

2024/25 Budget**SUMMARY**

This report sets out the 2024/25 budget proposal and the key points are as follows:

- Growth forecast in levies is 8% (£5.5 million) in the context of inflation being higher than budgeted for prior year (4%), providing additional services to Boroughs to reduce residual waste (1.5%) and inflation for the current year budgeted at 6.5% but dampened by the PPP contract for residual waste and savings made where appropriate (2.5%).
- The Authority is budgeting to pay boroughs PPP income (i.e. electricity) totalling £4.2 million by September 2024. The growth in levies offset against the PPP income is therefore reduced to 1.9%.
- A programme of work totalling £2.8m over 3 years (£1.2 million in 2024/25) is to be funded from the Authority's share of PPP income and will deliver carbon and financial savings directly to boroughs. In the prior year, this was budgeted at £1.1 million.

RECOMMENDATION(S)

The Authority is asked to:-

- 1) Approve 2024/25 budget
- 2) Approve the budget for work to be met from PPP income
- 3) Approve the Pay As You Throw (PAYT) rates in section 15 and the PAYT levy made up of two components totalling of £57.4 million
- 4) Approve the Fixed Cost Levy (FCL) of £15.2 million in section 16
- 5) Approve the recommended trade and construction prices in section 17 and delegated authority to the Treasurer to change these in year should the need arise
- 6) Approve the new proposed capital budgets in section 18
- 7) Approve the spend of £450,000 on containers for the Social Value and Reuse programme
- 8) Approve the target level of reserves of £18 million to act as a buffer for managing risks and avoiding supplementary levies, in section 19
- 9) Note the Medium and Long Term Financial Plan in section 20

1. Introduction

1.1 The 2024/25 draft budget was considered in detail at the Authority meeting in December 2023 and was shared with West London Environment Directors and West London Treasurers. The borough Finance Directors were also asked to provide a formal response to the budget proposals.

1.2 No changes have subsequently been made to the 2024/25 draft budget which is as reported in December 2023 and the report which follows is almost the same as December's report but with updates for:

- Use of the latest 2023/24 forecast in the table in section 2
- Budgeted PPP income for 2023/24 included in the forecast in section 2
- Current year budget, forecast and 2024/25 budget figures for each expense line shown under relevant heading
- RAG rating for 2023/24 budgeted savings in section 12
- Budget Monitoring forecast as at Nov23 added to reserves table in section 19
- Formal feedback from borough Finance Directors (section 21 and appendix 2)

2. Executive Summary

2.1 This year amidst the continued economic uncertainty and financial challenge, the 2024/25 budget proposal continues to aim to provide boroughs with greater stability and better predictability (a key theme identified in the Finance Strategy).

2.2 The levies for the Authority to be passed through to boroughs has increased by £5.5 million, a growth of 8% from 2023/24. In context, the increase is summarised in the below table and a detailed description follows.

Total increase in levies	£'000
Tonnage increase	1,512
WTD Inflation	1,353
General inflation	150
Insurance	1,200
Lakeside - variance to prior year budget and forecast	404
Business rates - variance to prior year budget and forecast	858
Total	5,478

2.3 It is worth noting that the Authority takes a prudent and risk based approach on contracts and aims to build mitigation within our contracts. Whilst the PPP contract is dampened by the impact of inflation, it also has mechanisms built in to allow for additional income if certain criteria are met. The last couple of years have seen the Authority and boroughs benefit from the additional income off the back of high electricity prices, and this has mitigated to a certain extent against the high rise in inflation which has impacted on spend. The growth in levies set off against the PPP income to be shared with boroughs is 1.9% against the 8% being shown above without the shared PPP income. However, inflation and energy prices can shift upwards and downwards, and the additional income we have been receiving is not a guaranteed income stream to the Authority.

2.4 In the prior year, the budgeted inflation was 10% which was 3.8% lower than the actual of 13.8%. Therefore, the proposed 2024/25 budget has growth based on the inflationary pressures from last year following through as well as an increase of the budgeted 6.5% inflation. Key items to note that varied from the 2023/24 budget were:

- 1 The actual Lakeside gate fee actual came in at £5 higher than budgeted, meaning that there was a £400k impact on the budget.
- 2 Business rates had gone through a valuation process and on average were 38% higher than budgeted, which was an impact of £858k on budget.

2.5 As mentioned, inflation has been budgeted in 2024/25 at 6.5% on the relevant contracts. Within Waste Transport and Disposal costs, the PPP contract with WLER dampens inflation from 6.5% to 2.2% due to the pricing mechanism which protects a significant amount of tonnages from the impact of inflation. Savings have also been identified where spend is not required, or can be outsourced at a cheaper alternative but has a much more positive impact to the Authority.

- 2.6 Insurance premiums within the waste industry have increased significantly and in prior years, the Authority was able to absorb this cost. However, with the increase of fires, floods and heat, the costs are too significant to absorb. Insurance premiums have increased by 518% since 2016 with general insurance companies finding the waste industry being high risk. The cost of the WLER insurance premium has been included in 2024/25 under the PAYT SERC element.
- 2.7 In 2023/24, West London Waste Authority have continued to provide a more greater and varied service to boroughs, meaning that whilst there are an increase in tonnages budgeted for 2024/25 within certain material streams (mainly recyclables), the overall mission of reducing residual waste has been effective. The impact of this on the budget is a growth of 1.5%.
- 2.8 With the emissions trading scheme on the horizon, West London Waste Authority are committed to working collaboratively with boroughs on ways to reduce fossil carbon in waste, and ultimately reduce residual waste. There is a risk that boroughs could see their levies increase if we do not continue in our programmes and projects of waste reduction, and the budget allows for more collaborative working to mitigate against some of these financial risks.
- 2.9 The 2024/25 budget anticipates PPP income (estimated total of £6.3 million) and proposes to pay boroughs £4.2 million by September 2024 apportioned using the final approved council tax base (i.e. approx. £0.7 million each). Budgeting for the payment of £4.2 million will therefore require the Authority to manage the risk of lower than anticipated income (e.g. due to low electricity prices, actual impact of windfall taxes) by using its reserves.
- 2.10 The Authority takes a full system approach to managing costs. This is illustrated by the Abbey Road budget, where expenditure has increased by 10% (£117k), allowing more of Brent Council's household waste to be managed through the site and delivering Brent Council a saving of £1m per year.
- 2.11 Most of the Authority's spending relates to borough activity levels which are met/serviced through contracts. The key drivers of costs and therefore levies are the boroughs' own forecast activity levels and the contractual inflation. The key long term mitigation of spend and therefore levies is managing the waste flows. These are largely within the control of boroughs. The budget for 2024/25 also continues to identify the 4 key programmes of work to be met from the Authority's share of PPP income already received. These programmes were established in 2023/24 and there was a total of £2.8 million budget allocated. In 2023/24 the budget was £1.1 million and for 2024/25 the budget is at £1.2 million. The programmes of work have been developed to identify interventions where boroughs will see the benefits in their own budgets - essentially spend (Authority) to save (boroughs) programmes.
- 2.12 The table below sets out the 2024/25 budget and the movement from the 2023/24 budget. The latest 2023/24 forecast is also included to provide context and illustrate the current level of activity. The spend lines have also been split out to separate spend from business as usual activities and those from the programme of work funded by PPP income, providing better transparency.

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Business As Usual Costs					
WTD - Waste Transport and Disposal	51,531	51,989	55,134	3,602	7%
Depreciation	10,375	10,375	10,712	338	3%
Financing Cost	4,971	4,971	4,829	(143)	(3%)
Premises	2,603	3,499	3,681	1,077	41%
Employees	2,617	2,878	2,960	344	13%
Supplies and Services	1,187	2,019	2,500	1,314	111%
MRF Service Costs	2,256	3,521	5,804	3,548	157%
Revenue Funding of Debt	984	984	1,006	22	2%
Concession Accounting Adjustments	(4,570)	(4,570)	(4,666)	(96)	2%
BAU costs	71,954	75,665	81,960	10,006	14%

Programme of work funded by PPP income					
Depreciation	107	107	158	51	47%
Premises	45	41	103	58	121%
Employees	308	272	267	(41)	(13%)
Supplies and Services	660	585	797	137	21%
Other Income			83	(83)	0%
Waste Transport and Disposal			5	5	0%
Programme costs	1,120	1,005	1,247	127	11%

Total costs	73,074	76,670	83,207	10,133	14%
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Income					
Levies	67,116	67,520	72,561	5,445	8%
MRF service income	2,256	3,521	5,804	3,548	157%
Other Income	2,582	3,445	3,595	1,013	39%
Programme costs funded by PPP income	1,120	1,120	1,247	127	11%
Total income	73,074	75,606	83,207	10,133	14%

Total (surplus)/deficit	0	1,063		0	
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PPP income received	0	6,300	0	0	0%
PPP income disbursed to boroughs (in relation to prior year)	6,300	12,729	4,200	(2,100)	(33%)

2.13 The budget headings are per our usual format for regular budget monitoring reports and accounting categories. The most notable movements relate to the growth in waste transport and disposal costs, premises, supplies and services and levies, the inclusion of PPP income payable to boroughs and the funding of 3 programmes of work.

2.14 Note that the MRF activities have a neutral effect with costs being passed through to Ealing and Brent for the services provided. There is an increase in cost and income to reflect Brent being on board for this service.

2.15 Plans for the coming year and an explanation of budget items follows.

3. Programme of work funded by PPP income

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Programme costs	1,120	1,005	1,247	127	11%

3.1 The Finance Strategy approved in September 2022 identified that two thirds of PPP income received in 2023/24 would be passed through to boroughs and one third of PPP income would be set aside for Authority Strategic projects.

