

# PAPER NO. WRWA 24-01

## WESTERN RIVERSIDE WASTE AUTHORITY

<b>MEETING</b>	8 <sup>th</sup> February 2024
<b>REPORT AUTHOR/ DATE</b>	Treasurer (Sukvinder Kalsi-Tel 0208 871 2788) 25th January 2024
<b>SUBJECT</b>	Report of the Treasurer on the Authority's Budget and Levy for 2024/25 and the prospects for 2025/26 and beyond.
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<b>STATUS</b>	Open-circulation of this paper is not restricted.
<b>BACKGROUND PAPERS</b>	<p>Budget Forecast Paper No. WRWA 23-32. including Appendices A - C – considered at the meeting of the Authority on 22nd November 2023.</p> <p>Report on charging for HWRC; Paper No. WRWA 22-24 considered at the meeting of the Authority on 21<sup>st</sup> September 2022</p>

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## **EXECUTIVE SUMMARY**

1. This budget report updates the budget forecast report considered at the Authority meeting on 22nd November 2023 (Paper No. WRWA 23-32). The original budget of the Authority (at the time the levy and rates for 2023/24 were set in Paper No WRWA 23- 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 2024/25 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. As the agreement expires in April 2025, it is proposed to consult with the constituent councils around the extension or amendment of the current charging mechanism early in 2024/25. Any new agreement needs to be entered into by the individual constituent councils. A meeting will be arranged with the borough’s Chief Finance Officers or their representatives with circulation of background papers in good time to understand the options available.
5. Under the agreement, rates per tonne are required for all waste streams. The recommended rates per tonne for 2024/25 are compared with the current year’s charged rates at paragraph 17 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 24-04 elsewhere on this agenda).

### **EXPERIENCE IN 2023/24**

6. When setting the 2023/24 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 2023 in Paper No. WRWA 23-03 this would have utilised £3.2 million of reserves.
7. The Budget Forecast report (Paper No. WRWA 23-32) to the Authority meeting in November 2023 outlined the latest position regarding the 2023/24 budgets based on information at the end of September 2023. The latest forecast incorporates the most up to date tonnage data (including December 2023) and electricity prices. In November, the expectation was that the level of subsidy anticipated when setting the rates for 2023/24 would not be utilised due to positive movements in respect of energy prices and instead, a surplus compared to budget of £10.9 million would be achieved (or a transfer to reserves of £6.7 million rather than a transfer from reserves of £3.2 million). This gives the Authority some flexibility when deciding rates for 2024/25 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 increase by 0.6% and 1.3% 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 increase of around 4.6% compared to budget. The 2024/25 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 lower than that outlined in the November paper at approximately £4.97 million. Electricity prices were predicted to average £147.91/MWh over the

financial year when estimated in November but the average price is now predicted to be at £143.04/MWh based upon the demand for energy in the current climate. The level of recyclate income has stabilised slightly since the reduction received in the summer 2023 and a total of £202,000 has been received, slightly higher than the £143,000 reported in November. This will help to subsidise the co-mingled rate.

## Electricity

10. 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 £80.80 per MWh in 2023/24). However, below this threshold the Authority incurs a charge (up to a floor currently £55.41 per MWh in 2023/24). The 2023/24 budget assumed electricity prices on average of £100.00 /MWh, which resulted in an electricity income to the Authority of £12.03 per tonne. The estimated electricity value for 2023/24 in the November Forecast paper was £147.91/MWh based upon the demand for energy in the current climate – equal to an income of £43.16 per tonne. The actual energy price achieved month by month has varied considerably between £134.03/MWh to £177.78/MWh. The actual electricity price achieved since the Forecast paper was written for the last two months were £159.39 and £147.85 per MWh respectively and appear to be on a downward trajectory. Based on current rates the likely income from electricity is expected to be £11.4 million or £39.96 per tonne.

## PROPOSALS FOR 2024/25

### AWDC RATES

11. The November 2023 estimates for 2024/25 AWDC rates have been amended in the Budgeted AWDC Costs and Income at Appendix A following the experience of waste streams managed to 31<sup>st</sup> December 2023. These in particular reflect the latest mix of inflation indices and latest estimates around electricity referred to in paragraphs 12 and 13.

