

2017/18 Budget

SUMMARY

This report sets out the 2017/18 budget proposal

RECOMMENDATION(S)

The Authority is asked to:-

- 1) Approve the 2017/18 budget
- 2) Approve the indicative Pay As You Throw (PAYT) rates in section 13 and resulting PAYT levy of £47.4 million
- 3) Approve the Fixed Cost Levy (FCL) of £12.5 million in section 14
- 4) Approve the recommended trade waste prices in section 15
- 5) Approve the proposed capital budget of £0.3 million in section 16
- 6) Approve 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) Approve the position on disbursement of reserves in section 18

1. Introduction

1.1 A draft budget was reported to the Authority in December. Since then tonnages have been finalised with boroughs and only a very limited number of other minor changes have been made. The proposed budget is substantially as reported in December.

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 £0.5 million lower than 2015/16, significantly better than originally expected.

2.4 The total expenditure for 2017/18 is budgeted to be £61.7 million, an increase of £3.9 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	43,898	37,193	-1,092
Contingency	0	2,000	2,000	0	-2,000
Financing Cost	0	5,967	2,649	9,032	3,065
Depreciation	409	5,327	2,225	8,227	2,900
Premises	2,369	3,890	3,209	4,288	398
Employees	1,548	1,581	1,638	1,653	72
Supplies and Services	921	732	815	1,317	585
Total costs	61,973	57,782	56,434	61,710	3,928

Income					
PAYT levy income	49,066	45,718	45,240	47,360	1,642
FC Levy income	11,279	10,381	10,381	12,520	2,139
Total Levies	60,345	56,099	55,621	59,880	3,781
Other Income	1,628	1,683	2,391	1,830	147
Total income	61,973	57,782	58,012	61,710	3,928

Total (-surplus)/deficit	0	0	-1,578	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	27,829	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	39,104	

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 £37.2 million, a reduction of £1.1 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	412,224	5,305
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	543,052	1,477

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	7,934
Savings	(935)
Other movements	(3,217)
	3,782

11.5 Growth table:

Area	Explanation	Growth
Waste Transport and Disposal	Increase in residual waste tonnage (£602,000), 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)	£1,827,000
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
		£7,934,000

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	31,146	-422
Premises (SERC)	0	1,200	1,337	137

Depreciation (SERC)	0	4,933	7,001	2,068
Financing (SERC/WLRWS)	0	6,017	7,876	1,859
Contingency	0	2,000	0	-2,000
PAYT Levy	-49,066	-45,718	-47,360	-1,642
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	6,046	-671
Employee	1,548	1,581	1,653	72
Premises	2,369	2,690	2,951	261
Supplies and Services	921	732	1,317	585
Depreciation	409	394	1,226	832
Financing	0	-50	1,157	1,207
Non Levy Income	-1,628	-1,683	-1,830	-147
FCL Levy	-11,279	-10,381	-12,520	-2,139
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	119.64
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 £119.64 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	8,922	789	9.7%
Ealing	11,281	10,458	10,627	169	1.6%
Harrow	6,673	5,858	5,946	88	1.5%
Hillingdon	8,645	8,495	8,480	-15	-0.1%
Hounslow	8,001	7,243	7,533	290	4.0%
Richmond	5,829	5,531	5,852	321	5.8%
Total	49,066	45,718	47,360	1,642	3.6%

13.7 It is worth noting that the above levies use borough forecasts for the volumes of waste, including those from service changes.

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	2,053	358	21.1%
Ealing	2,256	2,118	113,718	2,533	415	19.6%
Harrow	1,721	1,566	85,059	1,895	329	21.0%
Hillingdon	1,967	1,780	97,198	2,165	385	21.6%
Hounslow	1,699	1,557	84,987	1,893	336	21.6%
Richmond	1,849	1,665	88,958	1,981	316	19.0%
Total	11,278	10,381	562,071	12,520	2,139	20.6%

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

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 independent valuations will be required before March 2017 which is likely to be	High	£1,500 (for extra depreciation based on a 20% higher

	different to the cost and will determine the actual depreciation charge for 2017/18.		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	1,578
Forecast reserve position for 31 March 2017	8,728

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 Medium and Long Term Financial Plan

19.1 The plan reported to the December Authority has been updated to include the minor changes reflected in this final 2017/18 budget proposal.

