1.48	-20.74
Total	168.00	168.00
Increase on 2023/24	5.0%	5.0%
Total Reserve use	£400,000	£5,740,000
Estimated cost to boroughs:	£000	
Hammersmith & Fulham	9,184	
Kensington and Chelsea	9,317	
Lambeth	14,948	
Wandsworth	13,118	
TOTAL	46,567	

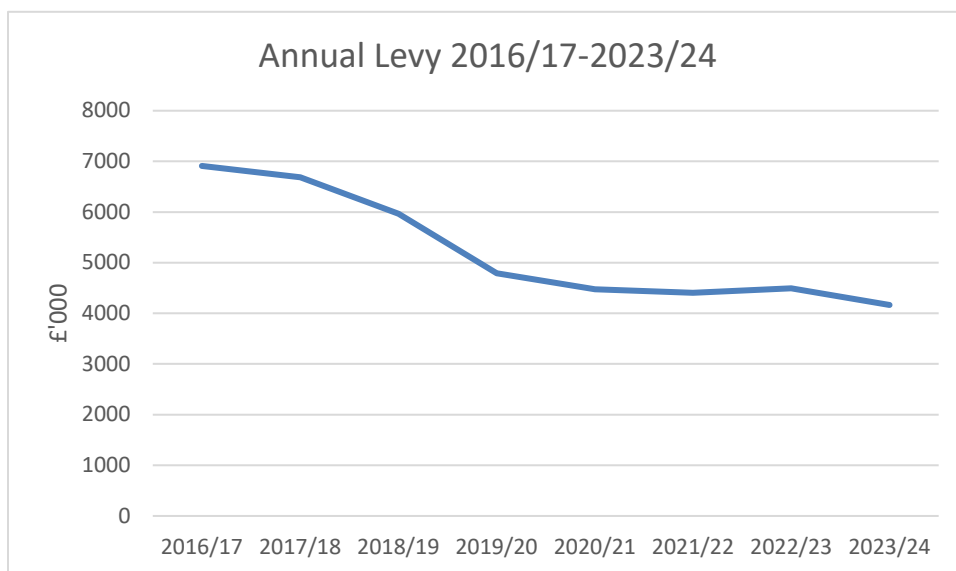
16. Co-mingled Recycling Rates. Based upon the latest inflation estimates, the contract rate for 2024/25 is likely to be £59.25 per tonne. This is lower than the expected 2024/25 rate when the budget was set in February 2023. At that time, it was proposed to smooth the rate for the coming years, resulting in a charge of £32 per tonne in 2023/24 or £28.57 per tonne subsidy. The 2023/24 budget paper assumed a reduction in subsidy for 2024/25 and a revised rate of £44.26 which would now require a subsidy of £14.99 equivalent to £0.9m drawing from reserves. A final decision on the subsidisation of this rate will be made when further information is available when the 2024/25 budget is set. If the Authority were to retain the current subsidised rate of £32 then a further £0.7m would need to be taken from reserves.

17. Commodity Income. The contract rate with Cory for co-mingled recycling incorporates an income arrangement where the Authority will receive 50% of the commodity income over a basket price. Income generated from commodities is much lower in 2023/24 compared to the two previous years and reflects the market for recyclable materials. The expected income received has only been £143,000 to date in 2023/24 compared to a total of £1.16m in 2022/23 and £1.63m in 2021/22. In previous years, this income has been retained by the Authority to help to fund the subsidisation of rates but with lower income, the proposed draw down in reserves will be required instead in the current year.

18. Summary of all AWDC rates. The constituent borough rates for 2023/24 and predictions for 2024/25 are shown in Appendix D. The contract uses RPI-X for an element of the inflationary increase which has been estimated at around 7.88% with any indices which are linked to current energy markets expected to be higher. Current Predictions for 2025/26 will be available in the January/ February budget paper.
19. The variable element with regard recyclables can be subject to significant market volatility and constituent councils are recommended to make their own assumptions regarding the future likelihood of these costs. Constituent councils need to be cautious before introducing any new recycling initiatives based on an assessment of the potential income from what are in fact volatile market prices. The Authority attempts to secure fixed prices for the year January to December, or longer if possible, but due to the volatility in market prices the General Manager is authorised to adjust these prices during the year, in consultation with the Treasurer.
20. The table in Appendix D provides for all waste streams currently handled by constituent councils or directly by the Authority. Should other waste streams be introduced in future, authority has been delegated to the General Manager in consultation with the Treasurer to set rates for the new waste streams.
21. Levy Costs. Appendix B details the Authority costs which are funded by the Levy payments from constituent councils. The Administration and General costs continue to include consultancy and legal advice costs in relation to the strategy work currently underway for waste management and procurement and also potentially additional land costs. The full cost of the waste delivered to the HWRC site has been included without using any reserves to subsidise this element. The overall position will be considered further before setting a final levy in February. The Levy for 2024/25 will be agreed by the Authority at its meeting in February 2024, with delegated authority to amend as and when the respective Tax Bases of the constituent Boroughs are known. The indicative Levy requirement due in April 2024 for 2024/25 is expected to remain at a similar level to 2023/24 of £4.165m charged to constituent councils (using 2023/24 council tax base apportionments as a guide) as follows:

