

PAPER NO: WRWA 865**WESTERN RIVERSIDE WASTE AUTHORITY**

MEETING	21st November 2018
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 020 871 2788) 13 th November 2018
SUBJECT	The budget forecast for 2018/19 and the prospects for Apportionment of Waste Disposal Costs (AWDC) rates and the Levy are provided through to 2019/20.
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STATUS	Open - circulation of this paper is not restricted.
BACKGROUND PAPERS	None.

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WESTERN RIVERSIDE WASTE AUTHORITY

BUDGET FORECAST 2018/19 -2019/20

EXECUTIVE SUMMARY

BACKGROUND

1. The budget forecast compares the original budget of the Authority for 2018/19 with the revised budget for the year and provides prospective Levy and “Apportionment of Waste Disposal Costs” (AWDC) rates (i.e. the amounts charged to constituent Councils for the tonnage of waste delivered) for 2019/20 as a range of values.
2. The majority of the Authority’s costs are driven by the weight and composition of waste collected and delivered by constituent councils. These are recharged to the constituent councils at a specified rate per tonne which reflects the estimated cost to the Authority under the disposal contract with Cory. The basis of this recharge is set out in an agreement between the constituent councils and the Authority dated 12th February 2009 (see Paper No. WRWA 629). The Authority and constituent councils have agreed to the extension of the current agreement from April 2017 for a period of a further eight years.
3. The General Running Costs of the Authority comprises all costs which are not allocated to the individual waste streams and include the cost of Civic Amenity waste and Authority overheads, including business rate costs. These costs are apportioned as a residual Levy among constituent councils on the basis of their council tax-bases. This basis of charge is set out in The Joint Waste Disposal Authorities (Levies) Regulations (England) 2006.

KEY ASSUMPTIONS AT BUDGET SETTING TIME

4. The Treasurer in his statutory role under section 73 of the Local Government Finance Act 1985 has to make a number of assumptions when arriving at the final budget. Some of these are still in the assumption stage at the time the budget is set to meet the Statutory deadline for setting the Levy and rates of 15th February:
 - (i) Inflation levels – A complex mix of indices make up each element of contractual disposal rates per waste stream. As per the contract, rates are

based upon indices as at December each calendar year. These are not known in time to meet the statutory deadline.

- (ii) Electricity sold at Belvedere EfW plant. Under the contract, electricity prices form part of the General Waste rate. The Authority receives income from the electricity generated if the market price exceeds the 'threshold' (uplifted under the terms of the contract, currently £63.24 per MWh in 2018/19). However, below this threshold the Authority incurs a charge (above a floor currently £43.37 per MWh in 2018/19). Electricity rates are variable depending upon the market price achieved for the energy. The energy portfolio is managed by a new provider via a Power Purchase Agreement with RRRL which was established in April 2016. They strive to achieve the best value via a mixture of selling in advance at a closed price and achieving an 'open' value based upon the day ahead price within the market. The volatility of electricity prices has been discussed in previous Authority papers.
- (iii) Tonnage levels – These are normally based on current trends (see Paper No. WRWA 866).
- (iv) Contamination levels in the recycle.
- (v) Legal and consultancy costs in relation to discussions with Battersea Power Station and Cory with regard to Cringle development.

EXPERIENCE IN 2017/18

5. The Reserve balances 1st April 2018 were as follows:

General Fund Reserve	£8,211,000
Rates and Levy stabilisation Reserve	£6,829,000
Recycling Reserve	£250,000
Pension Liability Reserve	£1,800,000
Total Usable Reserves	£17,090,000

The General Fund reserve covers the regular General Fund reserve requirement plus £1.5 million set aside against the maximum risk the Authority could be liable for in relation to planning costs for the redevelopment of Cringle Dock. The 2017/18 end of year surplus also remains within the General Fund Reserve in order to provide additional flexibility in relation to its use.