19.2 The key messages from the plan remain unchanged:

- The effects of pricing inflation are significantly dampened as a result of the WLRWS PPP contract
- The Authority will be debt free at the end of the plan
- Healthy cash balances will mitigate any liquidity risks

19.3 The key updated charts from the plan are provided in Appendix 1.

20 Borough Responses to Budget Consultation

20.1 The borough responses to the 2017/18 budget proposals can be found in Appendix 2. The two common themes (i.e. raised by 3 or more boroughs) are detailed below:

20.2 Disbursement of reserves – the main message drawn from the various comments about reserves is that they should be disbursed to Boroughs on a timely basis with the earliest possible notification. On this basis Management will liaise with boroughs at the earliest

opportunity with the aim of making appropriate recommendations to the June meeting of the Authority.

20.3 Financial challenges facing boroughs – in this theme, boroughs are looking to the Authority to help meet the challenge by focussing on reducing costs and income growth. This is something the Authority continually focusses on both strategically and operationally. Since 2013/14 the Authority’s establishment has reduced to a third of its original size and levies are only 2% higher. The 2017/18 budget includes projects which will continue the strategic approach and from an operational perspective every detailed line of the budget will continue to be reviewed to strip out unnecessary costs and deliver further savings.

21 Legal Implications

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

21.2 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).

22 Impact on Joint Waste Management Strategy

22.1 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.

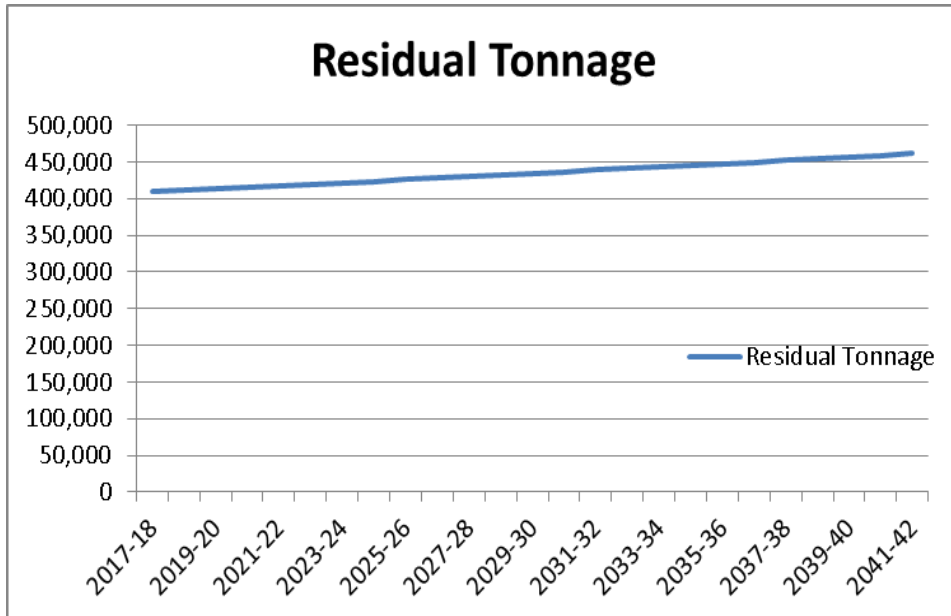
22.2 Policy 7: The West London Waste Authority and constituent Boroughs will seek to provide waste management services that offer good value, that provide customer satisfaction and that meet and exceed legislative requirements.

22.3 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.

