

2017/18 Budget

SUMMARY

This report sets out the 2017/18 draft budget for consultation with the boroughs.

RECOMMENDATION(S)

The Authority is asked to:-

- 1) Approve the 2017/18 draft budget for consultation with constituent boroughs
- 2) Note the indicative Pay As You Throw (PAYT) rates in section 13 and resulting PAYT levy of £47.0 million
- 3) Note the Fixed Cost Levy (FCL) of £12.5 million in section 14
- 4) Note the recommended trade waste prices in section 15
- 5) Note the proposed capital budget of £0.3 million in section 16
- 6) Note the proposed level of reserves of £5.6 million to act as a buffer for managing risks and avoiding supplementary levies, in section 17
- 7) Note the position on disbursement of reserves in section 18

1. Introduction

1.1 The Authority is required to set an annual budget including levies and charges. It is also required to issue a demand to constituent boroughs by 15 February each year. This report sets out the 2017/18 draft budget which will be subject to consultation with constituent boroughs. Following consultation the final budget will be reported to the January meeting for approval. The PAYT and FCL charges will then be levied.

1.2 The 2017/18 budget incorporates tonnage forecasts received from boroughs and the spending plans received from Authority managers. The managers' spending plans have been scrutinised and adjusted following a budget challenge session held with the Chair and Chief Officers on 14 November.

2. Executive Summary

2.1 Last year's budget setting process reported the one off nature of savings in 2016/17, principally the benefit from much lower commissioning rates and the part year full service effect of the SERC on depreciation charges, financing and business rates.

2.2 As a result of the one off nature of savings boroughs were advised that this would mean that levies would rise again in 2017/18, to the levels seen in 2015/16 and to plan accordingly.

2.3 With no more one off savings the total 2017/18 levy is indeed higher than 2016/17, however the increase has been contained and is £0.8 million lower than 2015/16, significantly better than originally expected.

2.4 The total expenditure for 2017/18 is budgeted to be £61.4 million, an increase of £3.6 million from the 2016/17 budget of £57.8 million but lower than the £62.0 million total for 2015/16.

2.5 Significantly, for the first time the Authority can say that for the year 2017/18 once full service has commenced at the SERC almost all of the Authority's residual waste will not go to landfill but will be converted to energy – achieving a key strategic aim of the joint waste management strategy.

3. Expenditure and Income

3.1 The table below sets out the 2017/18 budget and the movement from the 2016/17 budget. The latest 2016/17 forecast is also included to provide context and illustrate the current level of activity. The budget headings are per the standard CIPFA classifications and per our usual format for regular budget monitoring reports.

	2015-16 budget £'000	2016-17 budget £'000	2016-17 forecast £'000	2017-18 budget £'000	Changes in budgets £'000
Costs					
Waste Transfer and Disposal	56,726	38,285	43,989	36,868	-1,417
Contingency	0	2,000	2,000	0	-2,000
Financing Cost	0	5,967	3,042	9,032	3,065
Depreciation	409	5,327	2,535	8,227	2,900
Premises	2,369	3,890	3,296	4,288	398
Employees	1,548	1,581	1,631	1,653	72
Supplies and Services	921	732	817	1,317	585
Total costs	61,973	57,782	57,310	61,385	3,603

Income					
PAYT levy income	49,066	45,718	45,664	47,030	1,312
FC Levy income	11,279	10,381	10,381	12,525	2,144
Total Levies	60,345	56,099	56,045	59,555	3,456
Other Income	1,628	1,683	2,336	1,830	147
Total income	61,973	57,782	58,381	61,385	3,603

Total (-surplus)/deficit	0	0	-1,071	0	0
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Commentary on this budget follows.

4. Completion of SERC and full service commencement of the WLRWS contract

4.1 The completion of the SERC and commencement of full service under the WLRWS contract result in a variety of implications for individual budgets headings. So it is useful to consider these before other budgets.