	2023/24	2024/25
	Actual	Forecast
	£'000	£'000
Hammersmith & Fulham	803	803
Kensington and Chelsea	935	935
Lambeth	1,078	1,078
Wandsworth	1,349	1,349
TOTAL	4,165	4,165

22. The Authority has reduced the levy consistently since 2016/17 as outlined in the graph below:



23. The Authority’s ability to maintain this trend in reducing costs will become more difficult in future years due to the potential need for capital expenditure which will need to be funded from this source unless reserves are utilised.

24. Reserve Levels. As outlined above, the Authority was expecting to use £3.169m from reserves to subsidise the rates charged to the constituent boroughs in 2023/24. Current expectations suggest this level will be £1.568m in respect of co-mingled recycling only. Current estimates for 2024/25 may require the use of £0.903m in respect of co-mingled recycle.

25. The level of reserves as at the 1st April 2023 and their potential increase as a result of the current year forecast are set out below:

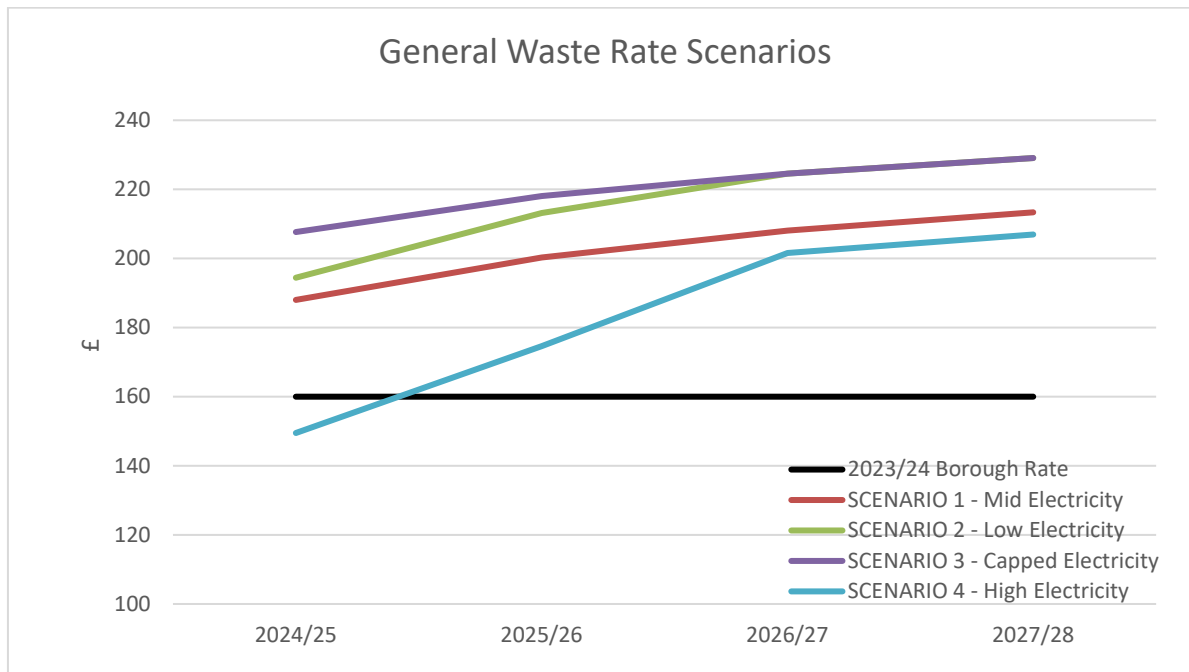
	1 st April 2023	1 st April 2024
	Actual	Estimate
	£000	£000
General Fund Reserve	4,479	3,800
Stabilisation Reserve	10,991	17,416
Capital Reserve	7,984	10,000
Loan Repayment Reserve	1,000	1,000
Recycling Reserve	250	225
Pension Liability Reserve	1,800	1,800
Total Usable Reserves	26,504	34,242

26. The need for these reserves and future use will be determined in the budget setting paper in February. Significant factors that the Authority will need to consider at that time are the need to maintain reserves to enable the continued subsidisation of co-mingled rates, the need to stabilize rates going forward due to energy price uncertainty and the Authority's own needs in terms of future capital expenditure. These issues are discussed in the future year projections below.

