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WESTERN RIVERSIDE WASTE AUTHORITY

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SUBJECT	Financial Review 2024/25 and Draft Budget 2025/26
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STATUS	Open - circulation of this paper is not restricted.
BACKGROUND PAPERS	None.

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WESTERN RIVERSIDE WASTE AUTHORITY

FINANCIAL REVIEW 2024/25 AND DRAFT BUDGET 2025/26

EXECUTIVE SUMMARY

1. **Strategic Operating Environment** – the Authority's finances will be affected and influenced by the overall national fiscal financial policies (inflation/ interest rates), any existing and new legislation that may be implemented for the waste industry (in particular the Emissions Trading Scheme and Extended Producer Responsibility) and our contractual/ commercial arrangements with Cory.

2. **Budget 2024/25** - the budget that was approved by the Authority for 2024/25 was based on the following key principles:

   - a charge of £168 per tonne for domestic waste and a charge of £32 per tonne for recycling
   - the use of reserves of £5.5m to subsidise the rates charged (thereby limiting the increases to 5% for domestic waste and a freeze for recycling rates)
   - limiting the levy (the element charged on borough property numbers) to a 3% increase
   - a redistribution of reserves of £1m during the year (approved in July 2024).

   The review during 2024/25 indicates that there are some variations, and the overall position will be more favourable (with expected additional interest income and lower spend on external technical consultancy costs). The position will continue to be monitored during the rest of the financial year and the current forecast is set out in Appendices A and B).

3. **Draft Budget 2025/26** – the budget proposals will need to take into account the levy charging methodology (see paragraph 5), continued electricity price volatility (see paragraph 7ii and 13 to 15) and the future infrastructure investment that may be undertaken at Cringle dock/ Kirtling Wharf).

   The key assumptions for the draft budget for 2025/26 include:

   - 2.5% for pay and prices (in line with service contractual terms)
   - to propose a domestic waste rate of £174 per tonne (or 3.5% increase on 2024/25)
   - to propose a recycling rate of £43.50 per tonne (or 36% increase)
   - to limit the levy charge to an increase of 4%.

The draft budget proposals will require the use of £5.8m of reserves to subsidise the disposal rates.

4. **Reserves** – the Authority's reserves at the end of March 2024 totalled £37.1m (detailed in paragraph 23) and these will reduce to £30.6m (the reduction of £6.5m representing £5.5m to subside the tonnage rates and a redistribution of £1m).

   The reserves would reduce to a forecast £23.8m (a reduction of £6.8m representing £5.8m to subsidise the rates and £1m to repay residual outstanding loans).

BACKGROUND – CHARGING METHODOLOGY

5. 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 agreed to an extension of the current agreement from April 2017 for a period of a further eight years until March 2025 therefore a revised arrangement is needed for 2025/26 onwards. Any future agreement needs to be agreed by all constituent councils and if agreement cannot be reached a statutory charging mechanism (default basis) will be applied. S151 Officers of all constituent councils have been consulted on new charging mechanism options with a decision still to be made in advance of final budget setting in February 2025.

6. 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.

FORECAST 2024/25 AND BUDGET 2025/26

KEY BUDGET ASSUMPTIONS

7. 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 11th 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 2024/25 budget was set on an assumed rate of £168 for general waste sent to the EfW plant (derived from a gross budget of £184.37 offset by £2.36 electricity income and £14.01 subsidy), and £32 for co-mingled recyclate (derived from a gross figure of £59.25 offset by £27.25 recycling subsidy).

(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 £84.36 per MWh in 2024/25). However, below this threshold the Authority incurs a charge (above a floor currently £57.85 per MWh in 2024/25). 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 2024/25 budget was set on an assumed average energy rate of £88.03 per MWh across the year.

(iii) Tonnage levels – These are normally based on current trends.

(iv) Contamination levels in the recyclate.

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

TRENDS AND ISSUES IN 2024/25

8. When setting the budget both the general waste rate and the co-mingled rate for 2024/25 were subsidised with expected required drawing on the Stabilisation Reserve as follows:

	Council charge per tonne	Subsidy per tonne	Reserve Use £000
General Waste	£184.37	£16.37	£3,787
Co-mingled Recyclables	£59.25	£27.25	£1,687
		Total Reserve use	**£5,474**

9. The position for the year is outlined in the Financial Summary at Appendix A which demonstrates the latest forecast for 2024/25. The original budget for AWDC rates income for 2024/25 and the Annual Levy for each borough is shown below:

	Original Budget			**Latest Estimates**		
	AWDC Charges £'000	**Annual Levy £'000**	**Total £'000**	**AWDC Charges £'000**	**Annual Levy £'000**	**Total £'000**
Hammersmith & Fulham	9,566	834	10,400	9,333	834	10,167
Kensington and Chelsea	9,898	957	10,856	10,224	957	11,181
Lambeth	15,783	1,109	16,892	15,954	1109	17,063
Wandsworth	14,116	1,390	15,506	13,920	1,389	15,309
Total	**49,364**	**4,289**	**53,653**	**49,431**	**4,289**	**53,720**

10. Whilst the movement is marginal at this point in the year, the variables with the position above reflects the following key differences compared to the original budget:

    a) Increased energy income
    b) Tonnage variance
    c) Anything else.

11. Based on the current Q2 forecast the Authority will be in a small overall surplus, however the budget incorporates assumed usage of £5.5m of reserves. Further forecasting of 2024/25 expenditure and income will occur at Q3 before the final budget is set in February 2025 and adjustments made where appropriate to maintain stable prices for the constituent councils in future years. The final decision on this will be made at the 2025/26 budget setting meeting.

FORECAST PROJECTIONS 2025/26 – ELECTRICITY PRICES AND KEY RISKS

12. General Waste Rates. The 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.

13. The main variable in the general waste rate is 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.

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

	2024/25			2025/26
	Budgeted Borough Charge	**Budgeted WRWA cost**	**Forecast**	
		£/ tonne	£/ tonne	
Operational Costs	184.4	184.4	182.9	192.4
Electricity	-2.4	-2.4	-1.4	-1.2
Use of Reserves	-14.0	0.0	-13.5	-17.2
Total	**168.0**	**182.0**	**168.0**	**174.0**
Increase				**3.5%**

15. 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.

16. These fluctuations in costs would normally in the short term always be funded by use of reserves, in the longer term these might need to be topped up by borough charges. 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 assumptions is as per the above table an overall

increase in charge to constituent councils of 3.5%.

17. Co-mingled Recycling Rates. Based upon the latest inflation estimates, the contract rate for 2025/26 is likely to be £62.67 per tonne. This is higher than the expected 2025/26 rate when the budget was set in February 2024. At that time, it was proposed to smooth the rate for the coming years, resulting in a charge of £32 per tonne in 2024/25 or £27.25 per tonne subsidy.

18. The 2024/25 budget paper assumed a reduction in subsidy for 2025/26 and a revised rate of £43.55 which would now require a subsidy of £18.07 equivalent to £1.1m drawing from reserves. A final decision on the subsidisation of this rate will be made when further information is available when the 2025/26 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.

19. 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 forecast to be higher in 2024/25 compared to 2023/24 and reflects the market for recyclable materials. The expected income received has been £0.68m to end of August 2024 compared to a total of £0.44m in 2023/24 for the full year. In comparison this was £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 however this will remain under review in terms of future proposed draw down in reserves.

20. Summary of all AWDC rates. The contract uses a mix of indices including RPI-X for an element of the inflationary increase which has been estimated at around 2.64% with any indices which are linked to current energy markets expected to be higher. Current Predictions for 2026/27 will be available in the February budget paper.

21. 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.

22. 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 presentation of the levy is the same as it has been in previous years i.e. no change until agreement from the 4 constituent councils, as discussed in paragraph 5. The overall position will be considered further before setting a final levy in February. The Levy for 2025/26 will be agreed by the Authority at its meeting in February 2025, 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 2025 for 2025/26 is expected to increase in 2025/26 to £4.447m charged to constituent councils (using 2024/25 Council Tax Base apportionments as a guide) as follows:

	2024/25 Actual £'000	**2025/26 Forecast £'000**
Hammersmith & Fulham	834	864
Kensington and Chelsea	957	993
Lambeth	1,109	1,149
Wandsworth	1,390	1,441
TOTAL	**4,289**	**4,447**

23. Reserve Levels. As outlined above, the Authority is expecting to use £5.5m from reserves to subsidise the rates charged to the constituent boroughs in 2024/25. The reserves outlook is previously discussed in the table in paragraph 4 of the executive summary.

	1st April 2024 Actual £0	1st April 2025 Estimate £0	1st April 2026 Estimate £0
General Fund Reserve	4,479	4,479	4,479
Stabilisation Reserve	19,619	13,145	7,345
Capital Reserve	10,000	10,000	10,000
Loan Repayment Reserve	1,000	1,000	0
Recycling Reserve	250	250	225
Pension Liability Reserve	1,800	1,800	1,800
Total Usable Reserves	**37,148**	**30,674**	**23,849**

24. 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 recyclate 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
2024/25	59.25	32.00	27.25	1,687
2025/26	61.62	43.55	18.07	1,100
2026/27	62.67	52.67	10.00	608
Total Reserve use				**2,787**

25. 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 2025/26 and beyond which would require use of reserves similar to 2024/25 which is not feasible in the long term.