- 4.2 Firstly, the Authority will commence paying its principal contractor at a price agreed within the contract. This new price will be lower than the prices paid to principal contractors in previous years. The Waste Transport and Disposal (WTD) budget will therefore be reduced compared to those years.
- 4.3 Off-setting the reduced WTD, the Authority will start to see new expenditure resulting from its new asset the SERC. This includes business rates, depreciation charges and financing costs of loans from boroughs funding the construction. The Premises, Depreciation and Financing budgets will therefore be higher. 2017/18 will see the full year impact of these costs compared to 8 months of costs in 2016/17.
- 4.4 Finally, the contract for waste disposal at the SERC is classified as a public private partnership (PPP) arrangement which means the new price will be subject to concession accounting rules. The contract is effectively a means of financing the construction of an asset with financing costs embedded within the price for waste disposal. The accounting rules require that this is separated out and treated as a financing cost in the accounts. This will further reduce the WTD budget and increase the Financing budget.
- 4.5 The table below shows overall impact on different budget headings of the SERC and full service commencement – a complete picture of the PPP implications in 2017/18.

Item	Implications	£'000	Notes
1	WTD cost	27,326	From WLRWS contract
2	WTD – concession accounting adjustment transferring out embedded interest to Financing	-3,973	Per accounting regulations. With item 7, net nil effect
3	WTD – concession accounting adjustment transferring out embedded debt repayment to balance sheet liability for debt	-3,449	Per accounting regulations
4	Premises – SERC business rates	1,542	Per October 2016 rating estimate
5	Depreciation – SERC depreciation	8,073	Per estimated construction costs of the SERC
6	Financing – loan interest	5,109	Per loan agreement / repayment schedules
7	Financing – concession accounting adjustment transferring in embedded interest from WTD	3,973	Per accounting regulations. With item 2, net nil effect
	Budgeted SERC/WLRWS expenditure for 2017/18	38,601	

- 4.6 This is comparable to the 2015/16 budgeted expenditure of £38.7 million (with inflation £39.7 million) affirming the message from the last budget setting where reports indicated costs/levies would rise back to 2015/16 levels.
- 4.7 It is important to note that the business rates and depreciation will only be finalised following valuations in 2017. The rates will be determined by the governments Valuation Office. The depreciation will be based on the valuation of the SERC by independent valuers appointed by the Authority. This means there is some uncertainty/risk around the estimates used in setting these specific 2017/18 budgets which will have to be borne through reserves (section 17).

5. Waste Transport & Disposal (WTD)

5.1 The WTD budget accounts for the majority of the Authority's budgeted costs. The 2017/18 tonnage forecasts from boroughs have been compared to forecasts from Authority managers'. The forecasts form the basis for the calculation of the 2017/18 budget together with contract pricing information.

5.2 The 2017/18 WTD budget is £36.9 million, a reduction of £1.4 million, resulting primarily from the move to full service pricing increase £814,000 off set by the application of concession accounting rules, explained in section 4.

5.3 Most contracts require annual pricing adjustments based on the movement in the RPIX (retail price index excluding mortgages). The assumption for RPIX for 2017/18 is 2.0%. This is based on the HM Treasury forecast for the Consumer Price Index, CPI which historically has rates very similar to the RPIX.

5.4 The WTD budget includes the cost of treatment, disposal and transport of waste and is made up of the following materials:

Material	2015/16 Total Tonnes	2016/17 Total Tonnes	2017/18 PAYT Tonnes	2017/18 FCL Tonnes	2017/18 Total Tonnes	Change
Residual	410,748	406,919	366,417	42,807	409,224	2,305
Mixed organic	48,672	16,000	16,000	0	16,000	0
Green	43,536	60,151	29,786	22,009	51,795	-8,356
Wood	19,471	21,052	2,372	18,925	21,297	245
Kitchen	10,730	22,850	28,075	0	28,075	5,225
Other	13,020	14,603	2,191	11,470	13,661	-942
Budget 2015/16	546,177	541,575	444,841	95,211	540,052	-1,523

In total terms, the tonnage expectations are broadly similar to the current year's budget.