6. The original budget for AWDC (see para 1 for definition) rates income for 2018/19 and the Annual Levy for each borough is shown below:-

	AWDC Charges £'000	Annual Levy £'000	Total £'000
Hammersmith & Fulham	9,320	1,125	10,446
Kensington and Chelsea	9,649	1,392	11,041
Lambeth	14,408	1,557	15,965
Wandsworth	12,685	1,889	14,573
Total	46,062	5,963	52,025

7. When the budget was set in February 2018, the general waste rate was due to be subsidised by £2.50 per tonne in order to set a charge of £147.50 for the constituent boroughs in 2018/19. This predicted a deficit of £0.6 million to be funded from the Stabilisation Reserve. The actual position is outlined in the Financial Summary at Appendix A which demonstrates the latest forecast for 2018/19 is a deficit of around £180,000 on AWDC rates. The improvement reflects better than budgeted electricity prices and slight changes to the APCR and Operational Management Adjustment costs within the general waste rate. Electricity prices were predicted to be around £46.50/MWh on average (7% above the floor) but current prices are £48.09/MWh which, if remains stable until the end of the year, delivers an improvement of £1.05 per tonne. The other changes, worth £0.27 per tonne, are due to a couple of other price components performing a little better than budgeted for.
8. Normally, projections for the electricity price would improve during the winter months. However, as outlined in the General Manager's report elsewhere on this agenda (Paper No. WRWA xxx), RRRL have notified the Authority of a halt in electricity generation at the Energy from Waste plant on 10th October 2018 due to an 'undefined power disruption'. Unfortunately, damage to the turbine as a result of this outage is likely to prevent electricity being generated until February 2019. The annual average projection for the electricity price has therefore been held at the average received so far this year of £48.09/MWh. This is approximately £1 per tonne lower than would be expected for the year if this event had not taken place (or £320,000). This position will continue to be monitored.
9. The downtime may prevent RRRL from hitting any potential Triad payments this year. However, triad receipts have not and are not ever included in any

assumptions when setting budgets. Further information regarding electricity prices is outlined in paragraph 13 below.

10. Following Paper No. WRWA 864 regarding the refinancing of Cory (and further update elsewhere on this agenda), a receipt of £3.5 million has been received by the Authority in October 2018. This will be invested under the new Treasury Management Policy agreed in September 2018 and be used in future years to repay outstanding PWLB loans, thus enabling annual interest and Minimum Revenue Provision costs charged via the Levy, to reduce, or, this will be redistributed back to the boroughs. The current levels of PWLB loans and their redemption dates are as follows:

Date	£
31/03/2019	2,000,000
21/09/2019	1,000,000
19/01/2020	2,500,000
03/12/2021	2,000,000
10/09/2025	1,000,000
TOTAL	8,500,000

A decision will be made either in the February Budget setting paper or at outturn 2018/19.

11. Commodity income. The constituent councils can receive commodity income on recyclables. This income is very volatile and whilst £279,000 was received between April and September 2017. With the exception of £24,150 in July 2018, there has been no income since, primarily due to a fall in paper prices in reaction to the news that China was imposing import restrictions from January 2018. Demand for mixed plastic is also low, although this only accounts for 1% of the MRF output, and there is no suggestion that this will improve. Constituent councils are advised to make their own assumptions regarding income levels for the year bearing this in mind.

FORECAST PROJECTIONS 2019/20 ONWARDS

12. General Waste Rates. The general waste rate is made up of a Disposal Gate Fee, Transport Cost, Handling Fee, Landfill Tax (on residual 'fly ash'), Business Rates, Contract Contingency Rebate and Electricity Cost/ Income as per the contract with Cory. The breakdown of these elements is commercially sensitive and is reported in Paper No. WRWA 868 elsewhere on this agenda. The cost per tonne is:

	2018/19			2019/20	
	Budget	Forecast	Variance	Estimate Optimistic	Estimate Pessimistic
	£/ tonne	£/ tonne	£/ tonne	£/ tonne	£/ tonne
TOTAL	149.58	148.25	-1.32	151.92	154.61
Borough Charge	147.50	147.50	0	152.00	152.00
Subsidy	2.08	0.75	-1.33	-0.08	2.61