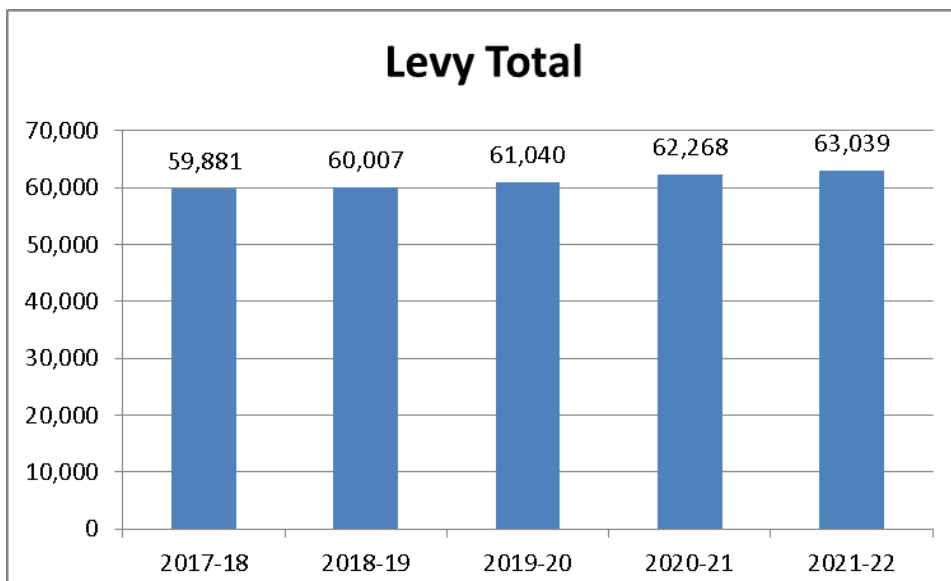
Contact Officers	Jay Patel, Head of Finance	020 8825 9524
	jaypatel@westlondonwaste.gov.uk	
	Ian O'Donnell, Treasurer	020 8825 5269
	Odonnelli@ealing.gov.uk	

Appendix 1: Updated Medium Term Financial Plan Charts

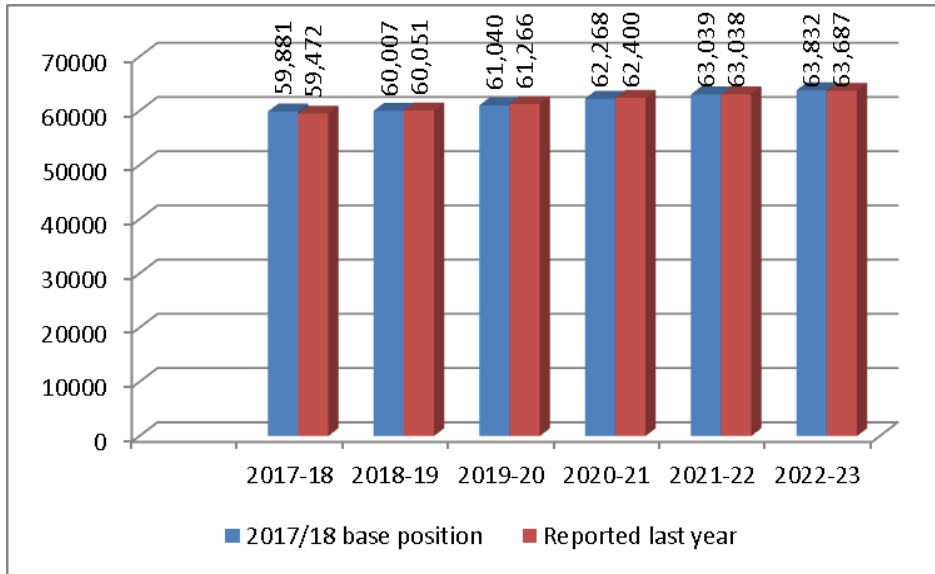
The plan assumes 2.0% pricing inflation and an annual 0.5% growth in residual tonnage which is illustrated below:



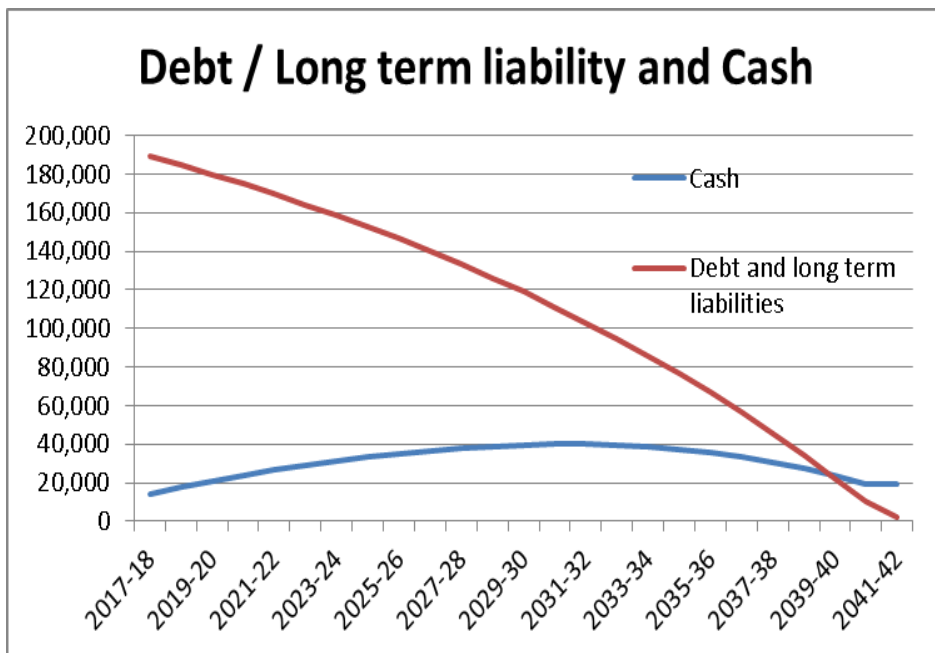
The chart below shows the resulting growth in levies dampened by the favourable WLRWS pricing mechanism:



The chart below shows that the projections are consistent with the message reported last year:



The Authority will be debt free at the end of the WLRWS contract and will hold healthy cash balances to manage liquidity risk as illustrated in the chart below:



Appendix 2: Borough Consultation Responses



BRENT CIVIC CENTRE
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EMAIL CONRAD.HALL@BRENT.GOV.UK

Ian O'Donnell- Treasurer
West London Waste Authority
Civic Centre
Lampton Road
Hounslow
TW3 4DN

6th January 2017

Dear Ian,

Re: Response on the Consultation regarding the WLWA Budget and Levy for 2017/18.

Brent Council welcomes the opportunity to respond to the WLWA on its draft budget proposals for 2017/18.

We recognise that previous predictions highlighted that levies would rise in 2017/18 compared to 2016/17 as a result of one off savings arising in that year from the lower commissioning rates. It is also acknowledged that last year's cost for depreciation, business rates and financing was lower than 2017/18 due to the part year service effect of the SERC contract.

We accept that the overall increases cost for 2017/18 has been contained and is £0.8 million lower than 2015/16. It is noted that the staffing budget is £0.1m higher than 2016/17 due to the 1% pay award and minor increases in staff numbers.

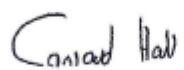
Brent Council welcomes the reduction in WTD cost of approx. £1.4m and noted this is being used to offset increased cost for new expenditure linked to the SERC contract such as business rates, financing cost and depreciation.

It is also noted that there is still some risk/uncertainty on the actual costs of business rates and depreciation at this stage and any additional costs after valuation will be funded through reserves.

However, we would appreciate if you could provide greater clarity on the Disbursement of Reserve position in 2017/18 so that this can be taken into account in the overall assessment of Brent's financial position in regard to the WLWA levies.

In conclusion, Brent Council, subject to the query around reserves above, is broadly supportive of the budget proposal.

Yours Sincerely,

A handwritten signature in black ink that reads "Conrad Hall". The signature is written in a cursive style with a large initial 'C'.

Conrad Hall
Chief Financial Officer



www.ealing.gov.uk

Date: 16 January 2017

Ian O'Donnell
Treasurer
West London Waste Authority
c/o Ealing Council, Perceval House
London W5 2HL

Ealing Council
Perceval House
14-16 Uxbridge Road
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London W5 2HL
Tel: 020 8825 6110

Dear Ian,

Response to West London Waste Authority (WLWA) draft 2017/18 Budget consultation paper

Thank you for your report dated 09 December 2016 which sought our comments on the 2017/18 budget proposal.

