

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

Friday 15 January 2021 at 8am

MS Teams – online meeting

**Members**

Councillor John Howard (Chair / Redbridge), Councillor James Asser (Vice Chair / Newham), Councillor Dorothy Akwaboah (Barking & Dagenham), Councillor Syed Ghani (Barking & Dagenham), Councillor Robert Benham (Havering), Councillor Osman Dervish (Havering), Councillor Genevieve Kitchen (Newham) and Councillor Jo Blackman (Redbridge)

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7 January 2021

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**AGENDA**

For Information

- 1. Apologies for absence

For Information

- 2. Declaration of Members Interest

In accordance with the Constitution, Members are asked to declare any personal or prejudicial interest they may have in any matter which is to be considered at this meeting

For Decision

- 3. Medium Term Financial Strategy 2021/22 – 2025/26

For Decision

- 4. Any other public items which the Chair decides are urgent.

For information

- 5. Date of next meeting: 08 February 2021

**AUTHORITY REPORT: MEDIUM TERM FINANCIAL STRATEGY 2021/22 TO 2025/26****1. Confidential Report**

1.1 No.

**2. Recommendation:**

2.1 Members are asked to agree the Medium Term Financial Strategy (MTFS) Update for the years 2021/22 to 2025/26.

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**3. Purpose**

3.1 This report presents the Authority's Medium Term Financial Strategy (MTFS) for the five years from 2021/22 to 2025/26 with particular focus on the 2021/22 financial year.

**4. Executive Summary**

4.1 The Strategy Reserve was established to cover costs arising out of the post 2027 waste disposal arrangements. Current indications are that this requirement will be lower than previously anticipated and that these costs are likely to be able to be at least partly capitalised. The Authority has also finalised its insurance arrangements for 2021 and has sought external advice on the financing of fire improvement works at Jenkins Lane (referred to later in the report). As a result, the Authority has reviewed its reserves requirement and financing arrangements and this has provided the opportunity to release a portion of reserves in 2021/22, thus enabling a reduction in the draft levy.

4.2 This report is projecting an indicative levy decrease of 30.53% in 2021/22 which is significantly lower than the 4.59% forecast increase reported in February 2020. The consequence of the one-off significant decrease in 2021/22 is an increase in the following year of 53.20%. These movement equate to an increase over the two-year period from 2020/21 to 2022/23 of 6.42%. Annual increases over the remainder of the five-year MTFS period are up to 4.81%.

4.3 This five Year MTFS reflects a number of factors including increasing tonnages. Whilst the Authority's future strategy in respect of Waste Management Options after 2027 remains in development, the MTFS continues to make provision for potential one-off capital expenditure.

4.4 The MTFS also makes provision for additional capital expenditure of up to £6.000m to fund fire improvement works at Jenkins Lane in 2021/22.

4.5 The report proposes releasing, through the 2021/22 levy setting process, an indicative amount of £19.059m from the Strategy Reserve and £2.000m from the Business Risk Reserve. Proposals in draft are detailed in section 8 and will be finalised and confirmed as part of the Budget and Levy Setting process in February 2021.

- 4.6 The ability to forecast the levy in the future years for Constituent Councils will depend on effective waste minimisation measures and waste tonnage reductions where possible.

## 5. Background

### General Budget Strategy

- 5.1 The Authority will seek to set a balanced and prudent budget and to keep any increase in the levy at the levels required to deliver this. The Authority will manage the risks it faces through the maintenance of an adequate and prudent level of reserves.
- 5.2 The existing methodology for calculating the levy was agreed by the Constituent Councils and the Authority from 2002/03 (with transitional arrangements), and remains the applicable way in which to apportion ELWA's levy between the Constituent Councils.
- 5.3 Although the Authority has made savings in overall waste disposal costs under the IWMS contract that are ongoing and the contract continues to deliver high levels of diversion from landfill in practice, there remains a continuing impact from inflationary increases in landfill tax (due to diversion incentives) and contract inflation as well as projected increased overall tonnages and insurances. However, inflationary pressures in the proposed MTFS based on the October 2020 RPIX in accordance with the contract are lower than those assumed in the budget approved in February 2020.
- 5.4 The MTFS takes account of the need and continues to maintain as a minimum the General Reserves Balance at £3.000m from 2021/22 onwards.
- 5.5 The Integrated Waste Management Strategy (IWMS) contract continues to be the dominant element of the budget (at over 90%). This in turn is driven by tonnage levels and the inbuilt contractual costs. The tonnage assumed in the 2020/21 MTFS was 463,000 tonnes which was unchanged in the February 2020 levy setting report. At that time, tonnages were forecast to increase by between 11,000 and 13,000 tonnes per annum over the period 2021/22 to 2024/25. Taking into account forecast tonnages for 2020/21 and expected population and properties growth, the 2021/22 MTFS incorporates tonnage growth of 4,000 tonnes for 2021/22, rising thereafter to between 9,000 and 10,000 tonnes per annum through to 2025/26. It remains vital that ELWA continues to negotiate with the operator where possible to manage costs so as to help mitigate levy increases.
- 5.6 As part of the Budget Strategy, the Authority will seek new ways of working and will continue to look at ways of working with the Constituent Councils to reduce waste and take advantage of any remaining efficiencies and cost savings within the IWMS contract that are identified.
- 5.7 As advised to Members at the November Authority meeting, the latest forecast position for 2020/21 is an underspend of £2.404m.