12. 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 £84.36 per MWh in 2024/25). However, below this threshold the Authority incurs a charge (up to a floor expected to be £57.85 per MWh in 2024/25). As outlined in November, it is very difficult to predict the cost or income

from electricity due to the instability in the Energy market caused by the conflict in both the middle east and Ukraine, this is illustrated by the monthly range in the current year referred to in paragraph 10. The November forecast reflected this instability and presented the impact of an optimistic to pessimistic rate of electricity ranging from £90/MWh up to a high price of £120/MWh equating to income of between £1.87 per tonne to income of £21.13 per tonne. Since the November forecast the forward price of electricity has continued to be unpredictable but is largely dropping. Based on a mix of existing price generated on the proportion of energy sold ahead by Cory plus industry predictions for prices in 2024/25, the average electricity price assumed when setting budgets is £88 per MWh, generating an average income of £2.36 per tonne of general waste. This rate is at the lower end of the 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.

13. 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 2024/25 would be £182.01 per tonne or 13.7% above 2023/24 levels without any subsidy. The November forecast proposed limiting the increase in the rate to an increase of 5% (to £168 per tonne) by utilising current year surpluses. It is therefore recommended that the general waste rate be set at £168 per tonne.

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

14. 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 2024/25 is likely to be £59.25 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 2023/24 the rate was fixed at £32.00 per tonne for the second year running, i.e. that smoothing continued.
15. The November forecast outlined that the 2023/24 budget paper assumed a reduction in subsidy for 2024/25 and a revised rate of £44.26 being charged, requiring a subsidy of £14.99 or £0.9 million from reserves. At that meeting, Members asked for consideration to be given to continuing the existing rate per

tonne and funding the increased subsidy from reserves. This budget therefore proposes the continuation of a co-mingled charge of £32.00 per tonne for 2024/25 for boroughs, requiring a £27.25 per tonne subsidy or £1.687 million from the reserve. Any co-mingled recyclate which is contaminated will be recharged at the Cory contract rate not the subsidised rate. When the 2023/24 budget was set, it was assumed that the smoothing would finish in 2026/27 when the rate charged to boroughs would no longer be subsidised. If that was to be extended to 2027/28 i.e. for the next four years, on an equal basis, it would require the following subsidy:

	Estimated contract rate	Borough Charge	Subsidy	Reserve use
	£/ tonne	£/ tonne	£/ tonne	£000
2024/25	59.25	32.00	-27.25	1,687
2025/26	61.62	43.55	-18.07	1,119
2026/27	64.09	55.10	-8.99	556
2027/28	66.65	66.65	0	0
<b>Total</b>				<b>3,363</b>

16. Consideration could be given to staging the increase in an earlier year to reduce the required overall drawing from reserves (if the rate was increased more quickly in 2025/26 to £50 with the same trajectory as above thereafter, the required reserve use would reduce by £800,000). This will be considered when setting the budget for 2025/26. The overall impact of this proposal on reserves is outlined later in this paper in paragraphs 31 to 37.

17. As previously outlined, the current 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 £30.46. 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 £201,623 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.

## All Rates

18. The Authority needs to approve a scale of rates for all waste streams managed for 2024/25. The current rates for 2023/24, the proposed rates for 2024/25 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 2024/25. 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 2023/24	Market Variable	Current council charge 2023/24	Proposed contract cost 2024/25	Market Variable	Proposed council charge 2024/25 (exc. Market Variable if applicable)	Predicted contract cost 2025/26	Predicted contract cost 2026/27	Predicted contract cost 2027/28
General waste	134.39		160.00	182.01		168.00	189.29	194.96	198.86
Co-mingled recyclables <sup>1</sup>	58.03		32.00	59.25		32.00	61.62	63.47	64.74
Green waste <sup>2</sup>	74.69	54.00	134.00	74.55	50.00	75.00	77.54	79.86	81.46
Batteries	70.54		73.00	73.09		73.50	76.01	78.29	79.86
Clinical <sup>3</sup>	969.76		975.00	1,014.72		1,015.00	1,055.31	1086.97	1108.71
Detritus	74.73		75.50	75.17		75.50	78.17	80.52	82.13
Electricals	59.54		63.50	59.44		59.50	61.81	63.67	64.94
Fridges	55.94		56.50	59.69		60.00	62.08	63.94	65.22
Gas Bottles	149.91		151.50	159.96		160.00	166.36	171.35	174.78
Glass	35.52	0.00	38.00	35.45	0.00	35.50	36.87	37.98	38.74
Inert	35.23		37.50	35.53		36.00	36.95	38.06	38.82
Oil/Paint	152.83		158.00	158.36		158.50	164.69	169.64	173.03
Paper/Cardboard	31.34	-35.00	-1.50	31.28	-20.00	31.50	32.53	33.51	34.18
Scrap Metal	59.54	-130.00	-66.50	59.44	-125.00	59.50	61.81	63.67	64.94
Textiles	22.98	-150.00	-125.50	22.94	-235.00	23.00	23.86	24.57	25.06
Tyres	379.68		381.50	395.05		395.50	411.01	423.34	431.81
Wood	56.41	65.00	125.50	56.31	80.00	56.50	58.56	60.32	61.52
	<b>Rate per percentage point of contamination</b>								
Co-mingled contamination	134.39		160.00	182.01		182.01	189.29	194.96	198.86