We welcome the achievement of almost complete diversion of residual waste from landfill to energy conversion for 2017/18. We also welcome the lower prices payable to principal contractors under the new WLRWS contract. We find it encouraging that the main planks of the Authority's strategy are being accomplished. Whilst we acknowledge that the proposed Waste Transport and Disposal (WTD) budget is marginally lower than 2015/16 budget levels and that there are some increased finance and depreciation costs related to the Severnside Energy Recovery Centre (SERC), we would expect to see cost benefits arising from the strategy of waste minimisation and diversion reflected in budgets for future years. We would also like to have a clearer view of how income benefits from energy conversion will be measured and how these are likely to impact future budgets.

As a general point, please note that visibility of financial plans beyond one year is essential to Ealing Council's medium term financial planning. Our budget processes require that we produce medium term financial plans that cover three years. As such, we consider it reasonable to expect a medium term financial plan from the Authority covering a similar timeframe. This should also help explain the planned medium term financial benefits of the Authority's strategy.

We also have the following comments and views:

1. **Employee costs:** We acknowledge the Authority's reasons for the growth in establishment. However, we request that the Authority demonstrate the cost benefit of this investment, for example savings achieved as a result of waste minimisation efforts.

2. **Supplies and Services:** Please clarify whether the increase of £0.6 million is a permanent increase. Is all or part of the cost relating to advisory and planning services to investigate and develop strategic infrastructure one-off, as it is reasonable to expect such activity to have an end date? Are we likely to see this element of the budget reduce significantly in future years? We would like the Authority to ensure that this does not unintendedly result in a permanent establishment increase. Also, we presume the £300,000 expiry cost of an old lease is one-off?
3. **Residual Waste Tonnage:** Residual waste represents a key driver of costs and the trajectory of tonnages assumed in the budget proposal is upwards. This seems to be at odds with the Authority's waste minimisation drive (and the FTE increase to promote waste minimisation). What are the reasons for the proposed growth in residual waste? Could it be connected to the expected increase in trade waste income? If so, why is the expected increase in trade waste and other income (£147,000 from 11.6 Savings table) less than the increased cost related to residual waste tonnage (£276,000 from 11.5 Growth table)? We would expect trading activity to be profitable or at worst to break even.
4. **Reserves Level:** We note and accept the Authority's assurance that £5.6 million represents adequate cover for the financial risks that the Authority has identified. We note however that the forecast level of reserves at 31 March 2017 is £8.221 million. We would welcome prudent and reasonable reserve disbursements during 2017/18, and would appreciate confirmation of the likely amount and timing as soon as possible.
5. **Ealing Council Tax base:** Please note that the 2017/18 Council Tax base for Ealing is 111,132, which is less than the estimate used in the FCL levy calculation.

Subject to the comments above, Ealing Council is broadly supportive of this proposed budget.

Yours Sincerely



Ross Brown
Director of Finance (Deputy s.151 officer)
Corporate Resources

Resources Directorate, Finance Division
Dawn Calvert, Director of Finance

Ian O'Donnell
Treasurer
West London Waste Authority
c/o Ealing Council
Perceval House
London W5 2HL

4th January 2017

Dear Ian

Thank you for your letter of 9th December 2016, which sought the views of constituent boroughs on the 2017/18 draft budget.

Firstly it is encouraging news that the full service at the new energy from waste plant has now commenced. This will give us some level of certainty over longer term costs on residual waste disposal. Whilst Harrow has delivered various measures to minimise the growth of residual waste tonnages, the pricing inflation over time of the disposal contract will inevitably create a budget pressure for the Council. Given the extent of financial challenges facing all boroughs, I'd like to see a strategic approach by the Authority to reducing the overall net costs. I note, in the 17/18 budget, that there is £131k allocated for investigative work on the development of MRF and anaerobic digestion plant. Any future income/commercial opportunity via these infrastructures will represent an innovative way of delivering savings for the boroughs.