3.2 On this basis for the Authority's share of PPP income, three programmes of work were identified:

- Citizen Perception – To better inform residents of complex recycling challenges and inform boroughs of recycling opportunities
- Social Value and Reuse – to decarbonise HRRC services and create social value
- Digital Twin – to decarbonise collection services and find immediate cost savings for boroughs

Brief summaries follow. The programmes have been developed with borough colleagues and reported to stakeholders to monitor performance.

3.3 Citizen Perception - The purpose of the programme is to test and measure the understanding of residents regarding waste and its role in climate change.

Effective usage of the systems that are in place already would more than halve the residual waste generated in West London. WLWA officers are working with insights specialists and behaviour academics to identify mechanisms to shift the culture of residents towards valuing material and understanding the limitations/constraints of the system.

3.4 Social Value and Reuse – The purpose of this programme is to start moving material even further up the waste hierarchy to Reuse and Reduction. This is a programme designed to change the linear model of ownership and start the transition to a circular economy. Significant volumes of reusable items are brought to HRRCs in the area and are currently sent for recycling (material value). This programme of works is to start working with third sector and SMEs to develop a sustainable model for reuse and repair in West London.

3.5 Digital Twin – This is a programme of work developed with the Boroughs to help identify areas of savings and efficiency through integrating the data available across the different organisations.

The digitisation and integration of the data across the Boroughs and WLWA enables the system to be modelled to estimate future services impacts from changes required such as DRS, EPR and simpler recycling collections.

3.6 The above provides an outline of the three programmes of work. The programme spend totalling £2.8 million is to be met from the WLWA share of PPP income already received and will run over three years delivering both financial and carbon benefits directly to boroughs. The aim is to generate long term savings for the boroughs. 2024/25 is the second year for these programmes.

3.7 WLWA is continuing to work collaboratively with boroughs to reduce their food in residual waste. This was initiated in 2020 where WLWA gave £0.5 million to each borough to increase food recycling and reduce food waste in residual.

4. Waste Transport & Disposal (WTD)

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
WTD - Waste Transport and Disposal	51,531	51,989	55,134	3,602	7%

3.1 The WTD budget accounts for the majority of the entire WLWA budget and makes up two thirds of the spending. Strategically, this is where most of the significant saving opportunities can be found.

3.2 The 2024/25 WTD budget is £55.1 million, an increase of £3.6 million.

3.3 The residual waste budget is the key driver and represents 88% of the WTD costs (or 58% of all Authority costs – hence the strategic significance). For 2024/25 this is based on boroughs' forecasts of residual waste which are 0.2% lower than the 2023/24 budget and reflecting the current level of activity.

3.4 Looking at the complete picture, the 2024/25 budgeted tonnage is made up of the following materials:

Material	2023/24 Budget Tonnes	2024/25 Budget Tonnes	Change
Residual	417,757	416,951	(806)
Green	47,321	55,243	7,922
Wood	18,945	18,700	(245)
Kitchen	32,616	31,777	(839)
Tyres*	8	8,214	8,206
Gypsum	172	308	137
Plastic Hard	93	93	0
Soil + Rubble	7,841	7,600	(241)
Dry Mixed Recycling	24,948	48,040	23,092
Cardboard	0	3,300	3,300
Asbestos	12	17	5
Budgeted tonnages	549,711	590,241	37,225
Mattresses (units)	86,521	137,696	51,175

3.5 * Whilst tyres was under budgeted in 2023/24, the budget impact is £30,000 and has been corrected in 2024/25.

3.6 No significant service changes were identified by boroughs. Borough forecast volumes are on par with prior year's budget setting exercise but in overall terms show a small growth on current activity levels.

3.7 To calculate the budgeted spend, RPIX of 6.5% (a mid-range forecast from HM treasury) has been applied to contractor prices where there is a contractual indexation requirement. Published forecasts including HM Treasury range from 5.8% to 7.1% with Septembers RPIX standing at 6.0%.

3.8 It is worth noting that within the main PPP contract this impact is partly mitigated by the pricing mechanism which dampens the overall effect of inflation – a very effective feature of the contract. Whilst the majority of the Authority's contracts are impacted by inflation, the PPP contract with WLER has been designed so that it is protected from the significant increases in inflation. To put into context, a significant amount of tonnages are protected from the impact of inflation over the whole life of the contract. For 2024/25, the impact of inflation on this contract is 2.2% against the HM Treasury range of 5.8% to 7.1%. This is highlighted in the sensitivity analysis in section 20.

3.9 The Lakeside contract against prior year's budget sees a significant increase. This is because the rate in 2023/24 was budgeted at £4.50 less than the actual, which is £0.4 million spend we have had to budget in 2024/25 as well as the additional inflation of 6.5%.

3.10 Where other contracts are due for procurement, procuring managers have used best available market information to estimate rates for the coming year.

5. Depreciation

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Depreciation (BAU)	10,375	10,375	10,712	338	3%
Depreciation (Programmes)	107	107	158	51	47%
Total Depreciation	10,482	10,482	10,870	389	3.7%

4.1 The depreciation budgets for 2024/25 of £10.9 million is £0.4 million higher than in 2023/24. This principally reflects property asset valuations and capital additions.

4.2 The largest element of depreciation relates to the SERC (Sevenside Energy Recovery Centre) and totals £9.2 million. It should be noted that for depreciation calculations, the SERC has to be separated out into its main components and each key component has to be depreciated over its own expected life.

4.3 Depreciation for the remaining assets have been calculated using valuations agreed with auditors and subsequent change in the asset registers (i.e. additions and disposals).

6. Financing

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Financing Cost	4,971	4,971	4,829	(143)	(3%)

5.1 The financing costs reflect the interest paid on loans. These have reduced from £5.0 million in 2023/24 to £4.8 million for 2024/25 primarily as a result of the payment profile of repayment loans. With repayment loans a fixed sum is paid every year comprising of both interest and principal repayment. The interest element will continue to fall over coming years, conversely the principal repayment will rise.

5.2 The largest component of financing costs relates to borrowing from boroughs for the construction of the SERC and totals £4.4 million. The loans are at arm's length and from a borrowing perspective the boroughs are like any other lender with the loan agreements specifying the relationship with the Authority and including a rate of interest of 7.604%.

5.3 The interest on loans for the purchase of transfer station freeholds makes up the balance of £0.4 million and represents a PWLB loan at 2.24%.

7. Premises

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Premises (BAU)	2,603	3,499	3,681	1,077	41%
Premises (Programmes)	45	41	103	58	121%
Total Premises	2,648	3,540	3,784	1,135	43%

7.1 The overall premises budgets for 2024/25 of £3.8 million are higher than the cost of £2.7 million in 2023/24. This is reflective of the budget for 2023/24 being significantly lower to the forecast of £3.5 million due to higher than budgeted business rates following a valuation. This meant that in 2023/24, business rates were on average 38% higher than budgeted (£0.86 million). The 2024/25 budget for premises takes this into account, and has applied a small increase.

7.2 Without the impact of rates being higher in 2023/24, the growth in premises is 8% against 2023/24 budget and % against the 2023/24 forecast.

7.3 The largest component of the premises costs are business rates which account for £3.3 million, of which SERC rates make up £2.1 million and transfer stations £1.0 million.

8. Employees

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Employees (BAU)	2,617	2,878	2,960	344	13%
Employees (Programmes)	308	272	267	(41)	(13%)
Total Employees	2,925	3,150	3,227	303	10%

8.1 The 2024/25 employee budgets of £3.2 million is £0.3 million higher than the 2023/24 level. This growth relates principally to wage inflation anticipated in 2023/24 at c. 4.5% and then a budgeted wage inflation in 2024/25 at 5%.

8.2 Savings have been recognised within Corporate Services with the reduction of head count. Within Programs, a role has been removed due to it being outsourced to provide a better rounded service.

8.3 The 2024/25 establishment of 42.2 full time equivalent (FTE) posts is a decrease of 0.5 from the previous year.

8.4 Putting this into context the Authority employed 32 FTE in 2014/15 and over many years FTE numbers have gradually increased to close to 40. The size of the staffing establishment numbers remains small and stable whilst providing the resource to drive forward business plan objectives and undertake the increasing volume, variety and complexity of work. The staffing establishment has increased over time to support waste minimisation and working towards a circular economy.

8.5 Boroughs are increasing recycling through improved segregation of materials at the kerbside and at HRRCs/transfer stations, resulting in more material being managed by WLWA. Along with Brent joining Ealing in the dry mixed recycling contract, the volume of material to be managed by WLWA has increased. However, the overall establishment has stayed flat.

8.6 The staffing increase in Contracts/Operations team is directly linked to delivering more work on the Boroughs behalf. The Operational establishment will be sufficiently resourced to manage the additional materials from Brent Council at Abbey Road, and also provide ongoing operational support to Richmond Council for managing its two waste sites. The contract management and procurement function is also increasing slightly to continue to procure and manage more services on behalf of the Boroughs, including establishing service level agreements between the partner authorities. The budgeted establishment will ensure that the team is resourced to procure in a smart and agile way that returns best value from the market, whilst delivering robust management of these multiple contracts and their interfaces. This delivers significant savings over delivering services through an integrated contract.