6. Financing

6.1 The programme of spending on the SERC plant will be completed in 2016/17 and no further capital contributions will be required in 2017/18. Therefore no new borrowing is planned for 2017/18.

6.2 The Authority will have fully drawn down funds in 2016/17 from the loan agreements it has in place with 4 boroughs for this project with all interest to the start of full service commencement being rolled into the loan debt. 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%.

6.3 The 2017/18 budget reflects a full year of financing costs for the total debt compared to 8 months in 2016/17. In 2017/18 the 4 lending boroughs will receive loan interest (£5.1 million) and loan repayments (£1.0 million) and this will continue over the loan period of 25 years.

- 6.4 As highlighted in section 4, the contract for waste disposal at the SERC is a PPP (public private partnership) arrangement and subject to concession accounting requirements. This requires that financing costs are separated out from the price paid to the contractor for waste disposal.
- 6.5 Concession accounting requirements include prescribed rules for calculating the financing costs. This effectively reclassifies £3.9 million of the WTD spend as financing costs and £3.4 million as debt repayment.
- 6.6 The total financing costs for 2017/18 will be £9.0 million, the sum of interest payable (£5.1 million) and the concession accounting adjustment for financing (£3.9 million).
- 6.7 In 2017/18 the loan debt and PPP liability will be reduced by £4.4 million (£1.0 loan and £3.4 million debt repayment).

7. Depreciation

- 7.1 The budget for 2017/18 of £8.2 million is £2.9 million higher than in 2016/17. This reflects a full year of depreciation compared to 8 months in 2016/17.
- 7.2 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. The depreciation calculation has been refined to include an allowance for shorter lifetimes of some components which results in a higher charge.
- 7.3 However, there is some risk to this budget estimate because the final depreciation will only be determined on completion of the SERC – when in accordance with accounting rules, the Authority is required to seek an independent professional valuation to determine these values. The depreciation for 2017/18 will be charged on the basis of this actual valuation.
- 7.4 Depreciation for the remaining assets have been calculated using the closing 2015/16 accounts and subsequent change in the asset registers.

8. Premises

- 8.1 The budget for 2017/18 of £4.3 million is £0.4 million more than in 2016/17. The main reason for this is that a full years business rates will become payable for SERC. The SERC rates are based on the latest (October) valuation estimate from the contractor's valuation consultant.
- 8.2 However the final rateable value will only be determined later in 2017 by the government's valuation office (VO) and the risk of any difference in the business rates will need to be borne by reserves.

9. Employees

- 9.1 The 2017/18 budget of £1.7 million is £0.1 million higher than the 2016/17 level.
- 9.2 Savings from the restructuring (£0.1 million) have been offset by pension contribution increases (£0.1 million) resulting from the triennial pension valuation. Pay inflation of 1%,

contractual increments and a minor increase in staff numbers account for the remainder of the growth (£0.1 million).

9.3 The main growth in establishment brings together the delivery of a wide variety of communications to support both the waste minimisation plan and the delivery of the new corporate communications strategy, areas of increasing workloads better delivered through a dedicated role.

9.4 The establishment showing full time equivalents (FTE) is summarised in the table below:

Staffing	2015/16 FTE	2016/17 FTE	2017/18 FTE	Posts
Managing Director	0.8	1.0	1.0	Managing Director
Contract Management	3.8	2.5	2.6	Contract Manager, Technical Assistant, Information Officer
Finance & Administration	4.0	3.6	3.6	Head of Finance, Senior Accountant, Finance Officer, Finance Assistant (PT)
Twyford Transfer Station & HRRC	18.0	18.0	18.0	Operations Manager, 2 Supervisors, 2 Weighbridge Clerks, 7 Drivers, 6 Operatives
Waste Minimisation	3.3	4.5	5.1	Waste Minimisation Manager, Senior Waste Minimisation Officer, Waste Minimisation Officer, 2 Events Assistants (PT), Communications Officer (PT)
Total	29.9	29.6	30.3	Rise of 0.7 FTE

10. Supplies & Services

10.1 The 2017/18 budget for supplies & services is £1.3 million, £0.6 million higher than the 2016/17 level.

10.2 The expiry costs on an old lease of £300,000 for machinery plus advice/planning services to investigate and develop strategic infrastructure (materials recycling facility and anaerobic digestion plant) of £131,000 and the first year of two of a food waste recycling project identified with boroughs of £144,000 account for the growth.