FUTURE YEAR PROJECTIONS

27. As referred to above, there are two main drivers of cost on the General Waste rate: inflation and energy prices. To indicate the impact of these two variables modelling has been undertaken showing the impact of using the current Bank of England assumptions on inflation over the next five years and then various impacts on energy prices. This modelling is summarized in the table below which shows the potential range of general waste contract rates for the period 2024/25-2027/28.

	2024/25	2025/26	2026/27	2027/28
	£/tonne	£/tonne	£/tonne	£/tonne
High Electricity	149	175	202	207
Mid Electricity	188	200	208	213
Low Electricity	194	213	225	229
Capped Electricity	208	218	225	229



28. The substantial variation in rates due to the energy price uncertainty shows that the Authority can have no certainty going forward until energy costs stabilise and any decision on whether to reduce rates in a particular year in line with the current high level of energy prices needs to be balanced against the Authority’s current policy to try to stabilize rates and the need to fund future potential capital expenditure.

29. Since 2021 the Authority has agreed to subsidise the co-mingled recycling rate, prior to this date the Authority had benefited from a separately agreed off contract lower rate. Since the reversion to the contract rate, the Authority has budgeted to reduce the charge rate by utilizing either recycle income or reserves. The current policy is to continue to do that by stepped increases until converging with the contractual rate in 2026/27 which would require just under 40% increases in price each year. The table below illustrates how that policy will work based on the latest estimates:

	Estimated contract rate £	Borough Charge £	Subsidy £	Reserve use £000
2023/24	58.03	32.00	26.03	1,568
2024/25	59.25	44.26	14.99	903
2025/26	61.62	61.62	0.00	0
Total Reserve use				2,471

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30. Stepping the increase over three years rather than two could reduce the annual increase to 26% per year, with the overall reserve use required increasing to £3,360,000, an increase of £890,000. Alternatively, the Authority could choose to utilize reserves to delay the convergence with the contract rate and retain the current charge of £32 per tonne for 2024/25 (still aligning with the contract price in 2025/26 with a likely 100% increase required) which would require total use of reserves of £3,210,000, an increase of £740,000 compared to the table above.
31. With regard to the levy the undertaking with regard to cost control is to try to keep increases below the referendum limits on Council tax. Since 2016/17, the Authority has in fact reduced the levy by 40%. In the near future the Authority will need to undertake additional capital expenditure on enhancing its facilities. The revenue costs of these would fall on the levy and be passed onto the constituent councils. The cost of these are as yet unknown but could be significant over the next seven years. If this was, for instance £50 million and was fully met from borrowing at October 2023 borrowing costs this would add £3.5m to annual revenue costs by 2030, equivalent to a 85% increase on the current levy. The retention of some of the potential additional income from energy prices in a reserve would reduce this risk by either directly meeting capital costs from reserves or using the reserve to reduce revenue contributions.

CONSULTATION WITH CONSTITUENT COUNCILS

32. The proposed forecast outlined here has been discussed with the Section 151 Finance Officers (or their representatives) of all of the constituent boroughs at a virtual meeting on 2nd November 2023.

RECOMMENDATION

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

Western Riverside Transfer Station
Smugglers Way
Wandsworth
London SW18 1JS

CHRIS BUSS
Treasurer

14th November 2023

APPENDIX A

<u>Projected AWDC Costs and Income</u>			
<u>Direct Tonnage costs (AWDC)</u> (tonnage assumed to remain constant)	2023/24		2024/25
	Budget	Forecast	Estimate
	£000	£000	£000
<u>Operating Expenditure</u>			
General Waste	45,795	36,676	50,103
Co-mingled Recyclate	3,717	3,496	3,570
Other	725	706	726
	<hr/>	<hr/>	<hr/>
	50,237	40,877	54,399
<u>Direct Tonnage Income (AWDC)</u>			
General Waste			
Hammersmith & Fulham	-8,394	-8,472	-8,895
Kensington and Chelsea	-8,917	-8,642	-9,074
Lambeth	-13,741	-13,819	-14,510
Wandsworth	-11,867	-12,062	-12,665
Co-mingled Recyclate			
Hammersmith & Fulham	-353	-341	-471
Kensington and Chelsea	-448	-434	-600
Lambeth	-549	-550	-760
Wandsworth	-613	-604	-835
Contamination*			
Hammersmith & Fulham	-304	-277	-303
Kensington and Chelsea	-290	-233	-255
Lambeth	-442	-419	-459
Wandsworth	-424	-434	-475
Other			
Hammersmith & Fulham	-69	-64	-64
Kensington and Chelsea	-117	-126	-124
Lambeth	-239	-249	-242
Wandsworth	-303	-292	-299
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	-47,071	-47,016	-50,032
AWDC (surplus)/ deficit	3,166	-6,139	4,366