8.7 A notional breakdown of the establishment by area of activity and whether business as usual (BAU) or programme work is provided below:

BAU Activity	2023/24	2024/25	Change
Contracts/Operations	19.0	21.0	2
Corporate Services	9.7	8.6	(1.1)
Projects	8.0	8.6	0.6
Total	36.7	38.2	1.5

Programme Activity	2023/24	2024/25	Change
Contracts/Operations	1.0	1.0	0
Corporate Services	2.0	1.0	(1.0)
Projects	3.0	2.0	(1.0)
Total	6.0	4.0	(2.0)

Total FTE	42.7	42.2	(0.5)
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9. Supplies & Services

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Supplies and Services (BAU)	1,187	2,019	2,500	1,314	111%
Supplies and Services (Programmes)	660	585	797	137	21%
Total Supplies and Services	1,847	2,604	3,297	1,451	79%

9.1 The 2024/25 overall budget for Supplies & Services is £3.3 million, an increase of £1.5 million from 2023/24. There has been a focus on savings, and managers have reduced business as usual spending as much as possible without detriment to the service provided.

9.2 The growth relates to the bi-annual SERC and transfer station insurance which has increased by 518% since 2016. To put this in context, the bi-annual insurance in 2016, which covered 2016-2018 was c. £0.2 million. This has since increased to £1.2 million for 2020-2022.

9.3 The cost of insurance previously was managed via reserves and was not budgeted. The cost was deducted from reserves before disbursements were made to the boroughs. In light of the significant increase in the insurance, the cost has now been shown in the budget to highlight the significant increase, and to provide visibility on spend.

9.4 The insurance market in this industry continues to be challenging due to market rates and insurers appetites deteriorating. With the additional impact of increased fires at transfer stations, it is likely that the insurance premiums will be significantly higher and this has been budgeted for in 2024/25.

9.5 The key factors impacting on the insurance rates are fires, floods (on railway lines and roads due to storms and heavier than expected rain showers) and heat (due to the heatwaves we have been experiencing in recent years and the infrastructure not being fit for purpose). With the probability of all three of these increasing, the insurance market in this industry is challenging.

9.6 £0.8 million of the spend in the table above is for the programme of work detailed in section 3.

9.7 Other notable items include spending for professional services, external audit, insurances and borough services (e.g. committee services, treasury etc).

10. Revenue Funding of Debt

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Revenue Funding of Debt	984	984	1,006	22	2%

10.1 The loan which financed the purchase of the transfer station sites is a typical repayment loan. It is made up of two components – an element for the interest on the loan (see Financing Costs) and an element repaying the loan principal.

10.2 The Revenue Funding of Debt is the element repaying the sites loan and totals just over £1.0 million for 2024/25. This is marginally higher (£22,000) than 2023/24 reflecting that within a typical repayment loan, the amount of principal repaid increases over time and amount of interest falls.

10.3 It is worth providing the following brief recap of the revenue funding of debt which was detailed in Authority papers recommending the site purchase a number of years ago:

10.4 It is a requirement for public bodies to ultimately fund the cost of assets through levies and taxes. For the Authority this is achieved through a combination of the depreciation charge and revenue funding of debt.

10.5 Typically the acquisition of assets result in an annual depreciation charge. This annual expenditure is recovered through the levy mechanism and therefore the levies over the life of the asset fund its purchase.

10.6 However, the acquisition of the sites freehold is essentially a purchase of land. For land, accounting rules do not allow a depreciation charge. This means that in order to fund the purchase through levies a different (but comparable to depreciation) annual charge is made – the revenue funding of debt.

11. Concession Accounting Adjustments

	2023-24 budget £ 000's	2023-24 forecast £ 000's	2024-25 budget £ 000's	Changes in budgets £ 000's	Change in budget %
Concession Accounting Adjustments	(4,570)	(4,570)	(4,666)	(96)	2%

11.1 Essentially under a PPP arrangement a contractor pays for the construction of an asset and then recovers its investment over a long period through its operational charges to the local authority (i.e. its price per tonne).

11.2 There are very specific and detailed accounting requirements that govern this type of arrangement. This is because the underlying nature of this transaction is that the local authority *essentially* owns the asset for a period of time and the contractor is *essentially* a lender financing the construction of the asset.

11.3 The key feature of the accounting is the calculation of a concession accounting adjustment to separate out the disposal and financing costs, followed by stripping out from expenditure a notional sum for the repayment of any underlying borrowing by the contractor.

11.4 The concession accounting adjustments over the term of the contract were agreed with the auditors EY. For 2024/25 they total £4.7 million, compared to £4.6 million in 2023/24. This accounting adjustment reduces overall costs and levies.

12. Growth and Savings

12.1 The majority of Authority spending is committed under long term contracts (e.g. PPP) or agreements (e.g. loans) or governed by accounting requirements (e.g. depreciation). This leaves less opportunity for savings.

12.2 However, as part of the budget setting process at an operational level, a variety of measures (including a managers' challenge session with the Senior Leadership Team) have ensured savings across areas where managers are able to exercise some control.

12.3 The tables below identify the growth and savings which are included within the 2024/25 draft budget. The tables separate out real growth and savings from other movements reflecting longer term decisions.

12.4 Summary table:

	£ 000's
Budgeted costs/levies 2023/24	67,116
Growth	6,622
Savings	(1,221)
Other movements	45
Budgeted costs/levies 2024/25	72,561

12.5 Growth table:

Area	Explanation	Growth £ 000's
Waste Transport and Disposal	Increased contract costs resulting from inflation for residual waste (£1.9 million), haulage (£150,000) increase in mattress tonnages (£400,000), increase in green tonnages (£600,000), increase in rubble tonnages (£150,000), increase in wood (£200,000), and a range of movements in other materials spends (£160,000)	3,607
Premises	Increase in business rates (£1.1 million)	1,146
Employees	Salary base rate for FY23/24 has a 4% NJC proposal uplift applied (£100,000), salary for 2024/25 has 5% uplift applied (£150,000), new staffing requirements and internal promotions (£35,000)	288
Supplies and Services	WLER insurance premium (£1.2 million), leasing of equipment at Abbey Road (£189,000), bin washing and pen stock valve increase (£70,000), outsourcing MI work for Programs (£80,000), maintenance of equipment (£15,000), increase in bank costs (£8,000), inflationary increases on contracts (£20,000)	1,581
		6,622

12.6 Savings table:

Area	Explanation	Saving £ 000's
Premises	Reduction in reactive maintenance at Abbey Road.	(11)

Employees	HR Assistant role removed (£30,000), and savings against role to be outsourced within Programmes (£50,000)	(81)
Supplies and Services	Savings made on leasing equipment at Abbey Road (£40,000), other savings identified (£20,000), consultancy not required (£68,000)	(130)
Other income	Acton Hub income (£84,000) and increase in sale of recyclable materials (£60,000)	(143)
Trade waste income	Reflective of an increase in pricing on residual and wood for account customers and non-account customers.	(855)
		(1,221)

12.7 Other movements table:

Area	Explanation	Increase / (Decrease) £ 000's
Depreciation	This principally reflects property asset valuations and capital additions.	388
Financing Costs	Reflecting reducing interest in repayment loans for SERC with boroughs	(143)
Revenue Funding of Debt	Reflecting rising repayment of principal in repayment loan for sites with PWLB	22
Concession Accounting Adjustment	Reflecting adjustments agreed with auditors for the last accounts	(96)
Programme work funded by PPP income	Funding of strategic projects per Finance Strategy	(127)
		45

12.8. Pass through costs to other boroughs therefore nil impact on budget:

Area	Explanation	Increase / (Decrease) £ 000's
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MRF Service costs	Includes Brent going forward in the budget along with Ealing for this DMR service.	3,548
Agency Income	Increase in costs relation to managing Brent's HRRC (Abbey Road). Additional support is required due to the increase in throughput of street cleansing material. To support this in line with our Health and Safety policy, an additional Traffic Controller has been added to the budget.	97
		3,646

12.9. Within the 2023/24 budget, the Authority had identified business as usual savings as per below. Commentary has been added in the table to show progress on these savings.

Area	Explanation	Savings budgeted (£'000)	Savings realised (£'000)	Costs realised (£'000)	Net Impact (£'000)	Commentary
Waste Transport and Disposal	Reduction in residual volumes (£1,612,000), reduction in mattress volumes (£257,000) and better pricing achieved from procurement of green waste (£270,000)	(2,139)	(1,500)	887	(613)	Savings have been tracked on the residual contract year to date and an estimated £1.5m will be saved. Mattresses have seen an increase in units meaning the run rate to Mar24 shows that there will be an additional 44,000 units, meaning spend is predicted to be £227,000 higher than budgeted. Green waste has seen an increase in tonnages of c. 17,000 meaning a run rate budget overspend of c. £600,000.
Premises	Reduction in SERC related premises costs (£69,000)	(69)	0	600	600	The higher than budgeted business rates following national valuations saw an increase in spend at the SERC site of over £600,000.
Supplies and Services	Stripping out of unspent minor budgets (£11,000)	(11)	(100)	0	(100)	Savings made on stationery, consultancy and support services - £100,000 savings forecasted by end of Mar24.
Other Income	Growth in trade income (£400,000), sale of recyclables (£40,000) and other minor improvements (£14,000)	(454)	(500)	0	(500)	Trade waste income forecasted to end £500,000 higher than budgeted.

Total		(2,673)	(2,100)	1,487	(613)	
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12.10. The above table demonstrate that whilst savings are not on target, the increase in tonnages is a direct impact of waste coming out of the residual waste stream. Savings are being made by the Authority where spend is not required.