<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>2</sup> 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 2023/24 with no allowance for increases:

	Tonnes	General Waste	Co-mingled Recyclate	Other	Contamination	Total*
Hammersmith & Fulham		52,277	11,639	658	1,968	64,574
Kensington and Chelsea		54,113	13,625	1,164	1,411	68,902
Lambeth		86,737	17,115	2,213	2,466	106,065
Wandsworth		75,618	19,537	2,987	2,606	98,142

\*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	88
Kensington and Chelsea	91
Lambeth	146
Wandsworth	127

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 £59.25 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 a total of £425,000 a year for the remainder of the length of the WMSA. There is also a forecast for additional income from Treasury management of £830,000 reflecting the higher interest rates earned on cash balances. The Levy requirement due in April 2023 for 2023/24 reduced by £240,000 compared to 2022/23 at £4.165 million (a reduction of 5.4%). It should be noted that in 2017/18 the Levy was £6.683 million and therefore there has been an overall reduction of £2.518 million or 38% over the past 7 years.

27. The 2023 revaluation of business rates has seen the rateable value of the Authority's assets more than double, resulting in a level of business rates payable per year of £1.125 million, an increase of over £600,000. The Authority is eligible for transitional protection, dampening the cost in 2023/24 to an increase of 30% plus inflation (just under £200,000). 2024/25 is expected to be the final year of transitional protection for the Authority, limiting the increase to a further £330,000, with a budget provision set up of £1.031 million. The revaluation has been challenged via our valuation advisors with no update to provide at this stage.

28. The proposed total Levy costs for 2024/25 are £5.641 million as set in Appendix B. After deducting income from other sources including those set out in paragraph 25 and planned use of reserves, the Levy required would be £4.289 million. The

proposed Levy is an increase of 3% compared to the 2023/24 charge, largely due to business rates increases as outlined above. The charges to constituent councils compared to the 2023/24 levy requirement are outlined in the table below. The estimates use provisional 2024/25 council tax-bases. Councils are required to notify their approved tax bases for 2024/25 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 2024/25 have been confirmed by the constituent councils.

	<b>2023/24</b>	<b>2024/25</b>
	<b>£'000</b>	<b>£'000</b>
Hammersmith & Fulham	803	834
Kensington and Chelsea	935	957
Lambeth	1,078	1,109
Wandsworth	1,349	1,390
<b>TOTAL</b>	<b>4,165</b>	<b>4,289</b>

29. Constituent council's Finance officers have been consulted by email regarding the charge rates for direct tonnage and the Levy and the level of reserves. Responses received before the publication of this paper have been incorporated into this report and any further feedback will be provided verbally at the meeting.

### **FUTURE RISKS – for Medium Term Financial Planning**

30. Capital redevelopment: 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 relation to this, the Clerk has written to Wandsworth's Leader to arrange a meeting to discuss the purchase of the land adjacent to Feather's Wharf/Institute Wharf. Our property advisors, Carter Jonas are engaged to progress discussions with Wandsworth on Heads of Terms for securing the whole site to develop a food waste transfer station for which planning permission will need to be secured. WRWA is aware that the Constituent Councils have been allocated Government funding to implement boroughwide food waste collections by 1st April 2026. No funding has been allocated for transfer and treatment of the collected food waste and WRWA will make representations to the

Government on the omission of funding to WDAs. 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. The Capital Reserve has been set up (see Reserve Levels section below) to help mitigate against this risk.