10.3 The most cost effective way to deliver the infrastructure and food projects will become clearer as these projects develop and this may include use of these budgets for staffing (i.e. through virement of some of this budget to the staffing budget).

11. Growth and Savings

11.1 The majority of Authority spending is committed under long terms contracts (WLRWS/SERC) or agreements (loans) or governed by accounting requirements (depreciation). Most of the growth items are a result of these leaving less opportunity for savings.

11.2 However, as part of the budget setting process at an operational level, a variety of measures have ensured a focus on savings across areas where managers are able to exercise some control. This included budget managers reporting their 2017/18 plans and proposed savings to a budget challenge session with the Chair and Chief Officers.

11.3 The tables below identify the growth and savings included within the 2017/18 draft budget and separate out real growth and savings from other movements between 2016/17 and 2017/18 budgets:

11.4 Summary table:

	£000's
Growth	7,608
Savings	(935)
Other movements	(3,217)
	3,456

11.5 Growth table:

Area	Explanation	Growth
Waste Transport and Disposal	Increase in residual waste tonnage (£276,000), move to full service pricing under WLRWS (£814,000), other residual annual price uplift (£169,000), transport pricing uplift (£126,000) and other annual contractual uplifts across a range of waste streams (£116,000)	£1,501,000
Financing	Growth reflecting full year financing costs in 17/18 compared to 8 months in 16/17	£1,765,000
Depreciation	Growth reflecting full year depreciation costs in 17/18 compared to 8 months in 16/17	£3,140,000
Premises	Growth reflecting full year SERC rates costs in 17/18 compared to 8 months in 16/17 (£387,000), rent increases for transfer stations (£17,000), rise in security costs at Twyford (£7,000) and other minor costs increases (£7,000)	£418,000
Employees	Rise in staffing costs resulting from increased pension contributions (£72,000) salary inflation and increments (£24,000) and new post/job evaluations (£43,000)	£139,000
Supplies and Services	One off lease expiry costs (£300,000), strategic infrastructure options (£131,000), food waste projects (£144,000), rise in insurance premiums (£15,000) other minor growth items (£55,000)	£645,000
		£7,608,000

11.6 Savings table:

Area	Explanation	Saving
Waste Transport and Disposal	Reduction in tonnages for carpets (£66,000), green waste (£291,000) and other small changes in waste tonnages and rates (£44,000).	(£401,000)
Depreciation	Reduction in capital charges resulting from already fully depreciated assets at the end of the year	(£240,000)

Premises	Unspent 16/17 budget for material stripped out	(£20,000)
Employees	Savings resulting from restructuring of Contracts and Management Team	(£67,000)
Supplies and Services	Reduced lease costs (£29,000), advertising costs stripped out (£17,000), unspent consultancy budget stripped out (£7,000) and other minor savings (£7,000)	(£60,000)
Other Income	Increase in trade waste and other income (£147,000)	(£147,000)
		(£935,000)

11.7 Other movements table:

Area	Explanation	Increase / (Decrease)
Waste Transport and Disposal	Concession accounting adjustment moving out embedded financing and debt repayment costs	(£2,517,000)
Contingency	Stripping out one off contingency from previous year	(£2,000,000)
Financing	Concession accounting adjustment bringing in embedded financing costs	£1,300,000
		(£3,217,000)