12.11. Within the 2023/24 budget, there were also savings identified as part of the new programmes funded from the PPP income retained by WLWA which are shown below:

Programme	Potential saving	Actual saving (Forecast)
Communications	£200k	c.£160k
Social Value and Reuse	£533k	c.£550k
Digital Twin	£600k	c.£800k

12.12. The above table demonstrate that where boroughs are engaging with the Authority's funded programmes, the financial benefit is being recognised within their services through additional revenue, cost avoidance and reduction.

12.13. Borough engagement with the Programmes is critical to the delivery of whole system savings. The approach taken by WLWA has been to optimise the reduction of waste through capture of reuse and recyclable materials and help deliver the additional work through efficiency in the collections and HRRC capture network. This requires Borough team to implement operational change to realise the benefit.

12.14. The savings identified are within Borough spend, and not the Authority's. These are tracked via discussions with Boroughs and understanding the savings they have realised.

13. PAYT / FCL split

13.1 PAYT costs relate to waste that boroughs collect and deliver to transfer stations and FCL costs are those which relate to waste from HRRC sites and the Authority's running expenses.

13.2 Both also include an element for the recovery of SERC financing costs, depreciation, rates and concession accounting adjustments. Insurance has been included in 2024/25 to reflect the increase in premiums due to three key factors detailed in section 9.

13.3 The breakdown of the budget between PAYT and FCL activities is as follows:

PAYT (disposal cost)	2023/24 £000's	2024/25 £000's	Change £000's
Waste Transport and Disposal	43,986	46,352	2,365
PAYT Levy (disposal)	(43,986)	(46,352)	(2,365)
Total	0	0	0

PAYT (SERC cost)	2023/24 £000's	2024/25 £000's	Change £000's
Depreciation (SERC)	7,934	8,304	371
Financing Costs (SERC)	4,070	3,976	(94)
Insurance (SERC)		1,084	1,084

Premises (SERC)	1,210	1,892	682
Concession Accounting Adjustment (SERC)	(4,114)	(4,215)	(102)
PAYT Levy (SERC)	(9,100)	(11,040)	(1,940)
Total	0	0	0

FCL	2023/24 £000's	2024/25 £000's	Change £000's
Waste Transport and Disposal	7,545	8,787	1,242
Employees	2,925	3,228	611
Premises	1,438	1,892	487
Supplies and Services	1,847	2,213	1,059
Depreciation	2,548	2,565	125
Financing	901	853	(49)
Revenue funding of Debt	984	1,006	22
Concession Accounting Adjustment	(456)	(451)	5
Non Levy Income	(2,582)	(3,678)	(1,096)
PPP Income funding programme of work	(1,120)	(1,247)	(1,247)
FCL Levy	(14,030)	(15,169)	(1,161)
Total	0	0	0

13.4 Note that above there are two elements of the PAYT and one element of FCL.

14. Levy Setting

14.1 The breakdown of the Authority's costs into the three components identified in section 13 are the basis of the charging to boroughs. Each element is apportioned to boroughs in different ways.

1. PAYT (disposal) – Rates (£/tonne) for different materials which reflect the average prices paid to contractors, charged to boroughs initially on the basis of budgeted tonnes but then reconciled and adjusted (with rebate/charge) at the end of each quarter to reflect the actual tonnages.
2. PAYT (SERC) – this is the apportioned recharge of SERC costs (depreciation, financing etc) . The cost is initially apportioned and charged on the basis of budgeted tonnes then at the end of every quarter recalculated using the actual tonnage with any adjustment being rebated/charged to the borough.
3. FCL (fixed) – this is the recharge for all other costs (i.e. HRRC, overheads, an element of SERC costs etc) apportioned on the basis of boroughs tax base from their final approved CTB1 returns.

Details of these follow in the next two sections.

15 PAYT Levy Income

15.1 As identified above the PAYT is made up of two components and therefore the PAYT levy is too. Combined the PAYT levy will total £57.3 million (from the tables above £46.3 million plus £11.0 million).

15.2 The table below shows the proposed disposal rates for waste in 2024/25.

Material (Disposal)	2023/24 £ per tonne	2024/25 £ per tonne
Residual	109.76	114.60
Gully	67.31	71.69
Food	11.61	12.39
Green	40.94	43.60
Wood	67.67	79.34
Rubble	32.63	47.82
Soil	32.63	47.82
Mattresses (per mattress)	5.46	7.54

15.3 In addition to this, the Authority manages non-household waste from HRRC sites and incurs transport costs. On a similar basis the average transport charges are provided below.

Material (Transport)	2023/24 £ per tonne	2024/25 £ per tonne
Residual (collected)	12.22	12.26
Other recyclables (collected)	18.63	21.34

15.4 These rates represent the average cost (or estimated cost for contracts due to be procured) to the Authority for the disposal and transport of materials. They are the PAYT rates payable by boroughs in order to recover costs.

15.5 These rates are applied to the 2023/24 tonnage forecasts from boroughs and result in a monthly charge to them. Each quarter end a reconciliation exercise will take place to adjust for the actual amount of waste that each borough delivers, so boroughs only pay for the volume of waste actually disposed.

15.6 Using tonnage forecasts from boroughs, the PAYT charges for 2024/25 are as follows:

Borough	2023/24 PAYT disposal charge £000's	2024/25 PAYT disposal charge £000's	Growth £000's
Brent	8,008	8,526	519
Ealing	8,920	9,509	588
Harrow	6,486	6,587	101
Hillingdon	8,583	9,101	518
Hounslow	7,048	7,543	495
Richmond	4,941	5,086	144
Total	43,986	46,352	2,365

15.7 The movement in the disposal costs of borough collected waste is reflected here.

15.8 It is worth repeating that should borough waste volumes be higher or lower than forecast, then each quarter boroughs will be charged or refunded a sum to ensure they pay only for what is actually delivered.

15.9 The second, PAYT (SERC) component relates to the £11.0 million SERC cost, equivalent to £29.65 per tonne (2023/24: £24.43). This will initially be apportioned and levied on the basis of 2023/24 budgeted residual waste tonnages excluding gully waste. A quarterly exercise will then adjust this sum to reflect the actual residual tonnages delivered that quarter with a reimbursement or additional charge. The initial apportioned annual charge is summarised below.

Borough	2023/24 SERC £000's	PAYT charge	2024/25 SERC £000's	PAYT charge	Growth £000's
Brent	1,710		2,073		363
Ealing	1,929		2,387		458
Harrow	1,342		1,587		245
Hillingdon	1,678		2,052		374
Hounslow	1,445		1,781		336
Richmond	996		1,160		164
Total	9,100		11,040		1,940

15.10 The movement in the proportion of SERC cost (depreciation, insurance, financing etc) relating to borough collections is reflected here.

16. FCL Income

16.1 The FCL charge primarily relates to the costs of managing the treatment and disposal of household waste delivered to HRRC sites. It also includes the Authority's administration and nets off other income. These costs are apportioned to the boroughs.

16.2 The apportionment calculation initially uses last year's provisional Council Tax base figures provided by the boroughs. However, when charging, the FCL costs will be apportioned using the final borough approved Council Tax base. Borough Council Tax base figures may not all be published in time for the January Authority meeting and therefore the FCL charges will be finalised shortly afterwards.

16.3 On this basis the draft FCL (fixed) charge is as follows:

Borough	2023/24 FCL charge £000's	Estimated 2024/25 Council Tax base	2024/25 FCL charge £000's	Change £000's
Brent	2,389	101,187	2,584	194
Ealing	2,872	121,613	3,105	233
Harrow	2,104	89,085	2,275	171
Hillingdon	2,447	103,625	2,646	199
Hounslow	2,109	89,309	2,280	171
Richmond	2,109	89,289	2,280	171
Total	14,029	594,108	15,169	1,140

16.4 The movement in all other costs including disposal and haulage of HRRC waste,

16.5 The FCL (fixed) sum will not change over the course of the year. The Authority bears any loss or surplus resulting from overspend or underspend.

17. Other Income

17.1 The 2024/25 budget is £3.7 million, which is a £1.1 million improvement on 2023/24 and reflects activity at current levels but allowing for increases as detailed below.

17.2 The majority of the income is from trade waste (£2.8 million). The proposed main trade and construction charges per tonne at Abbey Road have been budgeted to increase for the trade waste (residual and wood element). This is to remain competitive and details are provided below.

Type of waste	2024/25 £	2023/24 £
Trade waste residual and wood	£185.00 for account customers and £200.00 for others	£160.00 for account customers and £165.00 for others
Trade waste recycling	80.00	80.00
Asbestos (Households only)	272.00	272.00
Mattresses (per mattress)	15.00	15.00
Bulky items	218.00	218.00
Gas bottles from commercial sources	5.00	5.00
Fire extinguishers from commercial sources	5.00	5.00
Fridges from commercial sources	40.00	40.00

17.3 Changes and further charges may be introduced during the year in response to market conditions and where appropriate in consultation with LB Brent. It is recommended that delegated authority be given to the Head of Finance and Assistant Director Operations to change charges in year should the need arise.

17.4 Other income includes an agency fee which passes on the costs of running the Abbey Road HRRC to the local borough. This fee has increased by 26%. The fee has remained flat for several years, but in the current year additional support is required due to the increase in throughput of street cleansing material. To support this in line with our Health and Safety policy, an additional Traffic Controller has been added to the budget.

17.5 In July 2024 the PPP contractor will pay the Authority its share of income in relation to the PPP contract, principally electricity generation income.