Tonnage assumptions in the above :

	2023/24	
	Budget	Forecast
General Waste (excl contaminated)		
Hammersmith & Fulham	52,465	52,948
Kensington and Chelsea	55,731	54,015
Lambeth	85,880	86,371
Wandsworth	74,167	75,389
HWRC	6,963	7,224
Total	275,206	275,947
Co-mingled Recyclate		
Hammersmith & Fulham	11,028	10,645
Kensington and Chelsea	14,015	13,555
Lambeth	17,168	17,178
Wandsworth	19,156	18,866
HWRC	334	251
Total	61,701	60,495

APPENDIX B**LEVY CHARGE**

LEVY cost

	2023/24 Budget	2023/24 Forecast	2024/25 Predicted
	£000	£000	£000
Employees	773	641	758
LPFA Levy	- 35	- 35	-35
Business Rates	519	702	902
Administration & General -Legal/ Consultancy costs	900	780	900
Administration & General - Other direct costs	214	214	214
WBC Financial support*	71	71	73
LBC Admin support	30	30	30
External Audit		12	55
HWRC site Tonnage and running costs	2,863	2,384	2,672
Capital Financing	37	37	18
Total Cost	5,372	4,836	5,587
Miscellaneous Income	-491	-491	-491
Investment Income	-150	-830	-300
Triad Income 2022/23	-	-408	-
REP land payment	-116	-116	-116
Deferred Income	-425	-425	-425
Transfer from Reserves	-25	-25	-25
Levy Income	-4,165	-4,165	-4,169
Total Income	-5,372	-6,460	-5,526
Levy (surplus)/ deficit	0	-1,624	0

*** Breakdown of Borough support:**

<u>Financial Support - Wandsworth</u>	<u>£'000</u>
Accounting & Budgeting	42
Financial Advice/Support	21
Internal Audit	6
Pensions/Payroll	2
Debt Management	2
	<u>73</u>
<u>Admin Support - Lambeth</u>	<u>£'000</u>
Deputy Clerk & Admin Support	31
	<u>31</u>

APPENDIX C

	2023/24 Mth 6 actual £000	2023/24 Original Budget £000
All Waste Tonnage costs, including HWRC site and running costs	21,787	53,100
Employees	307	773
LPFA Levy	-18	-35
Business Rates	421	519
Administration & General -Legal/ Consultancy costs	532	900
Administration & General - Other direct costs	55	214
WBC Financial support	36	71
WBC Admin support	15	30
Capital Financing	18	37
Total Cost	23,154	55,609
Income from Boroughs	-23,633	-47,071
Recyclate Income	-143	
Miscellaneous Income	-401	-641
REP land payment	-58	-116
Recharges to Cory	-66	-
Deferred income	-213	-425
Transfer from Reserves	-13	-25
Total Income	-24,526	-48,278
Net cost/(surplus)	-1,372	7,331
Full annual Levy	-4,165	-4,165

Predicted Rates per Tonne

Waste Type	Current contract cost 2023/24	Variable #	Current council charge 2023/24	Predicted Contract cost 2024/25	Predicted 2024/25 as at Feb 2023
	£	£	£	£	£
General waste	132.42		160.00	180.90	175.19
Co-mingled recyclables	58.03		32.00	59.25	64.21
Green waste	74.69	54.00	134.00	74.55	84.39
Batteries	70.54		73.00	73.09	77.25
Clinical	969.76		975.00	1086.74	1,033.36
Detritus	74.73		75.50	75.17	79.53
Electricals	59.54		63.50	59.44	67.27
Fridges	55.94		56.50	59.69	59.79
Gas Bottles	149.91		151.50	159.96	160.24
Glass	35.52	0.00	38.00	35.45	40.13
Inert	35.23		37.50	35.53	39.39
Oil/Paint	152.83		158.00	158.36	167.37
Paper	31.34	-70.00	-1.50	31.28	35.41
Scrap Metal	59.54	-130.00	-66.50	59.44	67.27
Textiles	22.98	-160.00	-125.50	22.94	25.97
Tyres	379.68		381.50	420.07	404.33
Wood	56.41	65.00	125.50	56.31	63.73

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