13. The electricity price included in the forecast for 2019/20 ranges from the floor (£44.81/MWh) + 10% (£49.00/MWh). As outlined above, experience between April and September 2018 has seen a wholesale price of around £48.09/MWh. To mitigate risk regarding the electricity price, RRRL sell electricity ahead which is advantageous to us in a falling market but will reduce the reward in a rising market. As the future market beyond Brexit is currently uncertain, at this stage, the assumptions in the table above are prudent for the 2019/20 budget and further information may be able to inform the position when the budget is set in February although Brexit will still be uncertain.
14. The projected total General Waste rate charge for constituent councils could be subsidised by the Authority using the Stabilisation Reserve. If a 3% increase was applied to the General Waste rate to bring the price to £152.00 per tonne, depending upon the inflationary rates and price of electricity, this will meet the requirements based upon the assumptions in the optimistic scenario above. Based upon the pessimistic assumptions, a subsidy of £2.61 per tonne or £700,000 would be required to be funded from the reserve.
15. Co-mingled Recycling Rates. It is expected that the current rolling arrangement of a reduced co-mingled recycling rate with Cory will continue during 2019/20. It is expected that the rate will be able to be kept at an inflationary uplift of around 3.5% above the 2018/19 value of £27.00.
16. Summary of all AWDC rates. The constituent borough rates for 2018/19 and predictions for 2019/20 are detailed overleaf. Predictions for 2020/21 will be available in the February budget paper.

Predicted Rates per Tonne

Waste Type	Current contract cost 2018/19	Variable #	Current council charge 2018/19	Predicted Contract cost 2019/20	Predicted 2019/20 as at Feb 2018
	£	£	£	£	£
General waste	148.25	-	147.50	See above	154.81
Co-mingled recyclables	26.26	-	27.00	27.64	52.49*
Green waste	62.38		88.00	66.39	65.74
Batteries	57.01		57.50	59.87	59.46
Clinical	681.87		552.00	708.72	705.74
Detritus	78.47		78.50	81.20	81.19
Electricals	49.73		51.00	52.92	52.40
Fridges	48.44		48.50	50.00	50.13
Gas Bottles	129.81		130.00	134.00	134.36
Glass	29.66	6.00	36.50	31.57	31.26
Inert	29.42		30.00	31.14	30.90
Oil/Paint	123.52		124.50	129.72	128.82
Paper	26.17	-55.00	-13.00	27.85	27.58
Scrap Metal	49.73	-43.50	7.50	52.92	52.40
Textiles	19.19	-230.00	-180.00	20.43	20.23
Tyres	280.29		280.50	289.56	290.10
Wood	47.11	62.19	123.00	50.14	49.65

*Assumed the fall out of the reduced rate negotiated with Cory at this stage which was extended

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

17. The variable element can be subject to significant market volatility and constituent councils are recommended to make their own assumptions regarding the future likelihood of these costs. Constituent councils need to be cautious before introducing any new recycling initiatives based on an assessment of the potential income from what are in fact volatile market prices. The Authority attempts to secure fixed prices for the year January to December, or longer if possible, but due

to the volatility in market prices the General Manager is authorised to adjust these prices during the year, in consultation with the Treasurer.

18. The table provides for all waste streams currently handled by constituent councils or directly by the Authority. Should other waste streams be introduced in future, authority has been delegated to the General Manager in consultation with the Treasurer to set rates for the new waste streams.

19. Levy Costs. Appendix C details the Authority costs which are funded by the Levy payments from constituent councils. The Administration & General costs continue to include consultancy and legal advice costs in relation to discussions with Battersea Power Station regarding potential Cringle redevelopment. Current forecasts predict a potential **reduction** in the Levy requirement as cash balances are used to repay PWLB loans, reducing interest costs. The Levy for 2019/20 will be agreed by the Authority at its meeting in February 2019, when the Tax Bases of the constituent Boroughs will be known. The indicative Levy requirement due in April 2019 for 2019/20 is between £5.4m and £6.0m charged to constituent councils (using 2018/19 council tax base apportionments as a guide) as follows:

	2018/19	2019/20 Proposed	
	Actual	Optimistic	Pessimistic
	£'000	£'000	£'000
Hammersmith & Fulham	1,125	1,022	1,130
Kensington and Chelsea	1,392	1,289	1,425
Lambeth	1,557	1,394	1,540
Wandsworth	1,889	1,727	1,910
TOTAL	5,963	5,432	6,005

20. This compares to the 2018/19 Levy requirement of £5.963m which had reduced from £6.910m in 2016/17, already a reduction of 13%, potentially becoming 23% over 4 years. However, it should be noted that when setting the 2013/14 Levy, I suggested that as far as practicable, the Levy would be held stable rather than having year on year fluctuations so as to minimise the impact on boroughs' council tax and reduce the risk of triggering a council tax referendum. This will be kept under review and a final Levy recommended for approval in February.