17.6 At this stage, estimation of the sum due is inherent with market risks (electricity prices are volatile), political risks (detailed working of the windfall tax) and economic risks (the impact of industrial action on the power production). Nevertheless, it is predicted that the Authority will see income in the region of £6.3 million if we assume ongoing electricity production and prices at the current levels and that there is no impact of the windfall tax.

17.7 On this basis the estimated distribution to boroughs on receipt of funds from the contractor will be in the region of £0.7 million each. This represents the two thirds pass through to boroughs of the estimated PPP income (in accordance with the Finance Strategy) which will be apportioned to each borough using the final approved council tax base.

17.8 The Authority is mindful of the challenging local authority finances so to help boroughs to budget for this income with greater certainty, the Authority is committing (through this budget) to the distribution and will utilise its reserves to manage the risks (section 19) of non-receipt on PPP income or receipts being lower than estimated. Any additional PPP income received will also be shared in accordance with the Finance Strategy.

18. Capital

18.1 The new capital budget requirements for 2024/25 are listed below:

Social Value and reuse-Solar Panels, Energy security and in year cost reduction	£180,000	
Social Value Reuse-Containers	£450,000	Acton Hub

Containers	£150,000	Repair and reuse space for SMEs to deliver Circular economy workshops etc.
IT strategy	£400,000	Future proofing the IT of the Authority and making more dynamic in line with our new way of working. Having a single platform fit for purpose.
Bin wash	£70,000	
	£1,250,000	

18.2 It is worth noting the following existing capital budgets. These are balances remaining on budgets for capital works still in progress/to be commenced, which were previously approved by the Authority and will be rolled forward until completion or eliminated if not required.

Victoria Road bulking facilities	£1,800,000		Representing the capital budget to complete work to increase bulking and sorting capacity to enhance and localise material value and reduce whole system bulking costs.
West Drayton heating system improvements and window replacement	£150,000		Improve energy efficiency
Abbey Road improvements	£392,000		Electric main gates, replacement netting for waste transfer station, heating equipment, essential weighbridge works, structural repairs to transfer station, improved reuse and educational facilities.
Upgrade to finance system	£20,000		Agresso
DMR and food recycling infrastructure at Abbey Road	£500,000		Increasing options for material contracts and improving recycling and diversion rates from residual treatment. This essentially upgrades and future proofs Abbey Road for EPR
New weighbridge software	£20,000		
Resurfacing work at Transport Avenue and Victoria	£240,000		Was £290k, but £50k spent in 2023/24
	£3,329,000		

18.3 There is a spend of £450,000 for our programme, Social Value and Reuse to be spent on containers on a Reuse hub. This had been budgeted for in 2023/24 but in error had been omitted from the Authority paper for budget approval. The containers will be purchased by March 2024 and depreciated over five years, costing the Authority £90,000 a year. This will be funded via the PPP income retained by West London Waste Authority.

19 Reserves

19.1 Reserves represent an organisation's net worth. They provide a buffer for an organisation to manage risks, for example the fluctuations in the level of activity or costs – these variances in costs lead to surpluses and deficits being absorbed within reserves. On this basis, the Authority's approach to reserves has been to build up sufficient reserves to act as a buffer against risk.

19.2 The added benefit of reserves is that they can be used to stabilise pricing by removing the need for “in year” price reviews. For boroughs and indeed the Authority, this pricing stability / predictability facilitates much better planning and budgetary control.

19.3 For 2024/25 the proposal for reserves is cautious given the economic climate and continuing uncertainties resulting from the economy, climate change and legislation.

19.4 Considering reserves in overall terms, identifying known material risks facing an Authority provides a useful basis for determining a suitable level of reserves for managing risk. The specific risks and potential costs and likelihood that could be associated with them are as follows:

Risk Description	Mitigations	Likelihood	Financial Risk (£000's)	Reserves to set aside (high 100%, medium 75%, low 50%)
The budget is based on assumptions of indexation/ inflation, particularly in relation to contracts. There is a risk of higher costs due to higher than anticipated indexation/inflation, particularly the impact of utility prices on prices.	Use of reputable forecasts e.g. HM Treasury	High	£3,047 (representing approx. 5% of WTD costs)	£3,047
An extremely challenging insurance market for the waste sector leading to difficulties in insuring Abbey Road and West Drayton.	Sum to self-insure should it not be possible to secure some/all insurances	High	£2,000 (reconstruction of Abbey Road)	£2,000
Increased regulation of emissions from energy from waste facilities requiring one off installation of equipment	Contract terms	High	£2,000	£2,000
Borough FCL tonnages are higher than budgeted resulting in an under-recovery of HRRC disposal costs through the FCL charge which is fixed	Using data and working closely with borough colleagues to try and forecast tonnages accurately	Medium	£1,600 (based on residual FCL tonnages at 20% in excess of budgeted levels)	£1,200
Industrial action creating site and waste flow disruption	Contract terms, contractor business continuity plans and contingency arrangements, insurances	Medium	£990 representing 1 day per month disruption for 12 months affecting 650 tonnes of recycling per day needing to be sent to EfW @£115 disposal and £12 haulage	£743
The PPP income to pay to boroughs does not materialise e.g. electricity prices don't remain high and windfall tax is applied	Contract terms	Low	£6,300	£3,150
Costs arising from the complex PPP contract as a result of terms that are unclear or ambiguous in relation to the day to day operation and running of services.	Team and professional advisors with experience and knowledge of	Low	£1,000 (based on experience of contractual issues)	£500

	detailed contract terms			
With a large number of competitors ready to receive trade waste, there is a risk that price competition could lead to a reduction in planned trade and construction income despite more competitive pricing	Ongoing monitoring of trade income and maintaining competitive pricing position in market place	Low	£550 (representing 20% of trade income)	£225
Waste reduction in line with WLWA's projects and funded programmes do not reduce waste meaning that levies must be increased significantly when the Emissions Trading Scheme goes live. It may be necessary to build infrastructure to provide future resilience.	One third of PPP income retained by WLWA to support in waste minimisation and circular economy.	High	£9,915	£9,915
Residual waste risks - fluctuation in ETS charge to Authority. Fluctuation predicted to be £10m / 400,000 tonnes in year due to the volatility in carbon credit (as this is treated like a market commodity). Risk that the Authority could be impacted from this if Boroughs do not reduce fossil carbon in residual waste.	Work with boroughs to engage with Authority on funded programmes.	High	£3,250 representing a build-up of reserves over the next 3 years before ETS goes live in 2028.	£3,250
Target level for reserves to manage risks				£26,029

19.5 The target level of reserves for 2024/25 is £26.0 million and relates to the immediate risks relevant to the financial year's activities. This compares to £10.3 million of risks in 2022/23. The main changes relate to the Emissions Trading Scheme and the PPP income set aside to drive waste reduction rapidly, and therefore increase savings for boroughs. These are detailed below.

19.6 The Emissions Trading Scheme will be brought in to cover waste plants from 2028 and will levy an additional cost of c. £18 million per annum at the current volume and composition. This equates to £3 million per borough, per year and will need to be factored in to Borough reserves.

19.7 The Emissions Trading Scheme will be levied against fossil carbon products such as soft plastics, textiles and e-waste. Our ability to segregate fossil based plastic is currently only through resident engagement. To mitigate the potential impact and ensure we have the requisite capacity we need to design and invest in infrastructure to segregate effectively in new facilities capable of sorting material and retaining value locally where possible. If we don't develop our infrastructure, the additional money will simply go to funding penalties, not creating a solution.

19.8 The capture services and waste sites require change, our infrastructure is struggling at the moment with capacity across Borough transfer stations, HRRCs and collection services (e.g. recycling, residual). More segregation of materials and more sorting will be required to extract specific streams within the residual waste such as plastics and textiles.

19.9 Further opportunities will be identified to invest in local infrastructure to develop greater service resilience, reduce costs and create local jobs. The wider development of treatment, sorting, repair and handling capacity will help the creation of a circular economy with improved regional resource and value retention.

19.10 There is also a risk associated with residual waste not decreasing and this could see the charge from the Emissions Trading Scheme fluctuate considerably. Early commentary is stating that this charge could vary by £10 million each year dependent on the carbon tax. The Authority has set aside sums to build up against this fluctuation should fossil carbon in residual not decrease.

19.11 The PPP income retained by WLWA is to be used for developing our waste minimisation and circular economy activities. These have been designed to reduce waste and mitigate against increase in costs that will affect the six boroughs in the near future (i.e. Emissions Trading Scheme (ETS)). Should boroughs not engage in the programmes and residual waste does not decrease, the income retained will need to be built up to support against large penalties, and the need for larger sites and infrastructure to manage the waste (i.e. to be able to remove plastics from waste).

19.12 We also have reserves set aside to cover self-insuring the Authority for their business insurances, and insuring Abbey Road HRRC and the West Drayton office should we not have any appetite from the insurance market. We have also set aside the PPP income retained by the Authority to cover waste minimisation and circular economy activities, and set aside reserves to cover the volatility of the Emissions Trading Scheme and the fluctuations the waste industry could face.

19.13 Insurance within the waste industry has become extremely challenging due to the nature of the business, and the general insurance market are not too keen. The complexity of insurers not being forthcoming in the market is explained in section 9. Should the Authority self-insure, the revenue benefit to boroughs recognised will be £165,000.

19.14 Ultimately, the level of reserves is a judgment based on the nature of risk facing an organisation and its risk appetite. On the basis of the risks identified above and appreciating that there are unknown risks which could materialise and that nothing is being set aside for longer term risks, the proposed level represents a prudent and not overly cautious target for reserves for 2024/25 activities.