31. Emissions Trading Scheme: As outlined in Paper No. WRWA 23-26 to the Authority meeting in September 2023 the greenhouse gas emission trading scheme (ETS) is due to extend to new sectors including Energy from Waste from 2028. The UK ETS only applies to carbon from fossilised and not biogenic sources. As reported in September 2023, using the current estimate of fossilised sources, this could cost the Authority somewhere between £8.5 and £21 million per year. A further update is outlined elsewhere on this agenda within the General Manager’s report (Paper No. WRWA 24-04).

## RESERVE LEVELS

32. The Authority had reserves at 1<sup>st</sup> April 2023 of £26.504 million. Prior to the budgeted use of reserves, balances as at 1<sup>st</sup> April 2023 were as follows:

	£m
General Fund Reserve	£4.479
Stabilisation Reserve	£10.991
Loan Repayment Reserve	£1.000
Recycling Reserve	£0.250
Pension Liability Reserve	£1.800
Capital Reserve	£7.984
<b>Total Usable Reserves</b>	<b>£26.504</b>

33. The General Fund Reserve included £678,000 of unspent consultant fee budget carried over from 2022/23 to be used to fund the costs in 2023/24. This will be used to fund the current consultant fee costs, reducing the level of the General Fund Reserve back to its original £3.801 million level.

34. The intention had been to utilise £3.166 million of those reserves during the current year to reduce charges to the constituent councils. This was not required due to

increased electricity prices resulting in a projected net excess of income over expenditure of £7.257 million in total. The total level of reserves as at the 31<sup>st</sup> March 2024 are estimated to be £33.736 million.

35. In view of the risks outlined above in relation to future capital redevelopment costs, the Capital Reserve has been set up to be used to either meet the direct cost of works or to assist in financing costs if works are funded through borrowing. It is proposed to add £2.016 million of the in year surplus to this reserve to bring the balance up to £10 million.
36. It is proposed to use some of the surplus arising to restrict the general waste rate increase to 5% in 2024/25. This would require the use of £3.764 million of reserves. As outlined above, the subsidy will not apply for contaminated recyclate tonnage charged at the general waste rate. When this is combined with the subsidy for co-mingled recycling the following use of reserves would be proposed in the year 2024/25 and future years:

<b>Subsidy from Reserve</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>£000</b>			
General Waste rate	3,764	-	-
Co-mingled	1,687	1,119	556
<b>Total</b>	<b>5,449</b>	<b>1,119</b>	<b>556</b>

37. 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:

<b>£000</b>	<b>01/04/23</b>	<b>01/04/24</b>	<b>01/04/25</b>	<b>01/04/26</b>
General Fund Reserve	4,479	3,803	3,803	3,803
Stabilisation Reserve	10,991	16,910	11,461	9,842
Capital Reserve	7,984	10,000	10,000	10,000
Loan Repayment Reserve	1,000	1,000	1,000	-
Recycling Reserve	250	225	200	175
Pension Liability Reserve	1,800	1,800	1,800	1,800
<b>Total Usable Reserves</b>	<b>26,504</b>	<b>33,736</b>	<b>28,262</b>	<b>25,618</b>

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

38. 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 2024/25 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 2024/25 in order to provide against general future uncertainty. The reserve balances will be reviewed again when the 2023/24 accounts are closed.

#### SECTION 25 STATEMENT

39. 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

40. Constituent councils are forecast to incur the following costs in 2024/25 based on the recommended Levy and tonnage levels at the proposed AWDC charges:

	<b>AWDC Charges £'000</b>	<b>Annual Levy £'000</b>	<b>Total £'000</b>
Hammersmith & Fulham	9,566	834	10,400
Kensington and Chelsea	9,898	957	10,856
Lambeth	15,783	1,109	16,892
Wandsworth	14,116	1,390	15,506
<b>Total</b>	<b>49,364</b>	<b>4,289</b>	<b>53,653</b>

The comparative figures for revised 2023/24 budgets are shown below:

	<b>AWDC Charges £'000</b>	<b>Annual Levy £'000</b>	<b>Total £'000</b>
Hammersmith & Fulham	9,114	803	9,917



Kensington and Chelsea	9,446	935	10,381
Lambeth	15,050	1,078	16,128
Wandsworth	13,467	1,349	14,816
<b>Total</b>	<b>47,077</b>	<b>4,165</b>	<b>51,242</b>

## **AUTHORITY BUDGETS**

41. The original and revised overall Authority budget for 2023/24, the proposed budget for 2024/25 and predicted budget for 2025/26 are shown in the Appendices with the budget methodology at Appendix C. The estimated gross cost for the Authority for 2024/25 compared to the amount as at budget setting in 2023 for 2023/24 is shown below:

	<u>£'000s</u>
Gross Expenditure 2024/25	60,454
Gross Expenditure 2023/24	55,609
Increase	<u>4,845</u>
Percentage increase	8.7

The total budgeted and predicted costs to individual constituent councils are shown for the period from 2022/23 to 2023/24 in Appendix E.