I note that the budget for Other Income is circa 20% less than 16/17 forecast. With full service operating at the energy from waste plant, I expect that there will be additional income from power generation and potentially processing of third party waste. It was suggested in last year's budget report that some early modelling indicated that this could be in excess of £1m. However I cannot see this being reflected in 17/18 budget.

In terms of the Authority's operational costs, there has been growth in Waste Minimisation team over 3 years. 17/18 also sees an additional budget of £144k allocated to food waste recycling projects. Whilst I agree that more resources should be deployed on recycling work to help achieve recycling targets, I'd like to see the team working more collaboratively with our in-house recycling officers in Harrow and supporting on recycling activities.

I understand that the provision of a food waste bulking facility at Victoria Road is delayed due to HS2 issues. The availability of a food waste transfer station in a closer proximity to Harrow is crucial as part of our on-going work on route optimisation. Some of our MTFs savings are also predicated on this. I'd appreciate that the works are expedited as soon as there is a resolution of HS2 issues and regular updates on its progress are provided during

the year.

I agree in principle that a reasonable level of reserve should be maintained to mitigate financial risks and uncertainties. I have reviewed the list of financial risks in the report and consider that the proposed level of reserve is adequate.

Yours sincerely

A handwritten signature in black ink, appearing to read "Dawn". The signature is written in a cursive style with a circled initial "D".

Dawn



HILLINGDON

LONDON

Mr Ian O'Donnell
Treasurer
WLWA

Via Email: odonnell@ealing.gov.uk

Ref: PW/JA/272

9th January 2017

Dear Ian

RE: West London Waste Authority (WLWA) Levy Consultation 2017/18

Thank you for your email/letter of 9th December 2016, which sought the views of constituent authorities on the 2017/18 draft budget and levy as outlined in the report.

1) Reserves

Hillingdon notes that the authority's latest monitoring for 2016/17 is showing an increase in projected underspend to £1.1m and would suggest that this provides some evidence that the previous budget (including the one-off £2m contingency that has now been stripped out) was overstated.

Whilst accepting that WLWA wishes to avoid returning in-year to boroughs for more resources, Hillingdon would argue that with forecast reserves of £8.221m as at 31 March 2016, WLWA's risks are more than adequately covered. In the context of the challenging financial position Hillingdon request that consideration should be given to an in-year disbursement of reserves back to Boroughs in 2016/17 or a reduction in the 2017/18 levy, rather than the prospective release at an unspecified point during 2017/18 which is referred to in paragraph 18.2. This risks mentioned in paragraphs 18.4 and 18.5 do not seem to be material enough to warrant holding back further reserves of £2,621k in addition to the £5.6m outlined in the reserve requirement.

Finance Directorate

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London Borough of Hillingdon,

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INVESTOR IN PEOPLE

2) 2017/18 levies rise back to 2015/16 levels

The 4.4% reduction in Hillingdon's PAYT levy stated in the draft report is incorrect, as it does not use the correct total forecast tonnage figure supplied. The correct figure is c£360k higher and therefore very similar to this year's PAYT levy. We trust that the final report will correctly reflect the PAYT charge to Hillingdon for 2017/18.

3) Staffing

Hillingdon would again question the level of overall staffing (growth of 0.7 FTE in the report), given the current financial climate in local government. Hillingdon notes that the overall employee budget is increasing by £72k in 17/18 which follows increases made to the staffing budget in 16/17.

4) Medium-Term position

The budget report contains no financial information beyond the next financial year 2017/18. It would be useful to have some medium-term forecasts given that Hillingdon in common with other local authority's budgets include an updated five year medium-term plan as part of the annual budget-setting process.

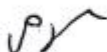
5) PAYT rates - Materials

Hillingdon notes that there is a large jump in material costs for soil (para 13.1 of report). It is understood that this charge is temporarily high until indicative rates are confirmed and updated in the final report.

6) Council Tax Base

The 2016-17 council tax base for Hillingdon is 97,220. It is anticipated this will be ratified by Council on the 19th January and will provide further confirmation once this is formally agreed.