19.15 The forecast reserve position for the year ending 31 March 2025 is:

	Reserves to manage risks £000's	PPP Income £000s	Total Reserves £000s
Total Reserves 31 March 2023	75,964	9,915	85,879
Less Revaluation Reserve (artificial gain/not realisable)	(52,732)		(52,732)
Less ear marked reserves (HRRC fund)	(809)		(809)
Less disbursement of prior year reserves	(3,300)		(3,300)
Reserves 31 March 2023	19,123	9,915	29,038
Forecast surplus/(deficit) 23/24	(1,064)	0	(1,064)
PPP income expected (2023/24)		6,300	6,300
PPP income share for boroughs (2023/24)		(4,200)	(4,200)
Reserves 31 March 2024	18,059	12,015	30,074
PPP income committed for WLWA programme of work	0	(2,367)	(2,367)
Forecast surplus 2024/25	0	0	0
Forecast position for 31 March 2025	18,059	9,648	27,707

19.16 In the table above the reserves have been split out to provide transparency of the build-up and use of reserves generated from PPP income. The above table shows the expected PPP income of £6.3 million being shared in accordance with the Finance Strategy. £4.2 million will be paid to boroughs following receipt of funds from the contractor (July 2024) and £2.1 million retained by the Authority.

19.17 Provided that no risks materialise the closing reserves balance to manage risks of £27 million (inclusive of the one third PPP income retained by WLWA) is close to the reserves needed to manage risks. It is proposed that there are no excess reserves to be disbursed back to boroughs.

19.18 In comparison other London waste Authorities hold reserves ranging from £31 million to £86 million. This reflects the Authority's strong history of passing on excess reserves to boroughs.

19.19 The Authority will conduct a formal review of reserves in July 2024, and at this point, any surplus reserves not required to manage risks will be disbursed back to boroughs by September 2024.

19.20 A further £1.24 million will be utilised for the programmes identified in 2023/24 to be funded from the PPP income retained by WLWA. The total budget for the programmes is £2.8 million over the three years.

20 Medium and Long Term Plan

20.1 The plan has been updated to incorporate the proposed budget and uses long term base case assumptions of 0.5% for the annual growth in residual tonnages to reflect population increases, and 3.0% for long term inflation (3.0% was used last year) which is higher than the long term HM Treasury target of 2.0%.

20.2 The key outputs can be found in Appendix 1 and this shows a healthy financial position. The assumptions are then flexed to identify the key factors effecting the Authority's finances. This identifies changes in the residual waste tonnages as the key strategic factor determining the growth in costs and levies. Inflation has less impact (although still significant) as a cost driver as a result of the dampening effect of the PPP contract pricing mechanism.

20.3 The key messages from the plan are consistent with last year and are positive.

- The volume of residual waste is the key driver of spend/levies, so its reduction should be a key area of strategic focus e.g. removing food waste from the residual waste stream being an important opportunity
- The effect of inflation is dampened by the PPP contract
- The Authority will be debt free at the end of the plan and will maintain healthy cash balances to manage any liquidity risk

21 Borough Responses to Budget Consultation

21.1 The formal borough responses to the 2024-25 budget proposals from borough Finance Directors can be found in appendix 2. Responses were received from four boroughs and there were three common themes (i.e. raised by 2 or more boroughs).

21.2 One common theme related to an interest in budgeted programmes of work funded from PPP income and in particular what has been delivered to date, the plans and potential savings. The business cases and process have been developed in collaboration with borough Environment colleagues and updates have been presented throughout the year to boroughs.

21.3 The table below demonstrates progress to date with boroughs. The Authority will continue to engage with boroughs to drive and deliver savings as per the programmes.

	Savings made in 2023-24	Savings targets 2024-25	Discussions scheduled
SP1 Citizen Perception	Brent £152k materials collection service.	None received.	Hounslow 12 Jan. Ealing 29 Jan 24.
SP2 Reuse Social Value	WLWA £275k passed back to participating Boroughs. WLWA social value from reuse.	Ealing CE hub in Acton (social value)	Hounslow 12 Jan. Ealing 29 Jan 24.
SP3 Data Driven Efficiency	Brent £400k collections efficiencies	None received.	Ealing 29 Jan 24.

SP4 Increased access to excellent services	In-Borough food waste recycling savings realised through PaYT levy.	Final opportunity to spend food waste funding. Coffee pod trial Communal recycling	Ealing 29 Jan 24.
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21.4 The second common theme was around how the £18m per annum (£3m per borough) to pay towards the ETS had been modelled. This has been calculated further to presentations from the ESA which factored in three key variables; number of tonnes processed at the EfW, fossil carbon tonnes in waste and the carbon price per tonne. This assumption will continue to be reviewed as further modelling work takes place and an industry consensus emerges.

21.5 The third common theme is around the PPP income and if the amount received is higher than budgeted, two thirds of the total will be shared with the borough as per the Finance Strategy.

22 Financial Implications

22.1 These are included in the report.

22.2 It is a statutory requirement for the Authority to set a balanced budget (Local Government Finance Act 1992) and to set the levy for constituent boroughs by 15 February (Joint Waste Disposal Authorities (Levies) Regulations 2006).

23 Legal Implications

23.1 There are no legal implications of this report.

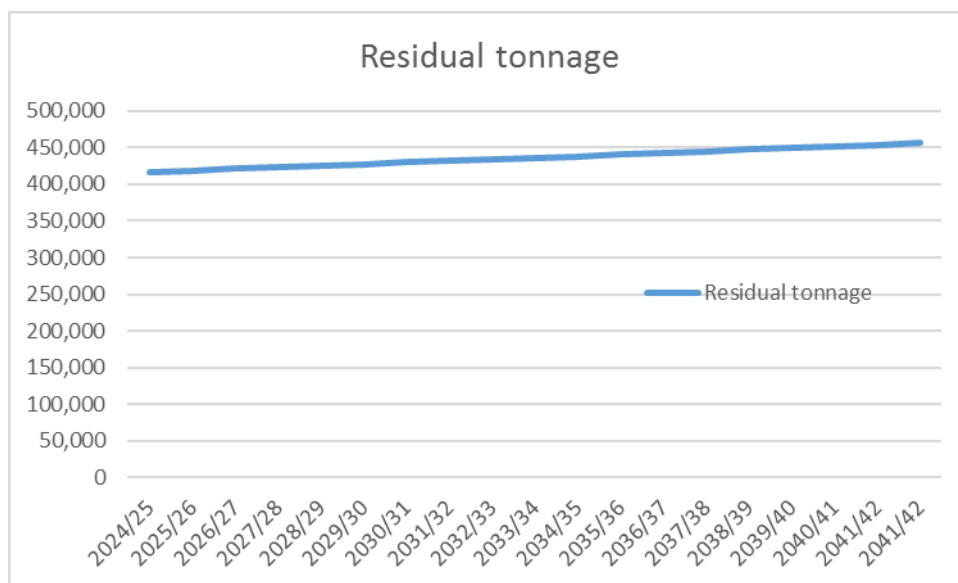
Contact Officers	<p>Sapna Dhanani, Finance Manager sapnadhanani@westlondonwaste.gov.uk</p> <p>Ian O'Donnell, Treasurer ianodonnell@westlondonwaste.gov.uk</p> <p>Emma Beal, Managing Director emmabeal@westlondonwaste.gov.uk</p>
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Appendix 1

Outputs

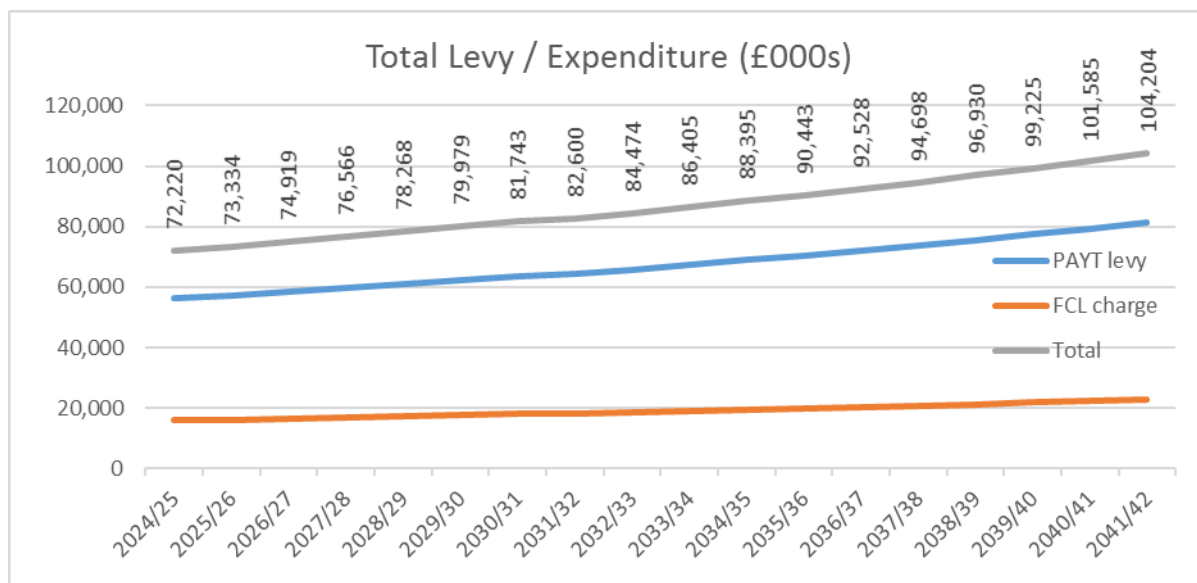
Using the proposed budget and base assumptions, the medium and long term financial model then gives us some outputs, for example, how our costs (and consequently levies to boroughs) change over time, or how our loan and cash balance changes over time. The main outputs are provided below and illustrate that affecting residual waste tonnages is the key.