## **CIPFA CODE OF FINANCIAL MANAGEMENT**

42. 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 2024/25 financial year and confirm that no changes are required.

## **RECOMMENDATIONS**

43. The Authority is recommended to:

- (a) approve the revised budgets for the Authority for 2023/24 and 2024/25, as presented in the Budgets for Direct costs and Levy costs in Appendices B and C;

- (b) approve the AWDC rates to apply for 2024/25 as detailed on page 6 and note the arrangements for recharging contaminated recycle;
- (c) approve the basis of cost recovery as set out in the report, including the residual Levy figure of £4.289 million for 2024/25 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 2024/25; 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.

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Western Riverside Administration Office  
Smugglers Way  
Wandsworth  
SW18 1JS

SUKVINDER KALSI  
Treasurer

25th January 2024

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

ITEM	2023/24 Budget £000	2023/24 Revised £000	2024/25 Forecast Nov £000	2024/25 Budget £000	2025/26 Predicted £000
<u>Direct Tonnage costs (AWDC)</u>					
(tonnage assumed to remain constant)					
<u>Operating Expenditure</u>					
General Waste	45,795	37,634	50,103	50,451	52,469
Co-mingled Recyclate	3,717	3,593	3,570	3,669	3,815
Other	725	684	726	693	720
Recyclate Income	-	202	-	-	-
	50,237	42,112	54,399	54,813	57,005
<u>Direct Tonnage Income (AWDC)</u>					
General Waste					
Hammersmith & Fulham	-8,394	-8,364	-8,895	-8,782	-9,895
Kensington & Chelsea	-8,917	-8,658	-9,074	-9,091	-10,243
Lambeth	-13,741	-13,878	-14,510	-14,572	-16,418
Wandsworth	-11,867	-12,099	-12,665	-12,704	-14,313
Co-mingled Recyclate					
Hammersmith & Fulham	-353	-372	-471	-372	-507
Kensington & Chelsea	-448	-436	-600	-436	-593
Lambeth	-549	-548	-760	-548	-745
Wandsworth	-613	-625	-835	-625	-851
Contamination*					
Hammersmith & Fulham	-304	-325	-303	-358	-372
Kensington & Chelsea	-290	-233	-255	-257	-267
Lambeth	-442	-408	-459	-449	-467
Wandsworth	-424	-431	-475	-474	-493
Other					
Hammersmith & Fulham	-69	-52	-64	-53	-55
Kensington & Chelsea	-117	-119	-124	-114	-55
Lambeth	-239	-216	-242	-215	-55
Wandsworth	-303	-312	-299	-313	-55
	-47,071	-47,077	-50,032	-49,364	-55,387
AWDC (surplus)/ deficit	3,166	-4,965	4,366	5,449	1,618

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 contract rate of £58.08 per tonne (2023/24 rates) which is analysed as follows for 2023/24:

	£'000
Hammersmith & Fulham	114
Kensington and Chelsea	82
Lambeth	143
Wandsworth	151

**LEVY CHARGE**

	2023/24 Budget	2023/24 Revised	2024/25 Forecast Nov	2024/25 Budget	2025/26 Predicted
	£000	£000	£000	£000	£000
<u>LEVY cost</u>					
Employees	773	661	763	763	778
LPFA Levy	-35	0	-35	-35	-35
Business Rates	519	702	902	1,031	1,225
Administration & General -Legal/ Consultancy costs	900	900	900	900	900
Administration & General - Other direct costs	214	214	214	214	218
WBC Financial support	71	71	73	73	75
LBC Admin support	30	30	30	31	32
External Audit	0	12	55	55	58
HWRC site Tonnage and running costs	2,863	2,220	2,672	2,591	2,695
Capital Financing	37	37	18	18	0
<b>Total Cost</b>	<b>5,372</b>	<b>4,847</b>	<b>5,592</b>	<b>5,641</b>	<b>5,945</b>
Miscellaneous Income	-641	-1,321	-791	-786	-559
Triad income 22/23	0	-408	0		
REP land payment	-116	-116	-116	-116	-116
Deferred income	-425	-425	-425	-425	-425
Transfer from Reserves	-25	-703	-25	-25	-25
Levy Income	-4,165	-4,165	-4,235	<b>-4,289</b>	<b>-4,820</b>
<b>Total Income</b>	<b>-5,372</b>	<b>-7,138</b>	<b>-5,592</b>	<b>-5,641</b>	<b>-5,945</b>
Levy (surplus)/ deficit	0	-2,292	0	0	0