12. PAYT / FCL split

12.1 PAYT costs relate primarily 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.

12.2 Where directly attributable, costs are allocated to the PAYT or FCL as appropriate. Where costs are applicable across both PAYT and FCL (e.g. SERC depreciation relates to both HRRC residual waste and borough collected residual waste) these are apportioned based on the relative WTD tonnages in PAYT and FCL. In 2016/17 these were all allocated to PAYT. This means there will be a small switch back of costs to FCL in 2017/18. The breakdown of the budget between PAYT and FCL activities is as follows:

PAYT	2015/16 £'000	2016/17 £'000	2017/18 £'000	Change £'000
Waste Transport and Disposal	49,066	31,568	30,841	-727
Premises (SERC)	0	1,200	1,335	135
Depreciation (SERC)	0	4,933	6,990	2,057
Financing (SERC/WLRWS)	0	6,017	7,864	1,847
Contingency	0	2,000	0	-2,000
PAYT Levy	-49,066	-45,718	-47,030	-1,312
Total	0	0	0	0

FCL	2015/16 £'000	2016/17 £'000	2017/18 £'000	Change £'000
Waste Transport and Disposal	7,660	6,717	6,027	-690
Employee	1,548	1,581	1,653	72
Premises	2,369	2,690	2,953	263
Supplies and Services	921	732	1,317	585
Depreciation	409	394	1,237	843
Financing	0	-50	1,168	1,218
Non Levy Income	-1,628	-1,683	-1,830	-147
FCL Levy	-11,279	-10,831	-12,525	-2,144
Total	0	0	0	0

13. PAYT Levy Income

13.1 The PAYT charge to boroughs relates primarily to the waste that boroughs deliver to transfer stations and is to cover the cost to the Authority for disposing of that waste. The table below shows the proposed PAYT rates:

Material	2015/16 £ per tonne	2016/17 £ per tonne	2017/18 £ per tonne
Residual waste (delivered)	120.20	115.43	119.72
Food	25.95	29.40	25.45
Green	32.43	33.41	32.93
Mixed food and green	56.34	59.63	58.75
Wood	62.04	49.80	50.70
Rubble	26.86	27.47	30.21
Soil	25.63	25.63	111.10
Gypsum	97.44	103.00	97.00
Carpets	97.38	90.00	94.50
Mattresses (per mattress)	4.50	4.25	4.35

13.2 These rates represent the average cost to the Authority for the disposal of materials. They reflect the blended price paid to a number of contractors and for residual waste also the costs of the SERC.

13.3 It should be noted that the 2017/18 residual waste rate of £119.72 per tonne is lower than the 2015/16 rate of £120.18 per tonne.

13.4 These rates will be applied to the 2017/18 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 waste actually disposed.

13.5 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 for 2017/18 are proposed at:

Material	2015/16 £ per tonne	2016/17 £ per tonne	2017/18 £ per tonne
Residual (collected)	10.99	8.69	8.89
Organic (collected)	15.76	15.82	15.22
Other recyclables (collected)	16.15	16.41	14.91

13.6 Using the tonnage forecasts from boroughs, the PAYT charges for 2017/18 are as follows:

Borough	2015/16 PAYT charge £'000	2016/17 PAYT charge £'000	2017/18 PAYT charge £'000	Growth £'000	% Growth
Brent	8,637	8,133	8,928	795	9.8%
Ealing	11,281	10,458	10,634	176	1.7%
Harrow	6,673	5,858	5,949	91	1.5%
Hillingdon	8,645	8,495	8,125	-370	-4.4%
Hounslow	8,001	7,243	7,538	295	4.1%
Richmond	5,829	5,531	5,856	325	5.9%
Total	49,066	45,718	47,030	1,312	2.9%

13.7 It is worth noting that the above levies use borough forecasts for the volumes of waste, including those from service changes. Prudent forecasts last year have resulted in low PAYT growth for some boroughs and a reduction in PAYT charge for one borough.