CONSULTATION WITH CONSTITUENT COUNCILS

21. The proposed forecast outlined here has been circulated to the Section 151 Finance Officers of all of the constituent boroughs electronically on 6th November 2018. No

comments have been received at the time this paper was despatched. Any comments received before the meeting will be verbally presented to Members.

RECOMMENDATION

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

Western Riverside Transfer Station
Smugglers Way
Wandsworth
London SW18 1JS

CHRIS BUSS
Treasurer

13th November 2018

Projected AWDC Costs and Income

<u>Direct Tonnage costs (AWDC)</u> (tonnage assumed to remain constant)	2018/19		2019/20	
	Budget	Forecast	Predicted - OPTIMISTIC	Predicted - PESSIMISTIC
	£000	£000	£000	£000
<u>Operating Expenditure</u>				
General Waste	44,246	42,984	44,096	44,827
Co-mingled Recyclate	1,788	1,753	1,845	1,845
Other	586	690	716	716
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	46,620	45,427	46,657	47,387
<u>Direct Tonnage Income (AWDC)</u>				
General Waste				
Hammersmith & Fulham	-8,679	-8,392	-8,648	-8,648
Kensington and Chelsea	-8,833	-8,783	-9,051	-9,051
Lambeth	-13,248	-12,969	-13,364	-13,364
Wandsworth	-11,412	-11,212	-11,554	-11,554
Co-mingled Recyclate				
Hammersmith & Fulham	-305	-300	-311	-311
Kensington and Chelsea	-431	-428	-444	-444
Lambeth	-544	-533	-553	-553
Wandsworth	-539	-541	-561	-561
Contamination*				
Hammersmith & Fulham	-239	-236	-244	-248
Kensington and Chelsea	-304	-278	-287	-292
Lambeth	-496	-468	-482	-492
Wandsworth	-444	-427	-440	-449
Other				
Hammersmith & Fulham	-97	-81	-88	-88
Kensington and Chelsea	-81	-83	-90	-90
Lambeth	-119	-170	-172	-172
Wandsworth	-290	-344	-368	-368
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AWDC (surplus)/ deficit	-46,062	-45,245	-46,657	-46,686
	558	181	0	701

APPENDIX B**LEVY CHARGE**

LEVY cost	2018/19 Budget £000	2018/19 Forecast £000	2019/20 Predicted £000 Optimistic	2019/20 Predicted £000 Pessimistic
Employees	574	616	586	629
LPFA Levy	52	51	52	54
Business Rates	599	567	587	593
Administration & General -Legal/ Consultancy costs	267	267	267	500
Administration & General - Other direct costs	268	258	258	308
WBC Financial support*	72	72	73	73
WBC Admin support	44	44	44	44
CA site Tonnage and running costs	3,318	2,931	2,989	3,014
Capital charged to Revenue/ Refurb	400	-	150	150
Capital Financing	732	641	789	789
Total Cost	6,326	5,448	5,795	6,155
Miscellaneous Income	-363	-363	-363	-150
Grant Income				
Levy Income	-5,963	-5,963	-5,432	-6,055
Total Income	-6,326	-6,326	-5,795	-6,155
 Levy (surplus)/ deficit	 0	 -878	 0	 0

*** Breakdown of WBC support:**

<u>Financial Support</u>	<u>£'000</u>
Accounting & Budgeting	40
Financial Advice/Support	22
Internal Audit	6
Pensions/Payroll	2
Debt Management	2
	<hr/> 72
<u>Admin Support</u>	<u>£'000</u>
Clerk & Admin Support	37
Other Services	6
	<hr/> 43