Tonnage – The chart below illustrates the impact of the base assumption of 0.5% annual growth in residual tonnage to reflect population growth. Over the life of the plan, the residual tonnage rises from 416,951 to 456,115 tonnes.



Overall expenditure – This equates to the total levies charged to boroughs and the chart below has been split to show the PAYT and FCL as well as the total. The chart illustrates the growth in overall expenditure and levies over time.

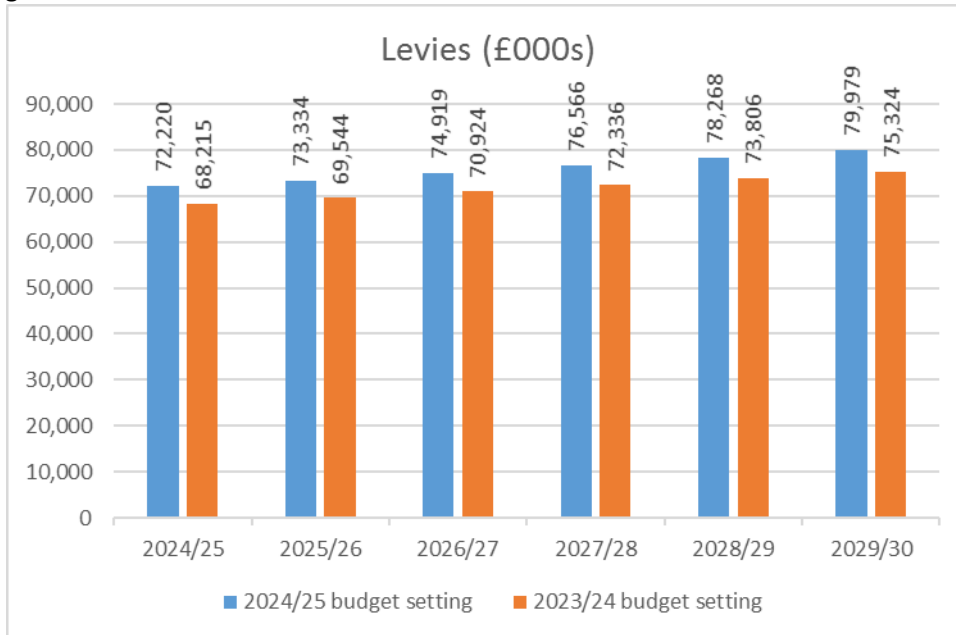
It should be noted that the increase in insurances and the impact of emissions trading scheme (ETS) have not been added in to the medium and long term financial model. Insurance has been set aside within reserves, as has the impact of ETS through the funded programmes which should see fossil carbon in residual waste decrease.



This chart above illustrates an average annual growth of 2.2% over the long-term which is lower than the 3.5% underlying long term growth assumptions in the plan, principally inflation RPIX (3.0%) and annual growth in tonnages (0.5%) to reflect population rises.

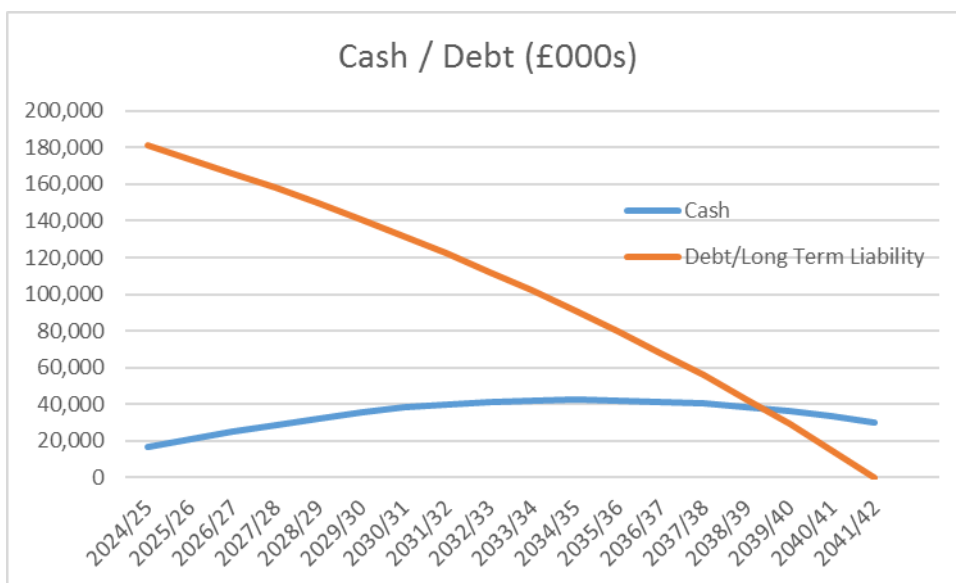
This growth is contained as a result of the way the PPP contract is structured. Inflation is dampened on a large proportion of tonnages over the whole life of the contract.

The dampened growth in costs and levies is further illustrated in the medium term in the chart below.



The table above shows an average growth in levies of 2.1% per year over the next 5 years. The change in the chart reflects the high starting point due to 2024/25 inflation (6.5%) and the higher longer term projection of inflation of 3%. In this context, containing the long term growth demonstrates the strength of the Authority’s finances. Boroughs may want to consider using this as an estimate of the increase in the WLWA levies within their medium term financial plans.

Debt / long-term liabilities and cash – The following chart illustrates the movement in the debt / long-term liabilities as they are paid / settled. The repayments commence at a low level and progress at increasingly larger sums, resulting in the debt/long term liability curve. The effect of the financing is reflected in the cash balances which build up in early years and fall in later years.



At the end of the plan, the Authority will be debt free.

Sensitivity Analysis

The two tables below illustrate that the impact of the change in residual waste volumes is the key driver of costs/levies with changes in inflation having a much smaller impact. This is because the effect of inflation is considerably dampened by the long term PPP contract.

Residual tonnages.

Residual waste growth assumption	Average rise in costs / levies over 5 years
-5%	-3.9%
-2%	-0.6%
-1.5%	-0.1%
-1%	0.4%
-0.5%	1.0%
0%	1.5%
0.5% base	2.1%
1%	2.6%
1.5%	3.1%
2%	4.7%
5%	6.9%

Similarly for residual contract inflation (RPIX).

Residual contract inflation RPIX	Average rise in costs / levies over 5 years
1%	1.8%
2%	1.9%
3% base	2.1%
4%	2.2%
5%	2.3%
6%	2.5%

Official

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3rd January 2024

Ian O'Donnell
Treasurer
West London Waste Authority
Unit 6, Britannia Court,
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UB7 7PN

Dear Ian,

West London Waste Authority draft 2024/25 budget

Thank you for your letter dated 1st December 2023 seeking written views on the draft budget and levy for the forthcoming year. My comments are as follows:

1) Use of Council Tax Base for Fixed Cost Levy apportionment

Richmond would like to confirm that the approved Council Tax base for 2024/25 is 89,679.

2) Fixed Cost Levy (FCL)

In the 2024/25 draft report, table 16.3 uses the 2023/24 Council Tax Base and therefore this needs to be updated using the 2024/25 Council Tax Base figure provided above.

3) PPP Income

For 2023/24 the budgeted disbursement to boroughs of PPP Income was £6.3m. The actual disbursement in July 2023 was £12.729m. For 2024/25 the budgeted disbursement is £4.2m. Although the expected income is discussed in paragraph 17.6, can you explain the rationale for the reduction in expected PPP disbursements compared to the previous year?

Many thanks for your assistance with these matters.

Yours sincerely

A handwritten signature in cursive script that reads 'Fenella Merry'.

Fenella Merry
Executive Director of Finance



Sapna Dhanani
Finance Manager, West London Waste Authority

c/o SapnaDhanani@westlondonwaste.gov.uk

2nd January 2024

Dear Sapna,

RE: West London Waste Authority (WLWA) Levy Consultation 2024/25

Thank you for your email of 4th December 2022, which sought the views of constituent authorities on the 2024/25 draft budget and levy as outlined in the report.

Hillingdon welcomes the early anticipation of PPP income and proposal to distribute to Boroughs by September 2024, noting the retention of £2.1m to fund strategic projects and would suggest that any further PPP income arising at year-end should also be considered for inclusion in the disbursement.

Hillingdon would appreciate further clarity on what has been delivered to date on the three programmes of work being funded from retained by PPP income further to the information included in the report at paragraphs 12.10-12.12. This should include the potential future year benefits and how these are expected to be shared across the constituent Boroughs.

The 2024/25 WLWA target level for reserves to manage risks as per the table at paragraph 19.4 is £26.0m representing a significant uplift on the £10.3m for the 2023/24 budget. A significant element of this is attributable to the retention of PPP income to support waste minimisation and the circular economy (£9.9m) and the residual waste risks from the Emissions Trading Scheme (ETS) of £3.25m. It would be helpful to have further details on how the potential impact of the ETS of £18m per annum quoted at paragraph 19.6 has been modelled. The report outlines that the retained PPP income will be used for waste minimisation activities but there is little change in the overall PPP income reserve balance between 31 March 2023 and 31 March 2025 based on the table at paragraph 19.15, aside from monies already allocated to existing programmes.