14. FCL Income

14.1 The FCL charge primarily relates to the cost 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. The charge is set to recover all FCL costs and will be apportioned using the 2017/18 Council Tax base per the CTB (October 2016) returns provided by the boroughs.

14.2 The FCL charge for 2017/18 is £12.5 million which is an increase of £2.1 million from the 2016/17 level of £10.4 million. As identified in paragraph 12.2 some SERC costs are attributable to both PAYT and FCL activities and have been apportioned on the basis of PAYT and FCL tonnages. This has seen a small switch from PAYT to FCL.

14.3 Using the 2017/18 Council Tax base, the FCL charge is as follows:

Borough	2015/16 FCL charge	2016/17 FCL charge	2017/18 Council Tax base	2017/18 FCL charge £'000	Growth £'000	% Growth
Brent	1,786	1,695	92,151	2,054	358	21.1%
Ealing	2,256	2,118	113,718	2,534	416	19.6%
Harrow	1,721	1,566	85,059	1,895	329	21.0%
Hillingdon	1,967	1,780	97,198	2,166	386	21.7%
Hounslow	1,699	1,557	84,987	1,894	337	21.6%
Richmond	1,849	1,665	88,958	1,982	318	19.1%
Total	11,278	10,381	562,071	12,525	2,144	20.7%

14.4 It should be noted that overall levies (taking both PAYT and FCL together) are down from 2015/16.

15. Other Income

15.1 The 2017/18 budget is £1.8 million compared to £1.6 million in 2016/17, a small improvement of £0.2 million. The main components of other income are £1.2 million trade/DIY income and £0.4 million agency income for the Brent HRRC.

15.2 The proposed main trade/DIY charges per tonne are provided below:

Type of waste	2015/16 £	2016/17 £	2017/18 £
Trade waste residual	195.00	195.00	195.00
Trade waste recycling	97.50	97.50	97.50
Asbestos (Households only)	272.00	272.00	272.00
Mattresses (per mattress)	12.26	12.26	12.26
Wood	195.00	195.00	195.00
Bulky items	218.00	218.00	218.00

15.3 The Authority's trade waste charges are broadly in line with published rates for borough waste sites therefore no increase is planned for 2017/18.

16. Capital

16.1 The capital requirements for 2017/18 are detailed below:

Capital requirements	Details	2016/17 £'000
High loading shovel	To replace old equipment to be returned on the expiry of lease term and used for handling large volumes of waste	240
Contract management software	To support the management of major contracts and capture key contract information / performance	30

Total		270
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16.2 It should be noted that the 2016/17 capital budget for Twyford improvements of £750,000 is to be carried forward as work is in progress and most of the costs will slip into 2017/18. The 2016/17 capital budget (£1.1 million) for the Victoria Road green waste bulking facility is also being carried forward and works will progress following resolution of HS2 land take negotiations. No other capital budgets are being carried forward.

17 Reserves

17.1 Reserves represent an organisations 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.

17.2 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 better planning and budgetary control.

17.3 As known risks facing an Authority are identified in the risk register, this provides a useful basis for determining a suitable level of reserves for managing risk. The specific risks (including risk register reference) and potential costs and likelihood that could be associated with them are as follow:

Risk (per Risk Register)	Risk Description	Likelihood	Financial Risk (£'000)
Waste treatment and disposal contracts (P3)	From time to time, a new market will emerge for recycling of specific waste streams (as opposed to landfill) e.g. carpets. The Authority tests and uses these markets cautiously, however these new markets carry a risk of both market and supplier failure. Should this arise there will be additional costs in making new arrangements to redirect and dispose of waste.	High	£300 (based on 2014/15 experience with mattresses)
Business continuity planning (P8)	Whilst the contractor bears most of the risk in the event of the loss of a transfer station, in major events like this there is a possibility of unforeseen additional costs in implementing and operating alternative arrangements. Therefore it would be prudent to set aside something for these uncertainties.	Medium	£500 (notional)
Financial management (E3)	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	Medium	£500 (representing approx. 1% higher indexation)
Financial management (E3)	The budget for SERC depreciation is based on the total construction cost. However for accounting purposes	High	£1,500 (for extra depreciation)