26. 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. Between 2016/17 and 2024/25, 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 2024 borrowing costs this would add £3.2m to annual revenue costs by 2030, equivalent to an 80% 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

27. The proposed forecast outlined here has been discussed with the Section 151 Finance Officers (or their representatives) of all of the constituent councils at a virtual meeting on 11th November 2024.

RECOMMENDATION

28. The Authority is recommended to note:
    a. the financial review for 2024/25 and the forecast outturn for 2024/25 (Appendices A and B)
    b. that the discussions are ongoing in relation to the proposed levy for 2025/26
    c. the draft budget for 2025/26 will continue to be refined and the final proposals will be presented to Board in February 2025 (Appendices A and B)
    d. the reserves projections as outlined for 2024/25 and 2025/26.

SUKVINDER KALSI
Treasurer

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20th November 2024

APPENDIX A

Projected AWDC Costs and Income

Direct Tonnage costs (AWDC)		2024/25		2025/26
		Budget £0	**Forecast £0**	**Estimate £0**
Operating Expenditure				
General Waste		50,451	50,451	52,325
Co-mingled Recyclate		3,669	3,669	3,965
Other		693	693	764
		54,813	54,813	57,054
Direct Tonnage Income (AWDC)				
General Waste				
	Hammersmith & Fulham	-8,782	-8,782	-8,488
	Kensington and Chelsea	-9,091	-9,091	-9,590
	Lambeth	-14,572	-14,572	-15,298
	Wandsworth	-12,704	-12,704	-12,745
Co-mingled Recyclate				
	Hammersmith & Fulham	-372	-372	-613
	Kensington and Chelsea	-436	-436	-584
	Lambeth	-548	-548	-605
	Wandsworth	-625	-625	-951
Contamination				
	Hammersmith & Fulham	-358	-358	-440
	Kensington and Chelsea	-257	-257	-267
	Lambeth	-449	-449	-385
	Wandsworth	-474	-474	-553
Other				
	Hammersmith & Fulham	-53	-53	-119
	Kensington and Chelsea	-114	-114	-135
	Lambeth	-215	-215	-221
	Wandsworth	-313	-313	-287
		-49,364	-49,363	-51,281
AWDC (surplus)/ deficit		**5,449**	**5,449**	**5,773**

Tonnage assumptions in the above :

	2024/25		2025/26
	Budget	**Forecast**	**Forecast**
General Waste (excl contaminated)			
Hammersmith & Fulham	48,783	48,783	48,401
Kensington and Chelsea	55,116	55,116	54,684
Lambeth	87,922	87,922	87,233
Wandsworth	73,248	73,248	72,673
HWRC	8,459	8,459	8,393
Total	273,528	273,528	271,384
Co-mingled Recyclate			
Hammersmith & Fulham	14,086	14,086	13,975
Kensington and Chelsea	13,420	13,420	13,314
Lambeth	13,898	13,898	13,789
Wandsworth	21,865	21,865	21,693
HWRC	286	286	284
Total	63,554	63,554	63,055

APPENDIX B

LEVY CHARGE

LEVY cost	2024/25 Budget	2024/25 Forecast	2025/26 Predicted
	£0	£0	£0
Employees	763	761	851
LPFA Levy	-35	-35	-35
Business Rates	1,031	1,027	1,225
Administration & General -Legal/ Consultancy costs	900	900	900
Administration & General - Other direct costs	214	214	285
WBC Financial support	73	73	85
LBC Admin support	31	31	32
External Audit	55	55	73
HWRC site Tonnage and running costs	2,591	2,634	2,633
Capital Financing	18	18	18
Total Cost	5,641	5,678	6,067
Miscellaneous Income*	-786	-786	-1,054
REP land payment	-116	-116	-116
Deferred Income	-425	-425	-425
Transfer from Reserves	-25	-25	-25
Levy Income	-4,289	-4,289	-4,447
Total Income	-5,641	-5,641	-6,067
Levy (surplus)/ deficit	0	37	0

* Breakdown of Miscellaneous Income:

	£'000	£'000	£'000
CCLA and Wandsworth Holding Investment	300	300	593
Westminster	277	277	277
Feather's Wharf (rental income)	159	159	159
Vale Street	50	50	25
	786	786	1,054