**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 4% general inflation for 2025/26 in line with latest forecasts.

General waste charges. General waste tonnages delivered by constituent councils in 2023/24 have marginally 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 increased by around 4.6% compared to budget. Electricity is currently an income to the Authority at an estimated £41.34 per tonne in 2023/24.

Recycling and minor waste streams. Recycling tonnages are forecast to be slightly higher than budgeted levels in 2023/24 and there is no prediction for movement in future years.

Business Rates. The previous rating valuations for the site at Smugglers Way was £705,000 and Cringle Dock was £270,000 effective from 1<sup>st</sup> April 2017. The 2023 revaluation exercise has increased these values to £1.5 million and £615,000 respectively. This has more than doubled the annual rates payable. The national multiplier applied to rateable values in 2023/24 is 51.2p in the pound plus a supplement of 2p. Rates budgets reflect the transitional relief for the increase outlined by government of an increase of 30% in 2023/24 and a further 40% plus inflation in 2024/25. These revised valuations have been appealed.

Employees. The budget for 2024/25 incorporates an estimate for salary inflation and the interim staffing arrangements agreed in Paper No. WRWA23-35 in November 2023.

Administration & General. Administration costs include the revised budgeted programme for the Recycle Western Riverside 2024/25 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. WRWA21-01 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. £277,000 reflects the 2024/25 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 2024/25. A lower allowance for this level of income has been made in 2025/26 onwards. In addition, interest earned on cash balances is included here.

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**

<b>BUDGET PERIOD &amp; CONSTITUENT BOROUGH</b>	<b>AWDC CHARGES £000s</b>	<b>LEVY £000s</b>	<b>TOTAL £000s</b>
<b>2023/24 Original Budget</b>			
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
<b>Total</b>	<b>47,071</b>	<b>4,165</b>	<b>51,236</b>
<b>2023/24 Revised Budget</b>			
Hammersmith & Fulham	9,114	803	9,917
Kensington and Chelsea	9,446	935	10,381
Lambeth	15,050	1,078	16,128
Wandsworth	13,467	1,349	14,816
<b>Total</b>	<b>47,077</b>	<b>4,165</b>	<b>51,242</b>
<b>2024/25 Budget</b>			
Hammersmith & Fulham	9,566	834	10,400
Kensington and Chelsea	9,898	957	10,856
Lambeth	15,783	1,109	16,892
Wandsworth	14,116	1,390	15,506
<b>Total</b>	<b>49,364</b>	<b>4,289</b>	<b>53,653</b>
<b>2025/26 Predicted</b>			
Hammersmith & Fulham	10,830	937	11,767
Kensington and Chelsea	11,159	1,076	12,234
Lambeth	17,685	1,246	18,931
Wandsworth	15,713	1,562	17,274
<b>Total</b>	<b>55,387</b>	<b>4,820</b>	<b>60,207</b>



**APPENDIX E****GENERAL RESERVE REQUIREMENT 2024/25 & 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 2024/25 and potential costs that could be associated with them are as follows:

<b>RISK</b>	<b>INDICATIVE POTENTIAL COST £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	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
(8) Fluctuations in capital value of Diversified Income Fund investment (see Paper No. WRWA 24-02 elsewhere on this agenda)	500
<b>TOTAL</b>	<b>3,250</b>

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 70% 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 2024/25 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 1<sup>st</sup> April 2023 in brackets) :

**Stabilisation Reserve (£10.991m)**

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 2024/25 of £4.656m, which would need to be met from this reserve. This reserve may also be drawn on for future Emissions Trading Scheme costs.

**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 when it becomes due in September 2025. 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 31<sup>st</sup> 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 31<sup>st</sup> March 2023 on that basis the liabilities of the Authority's element of the scheme exceeded assets by £1.116 million, compared to £2.513 million one year earlier. 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 (£7.984m)**

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.