Yours sincerely



Paul Whaymand
Corporate Director of Finance

C.C. Cllr K Burrows, Cabinet Member for Planning, Transportation & Recycling and London Borough of Hillingdon's representative on the WLWA Board
Jean Palmer – Deputy Chief Executive & Corporate Director – Residents Services
Perry Scott – Deputy Director, Development & Assets - Resident Services
Colin Russell – Waste Services Manager
Andy Evans – Head of Operational Finance
Gregory Pike - Finance Manager - Residents Services
Emma Beal - Director, WLWA
Jay Patel - Head of Finance & Performance, WLWA



Director's name: Clive Palfreyman
Department: Finance and Corporate Services

Mr Jay Patel
Head of Finance & Performance
(Deputy S.73 Officer)
West London Waste Authority

Civic Centre
Lampton Road
Hounslow TW3 4DN

Your contact: Rob Meldrum / Anna Biney
Direct Line: 020 8583 2312

E-Mail: robert.meldrum@hounslow.gov.uk
Our ref: WLWA/ RM/CF/AB
Date: 9th January 2017

Dear Jay

Re: WLWA 2017-18 Budget Consultation

Thank you for your email dated 9th Dec. 2017, the attached letter and Budget report. We have reviewed the documents and noted that although the total proposed WLWA expenditure for 2017/18 is currently budgeted at £61.4m and appreciate that it is £0.8m lower than 2015/16 level. However, this is still an increase of £3.6 million from the 2016/17 budget of £57.8m (even though this is lower by £0.6m than that of 2015/16 budget of £62.0m).

As you are already aware, this is a time when London Borough of Hounslow, like other London local authorities, is facing significant budget pressures year on year both on services and its financial position. We will therefore implore the WLWA to continue to review all areas of its service delivery for improvements and efficiencies in order to drive down costs thereby reducing any current and/or future budget gaps that may arise in 2017/18 and the future and the consequent financial impact of contributory boroughs. The savings outlined in the report are commended however it is imperative that continued efforts are made to improve the efficiency of WLWA.

The level of reserves held by WLWA as outlined in the report of £8.2m is higher than the level required £5.6m, the surplus reserve should be redistributed to Borough's on a timely basis during the year. London Borough of Hounslow would like to see a clear time table for distributing these reserves upon confirmation of the final position for 2016/17 and a final review of the appropriate level of reserves included in the budget report.

We hope that regular information will be provided as part of quarterly performance reviews and budget monitoring during 2017/18 and the future.

PTO

Yours sincerely/faithfully,

A handwritten signature in black ink, appearing to read 'Clive Palfreyman', with a long, sweeping flourish extending to the right.

Clive Palfreyman
Director of Finance and Corporate Services

Ian O'Donnell
Treasurer
West London Waste Authority
C/o Ealing Council
Perceval House
London. W5 2HL

Dear Ian,

Thank you for your letter of 9th December 2016 seeking views on the 2017/18 draft budget. We acknowledge that 2017/18 is the first full year of service using the completed SERC and would like to thank WLWA officers on the successful completion and implementation of the facility. We appreciate that with this change in operations there will be some budget uncertainties.

Our comments are as follows:

FCL/PAYT Budget

We note the 6.2% increase in budget from 2016/17 reflecting the one off nature of savings in 2016/17. However, we are disappointed that the 2017/18 budget represents a less than 1% reduction on the budget for 2015/16. We note the savings made in the 2017/18 draft budget. Whilst we acknowledge that much of Authority spending is committed under long term contracts and agreements, we would like to see a greater focus on identifying further cost saving initiatives in the future in view of the on-going funding constraints faced by Richmond.

Financing

Due to the increase in budget for financing costs, we would look for confirmation on the certainty of the estimates provided for this. It would be helpful to have more information on how they have been calculated.

Depreciation & Business Rates

We note the uncertainty regarding the estimates used for these and would request that WLWA officers provide the constituent boroughs with an update on these when valuations have been received.

Disbursement of Reserves

We note the position of the reserves and the possibility of a potential disbursement in 2017/18. We would request that boroughs are notified of this as early as possible.

Yours sincerely



Mark Maidment
Director of Resources and Deputy Chief Executive
Serving Richmond and Wandsworth Councils