The significant increase in Insurance costs of SERC and transfer station is noted but these are now included in the budget together with a specific Insurance risk reserve of £2m. Similarly, the

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report advises that 6.5% has been applied to contractor prices within the budgeted spend to provide for inflation with a specific reserve providing a further sum of £3m. The reserve schedule also continues to hold a sum of £3.15m against a risk of the PPP income not materialising at year-end.

While Hillingdon accepts the principle of retaining reasonable levels of reserves to offset operational risk the report notes at paragraph 19.2 "... the proposal for reserves is cautious". We would suggest that a more balanced approach is appropriate given that the constituent authorities face a very challenging local government financial settlement for 2024/25 and remain under significant financial pressure.

Yours sincerely,



Andy Evans
Corporate Director of Finance

C.C. Cllr Eddie Lavery – Cabinet Member – Environment, Housing & Planning
Nicola Herbert – Head of Waste Services
Ceri Lamoureux – Head of Finance, Place

Chief Executive Directorate, Finance Division
Sharon Daniels, Interim Director of Finance and Assurance

Ian O'Donnell
Treasurer
West London Waste Authority
Unit 8 Britannia Court
The Green
West Drayton
UB7 7PN

4th January 2024

Dear Ian

Thank you for your letter of 4th December 2023, which sought the views of constituent boroughs on the 2024/25 draft budget.

PAYT and FCT Levy Increase

The total increase in the cost of the levy for Harrow for 2024/25 is £517k which is split between an increase in the combined PAYT levy of £346k and an increase in the FCL charge of £171k.

Unfortunately, the notification of this increase has come after Harrow's 2024/25 Draft Revenue budget has been agreed and presented to cabinet in December and therefore this increase in the WLWA levy will show as an increase to the 2024/25 Budget when Harrow's Final Budget is agreed in February 2024.

Having reviewed the 2023/24 budget proposal (sent last December 2022), this was indicating an inflation increase of 1.6% for the 2024/25 WLWA budget proposals. The effect of this for Harrow would equate to an approximate increase of £158k in levy costs for 2024/25 as opposed to the £517k now notified.

Harrow have also forecast a reduction in the residual waste tonnage rates from 54,929 in 2023/24 to 53,538 in 2024/25 and therefore this should have also pointed to a ~~favourable~~ reduction in the PAYT element of the fee.

Whilst it is explained that the increase in the levy for 2024/25 is an average 8% increase, which is significantly higher than the forecast 1.6% presented last year as part of the 2023/24 draft budget, there seems to have been no communication of this increase prior to the 4 December 2023? Can you let me know if this is the case or whether you have provided any previous information as to the likely increase in the 2024/25 levy prior to the 4 December 2023?

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Programme of work funded by PPP Income

Section 3 highlights the £2.8m programme of works funded from the PPP income that will deliver financial benefits to the Boroughs in the form of long-term savings. How will Councils be able to factor in the proposed savings from the £2.8m investment in the Programme of works. Do you have a schedule of the estimated savings/benefits that can be built in to assist Councils in their budgeting process?

Increase in Insurance costs – para 9.2 to 9.6

There has been an increase in the budget of £1.2m for insurance costs as a result in an increase in costs from £0.2m to £1.4m. Para 9.4 references higher insurance premiums due to increased fires at transfer stations which has been budgeted for in 2024/25.

Para. 9.6 says £0.8m of this spend is for the programme of works detailed in section 3. Can you clarify what this means as it seems to relate to the insurance cost?

Also, can you clarify if the £1.4m budget for insurance includes an amount for insuring Abbey Road and West Drayton as there has been a £2m reserve set up to self-insure "should it not be possible to secure some/all insurances".

PPP Income paid out to Boroughs.

Given the financial challenges in our MTFs, I welcome the Authority's decision to include the anticipated PPP income in the 2024/25 budget as Harrow had already made a budget assumption of some further PPP income in setting our draft budget. This therefore provides a level of certainty of the disbursement that will be made to Harrow. It would also be helpful if the Authority could provide a reconciliation once the actual PPP income is confirmed. Any PPP income over and above the £4.2m budgeted to be paid out should be distributed as a further in-year payment to boroughs.

Reserves

There has been a substantial increase in the level of reserves of £15.7m, increasing from £10.3m in 2023/24 to £26m in 2024/25. The main observation/questions on the reserves are as follows:

- A financial risk of £3.15m is allocated within the target level of reserves to mitigate against PPP income not being materialised, which is categorised as low likelihood of risk. The intention is to distribute PPP income in September 2024. Therefore, if this risk does not materialise by September 2024, the reserve should be released and the £3.15m disbursed to boroughs.
- There is an amount of £2m in reserves for self-insurance of the reconstruction of Abbey Road. If insurance becomes available and it is not necessary to self insure, this amount should be released from the reserve and reallocated to boroughs.
- Reserves includes £9.915m to mitigate the risk of when the Emission trading scheme goes live. Whilst there are calculations to show how other figures have been arrived at in the financial risk column of the reserves table, there is no detail of the £9.915m. Can you supply how this was calculated as it is a substantial value and it's not clear what the relationship is between this figure and the 2028 deadline for the Emissions Trading Scheme.

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- Residual waste risk relating to a fluctuation in The ETS scheme includes £3.250m within the reserves. What is this figure based on? What does the reference to "a [build up](#) of reserves over the next 3 years mean"? Does this mean further sums will be set aside for the next two years as well.
- Paragraph 19.6 of your budget report mentions £3m per borough will need to be factored into Borough reserves. If the estimated cost is £18m pa, this would equate to a £3m annual budget growth for each borough rather than it being factored into Borough reserves. Can you confirm that you are suggesting that each Borough would need to factor in £3m growth into their budget and from which year?

Yours sincerely



Sharon Daniels

Interim Director of Finance & Assurance

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BY EMAIL

Tel 020 8825 7175

9 January 2024

Dear Ian

West London Waste Authority (WLWA) draft 2024/25 budget

Many thanks for your letter of 4 December seeking written views on the draft budget for the forthcoming financial year. I have reviewed and discussed the proposals with finance and service colleagues and am writing to provide comments on behalf of Ealing Council (the Council). I apologise that I have not been able to do so within your requested deadline.

Inflation

Whilst clearly the increase in levies is a challenge for the Council in balancing its own budget and in general the Council would seek to minimise such increases, the paper sets out the reasons for the increases and specifically the inflationary pressures experienced by the WLWA which is a result of the wider economic environment.

The report does provide some information on inflation assumptions (including a correction for prior year estimates). However, it would be useful to provide some further detail of the analysis. For example the report explains the PPP contract mechanism dampening the impact of inflation and goes on to explain the use of 6.5% for other contracts in 2024/25. Given falling levels of inflation it is difficult understand whether this is a reasonable estimate of contractual inflation without an understanding of which other contracts are subject to inflationary increases and what the contractual mechanisms are (eg. what index, at what point in the year). However given the economic uncertainty, and that these contracts are likely to be less significant than the PPP contract, the assumptions appear to be prudent and the approach taken reasonable. However, if, due to falling inflation, contractual inflation is not required to the extent budgeted this should be identified through in-year monitoring and the budget setting process for 2025/26 and would therefore flow through to future year levy calculations.



We note that whilst the increase is mitigated in part by the PPP income distribution in 2024/25, the inflationary impact is an ongoing cost which is being mitigated only in the short term through a windfall gain that can not be relied on in the medium-long term. Therefore a robust approach to awarding inflationary increases should be undertaken to keep future years levy increases to a minimum.

In addition, as a result of high inflation, interest rates are high and with increasing reserves (and therefore cash) balances, we might have expected to see some commentary of the impact and budget for interest receivable on the 2024/25 budget.

PPP income

We welcome the commitment to return two thirds of the PPP income to the boroughs in line with the previously agreed strategy and the WLWA managing risks on this income in 2024/25 through reserves. This certainty is helpful to enable Ealing (the Council) to factor the receipt into the Council's budget setting process.

In 2023/24, the PPP income was significantly higher than budgeted, with the additional income shared with boroughs on the same basis (two thirds distributed to the boroughs). The paper confirms that the WLWA will take the risk on the outturn position and that additional income will also be shared in line with the agreed strategy, which is also welcome.

It would be useful to understand the level of risk (or opportunity) to PPP income through an understanding of the contractual mechanism (particularly in relation to timing due to the volatility in energy prices). For example does the 2024/25 income relate to energy generated and sold by the contractor the previous financial year (2023/24) or does the budget rely on projected energy prices?

We are generally supportive of the WLWA retention of a third of the PPP income for strategic projects, where projects which add value to the boroughs can be identified and delivered and we are keen to ensure that the Council is able to benefit from these projects through close partnership working and engagement. However, in the event these balances increase further, they should be kept under review and retained only to the extent that they can continue to be used to deliver value to the boroughs or whether they would be better distributed to boroughs for local decision.

Other

The report references the Emissions Trading Scheme which could lead to significant budgetary implications for WLWA and the boroughs. Given the potentially significant impact and the opportunities for the WLWA and boroughs to mitigate this (through reduction in residual waste), it would be useful for the WLWA to facilitate a workshop (with finance and service leads) on these matters so that the WLWA and boroughs can factor into medium term projections and consider what action and investments may be required.

Finally, as referenced in the report, the FCL costs and PPP income will be apportioned on the basis of the respective council tax bases. We expect to approve the 2024/25 council tax base in the next week at which point we will inform you of our updated figure.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Emily Hill', written in a cursive style.

Emily Hill
Strategic Director of Resources