5.8 The main factors and outcomes within this five-year financial plan are as follows:

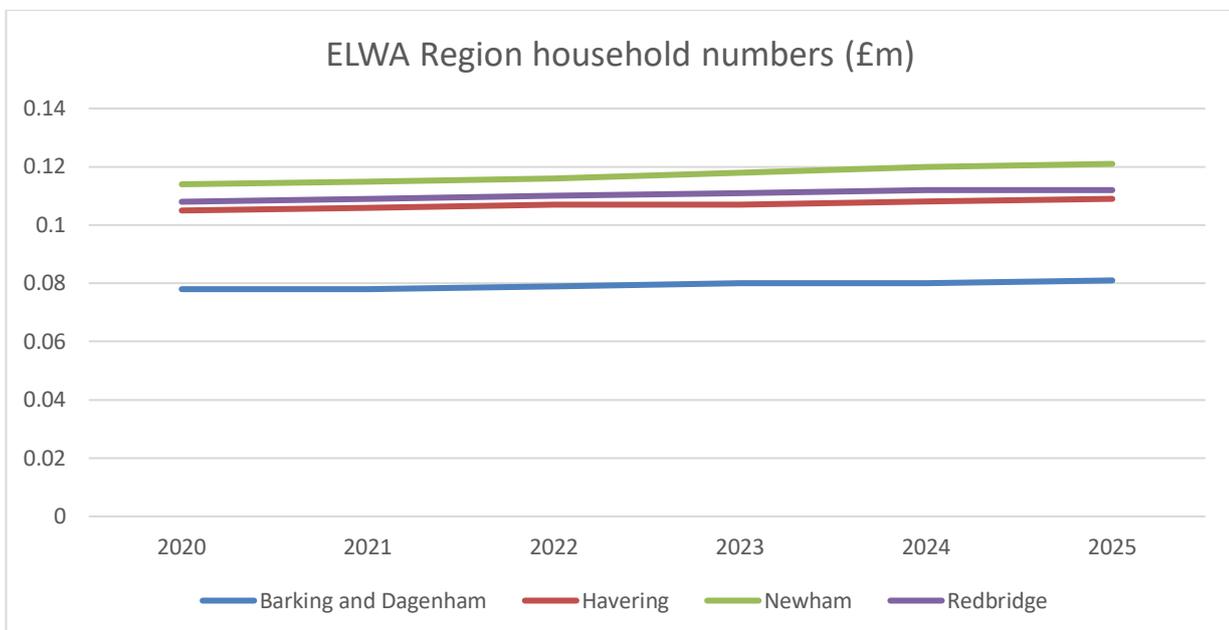
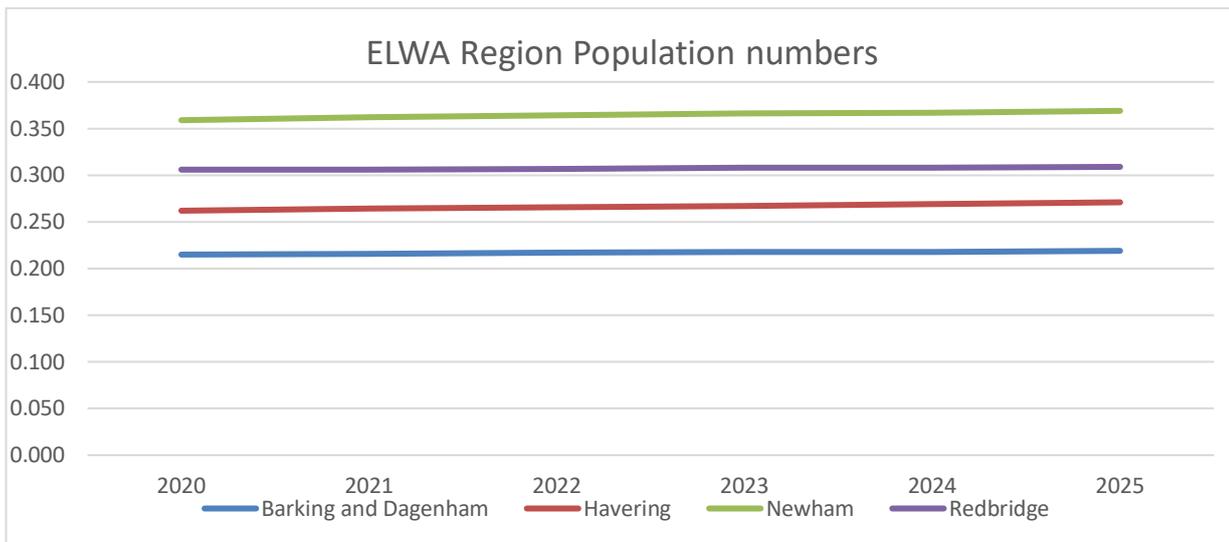
- a) The Authority has secured contract-compliant insurances for 2021, however this is at an increased cost in the region of 22%. Insurance cover for future years is dependent on the completion of fire improvement works at Jenkins Lane which are currently being commissioned. External advice is that these works can be capitalised and provision for the revenue cost of capital has been made within the MTFS presented for approval.
- b) The Strategy Reserve was established to cover costs arising out of the post 2027 waste disposal arrangements. Current indications are that this requirement will be lower than previously anticipated. These costs are also likely to be able to be capitalised and therefore it is proposed that the Strategy Reserve reduces to £2m over the period 2021/22 to 2025/26. This will enable a one-off release of an indicative amount of £19.059m from the Strategy Reserve in 2021/22. A revenue budget is being created to fund ongoing strategy development and waste prevention costs that were previously being funded from the Strategy Reserve. These proposals will be confirmed as part of the Budget and Levy Setting in February 2021.
- c) As required in the IWMS contract, cost inflation has been built into the projections. This is 80% of the Retail Price Index (RPIX) at the previous October each year. At the 80% level this is estimated to be 1.24% for 2021/22 and future years.
- d) Constituent Councils' population and household increases 2020-25 which are projected as follows:

Population projections	2020	2021	2022	2023	2024	2025	Increase 2019-24
	m	m	m	m	m	m	%
Barking and Dagenham	0.215	0.216	0.217	0.218	0.218	0.219	1.9
Havering	0.262	0.264	0.266	0.267	0.269	0.271	3.4
Newham	0.359	0.362	0.364	0.366	0.367	0.369	2.8
Redbridge	0.306	0.306	0.307	0.308	0.308	0.309	1.0
<b>Total</b>	<b>1.142</b>	<b>1.148</b>	<b>1.154</b>	<b>1.159</b>	<b>1.162</b>	<b>1.168</b>	<b>2.3</b>

Household projections	2020	2021	2022	2023	2024	2025	Increase 2019-24
	m	m	m	m	m	m	%
Barking and Dagenham	0.078	0.078	0.079	0.080	0.080	0.081	3.8
Havering	0.105	0.106	0.107	0.107	0.108	0.109	3.8
Newham	0.114	0.115	0.116	0.118	0.120	0.121	6.1
Redbridge	0.108	0.109	0.110	0.111	0.112	0.112	3.7
<b>Total</b>	<b>0.405</b>	<b>0.408</b>	<b>0.412</b>	<b>0.416</b>	<b>0.420</b>	<b>0.423</b>	<b>4.4</b>

Source: Office for National Statistics (ONS)

The graphs illustrate this:



e) Tonnages are assumed to increase as forecast in the following table:

2020/21 forecast	2021/22	2022/23	2023/24	2024/25	2025/26
458,000	467,000	476,000	486,000	496,000	505,000

f) A landfill tax rate of £96.70 has been set for 2021/22. Annual increases in landfill tax are tied to the retail price index and these have been included in the five-year projections.