	independent valuations will be required before March 2017 which is likely to be different to the cost and will determine the actual depreciation charge for 2017/18.		based on a 20% higher valuation)
Financial management (E3)	The budget for SERC business rates are based on latest (October) estimates from Suez's valuers. The final valuation will however be determined by the valuation office and may be significantly different.	Medium	£400 (per significantly higher rateable valuation of Lakeside
Financial management (E3)	With a large number of competitors ready to receive waste, there is a risk that price competition could lead to a reduction in planned trade and DIY income	Medium	£200 (representing 15% of other income
Financial management and control of WLRWS contract (E6)	From time to time costs will arise from contracts that are unpredictable. The largest risk is likely to be in relation to the largest contract.	Medium	£700 (per contract dispute 2014/15)
Financial management and control of WLRWS contract (E6)	It is prudent to set aside reserves to mitigate the risks facing the operation of a large scale EfW plant costing £180 million. Although most of the risk is borne by the developer, it is possible that the Authority could also face unforeseen costs. In a contract of this scale there are many contract clauses and there will be areas open to interpretation	Medium	£900 (representing 0.5% of construction cost)
Changes to waste flows (S1)	Borough changes in waste collection services and changing social / demographics can have a significant impact and increase waste flows to HRRC sites. As these form part of the fixed cost levy there is a risk of extra costs that will need to be borne by the Authority	Medium	£600 (representing a 10% growth in HRRC waste)
Total			£5,600

17.4 The growth from last year's £4.2 million reserve position is the inclusion of new valuation risks around depreciation (£1.5 million) and business rates (£0.4 million) partly offset by reductions across the other risk positions

17.5 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, £5.6 million represents a prudent and not overly cautious level of reserves.

18 Disbursement of Reserves

18.1 The forecast reserve position for the year ending 31 March 2017 is provided on the following page:

	£000s
Reserves 31 March 2016 per approved accounts	7,150
Forecast over-recovery for 2016/17 per period 7 budget monitoring report	1,071
Forecast reserve position for 31 March 2017	8,221

18.2 Provided that no risks materialise and something close to the forecast reserve position is achieved for 2016/17, the Authority will be in a good position to disburse reserve in 2017/18.

18.3 The Authority may therefore aim to provide a one off levy rebate to boroughs apportioned on the basis of 2017/18 budgeted tonnages. It is important to note that a decision will only be made once the outcome of key events and risks are known. On this basis, there are three key points to note around valuations that could impact the forecast over-recovery for 2016/17 and any decision regarding disbursing reserves.

18.4 Firstly, the LPFA's triennial pension valuation currently underway could result in an increase in the deficit resulting in a charge to the 2015/16 accounts and reduction in level of reserves.

18.5 Secondly, if in the very unlikely event the SERC is valued at less than the construction cost, this will result in a charge to 2016/17 and will reduce the level of reserves available.

18.6 Thirdly, if the SERC valuation is higher than the construction cost, these artificial gains will be accounted for as a surplus and will add to the reserves. However, it is not appropriate to disburse artificial gains and these should be excluded from any decisions regarding disbursement.

19 Financial Implications

19.1 The financial position and performance are provided in the report.

20 Legal Implications

20.1 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).

21 Impact on Joint Waste Management Strategy

21.1 The proposed Annual Budget has been set out in this report to demonstrate that the Authority is supporting the boroughs to deliver improved value for money to its residents in line with Policy 7 and demonstrates partnership working as set out in policy 8.

21.2 Policy 7: The West London Waste Authority and constituent Boroughs will seek to provide waste management services that offer good value, that provide customer satisfaction and that meet and exceed legislative requirements.

21.3 Policy 8: The West London Waste Authority and constituent Boroughs will work together to achieve the aims of this strategy and are committed to share equitably the costs and rewards of achieving its aims.

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