- 5.9 The Local Government Act 2003 requires that the Finance Director (Section 73 Officer and Chief Finance Officer) of the Authority has the responsibility to report on the adequacy of the proposed financial reserves. There needs to be a balance between seeking to mitigate levy increases and maintaining an adequate level of reserves to ensure financial resilience and sustainability. The suggested level of reserves in the MTFs represents the minimum level that is currently deemed to be adequate given the risks and uncertainties and likely future costs faced by ELWA. The reserves strategy is detailed at section 8 below.
- 5.10 It is important to note that the projected levy decrease shown at paragraph 4.2 represents the average decrease, not the specific decrease for each Constituent Council. The levy for each Constituent Council will be based on 2019/20 actual tonnage figures and the most recent number of Band D equivalent properties, which will be provided by Constituent Councils in time for the levy report in February 2021.
- 5.11 Projected future levy increases can only be mitigated if ELWA's contract costs are minimised and significant progress is made in Constituent Councils' waste prevention measures.

## 6. Revenue Budget Projections

- 6.1 Movements in the levy comprise of the following:

	<b>Updated projection 2021/22 £m</b>	<b>Paragraph reference</b>
<b>2020/21 levy</b>	<b>67.488</b>	
IWMS contract		
• tonnage increase	0.311	6.3 – 6.6
• inflation	0.695	6.3
Landfill tax inflation	0.359	6.7
Insurance costs	0.505	6.18 – 6.19
Non-contract costs and inflation	0.062	6.10 – 6.14
Capital financing	(2.052)	6.15
Income	(0.029)	6.16 – 6.17
Strategy development and waste prevention programme costs	0.797	6.20
Budgeted reserve movements	(21.254)	8
<b>Projected 2021/22 levy</b>	<b>46.882</b>	

- 6.2 The revenue budget has three general components: contractor costs, non-contractor costs and income.

Contractor Costs

- 6.3 Contractor costs include an increase of £0.311m relating to tonnage projections based on updated actual data, plus £0.695m relating to contract inflation of 1.24%. This has been set at 80% of the October 2020 RPIX of 1.55%. Rates of 1.24% have been used for 2022/23 to 2025/26.
- 6.4 The cost of waste disposal under the contract with ELWA Ltd is more than 90% of ELWA’s total expenditure. The 2020/21 budget was based on 463,000 tonnes. The actual tonnage for the year is currently forecast to be in the region of 458,000 tonnes, however this is dependent on the continued impact of COVID-19 and the severity of the winter or otherwise. Based on this, and expected growth in households, a total ELWA tonnage figure of 467,000 tonnes has been assumed for 2021/22.
- 6.5 The table below shows the projected tonnage breakdown by Constituent Council, based on 2019/20 actuals and projections to date in 2020/21. The final forecast figures will be confirmed by Constituent Councils in the Budget and Levy Setting Report in February 2021.

	<b>2021/22 forecast tonnes</b>
Barking and Dagenham	103,000
Havering	113,000
Newham	135,000
Redbridge	116,000
<b>Total</b>	<b>467,000</b>

- 6.6 The levy report to be presented in February 2021 will reflect the updated technical officers’ reports from the Constituent Councils. It should be emphasised that ELWA has no direct control over the waste tonnage which is delivered for disposal. The overall waste level is influenced by population increases and the pace of new development as well as the Constituent Councils’ monitoring and enforcement of waste collection.

Landfill Tax Inflation

- 6.7 Included within contract costs, the Landfill Tax (LFT) rate is linked to the Retail Price Index. The table below summarises the projected rates per tonne with ELWA’s contribution:

	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Gross	94.15	96.70	98.00	99.30	100.65	102.00
ELWA	79.15	81.70	83.00	84.30	85.65	87.00
% increase	3.7	3.2	1.6	1.6	1.6	1.6



- 6.8 At projected diversion rates this reflects an additional cost of £0.359m in 2021/22, including the effect of the diversion arrangements set out below.

#### Revised Diversion arrangements

- 6.9 In June 2015 agreement was reached between ELWA and Renewi UK Services Ltd, the aim being to incentivise the operator to increase diversion from landfill as far as possible through the development of solid recovered fuel (SRF) and RDF production capacity without any net impact on the Authority. The main features of the agreement were as follows.
- a) The payment of an additional category of supplement to the operator for higher than contracted diversion of 67%.
  - b) A flat rate rebate of £0.275m payable by the operator to ELWA regardless of diversion performance, and this would rise in annual steps up to £0.500m.
  - c) Where diversion performance falls below 67% the operator would pick up the whole of the landfill tax liability with no additional supplements being due.

The arrangements relating to this diversion agreement are included within the budget.

#### Non-Contractor Costs

- 6.10 Non-contractor costs include a projected increase of £0.062m.
- 6.11 Salaries and related costs are assumed to increase by 2% per annum over the five-year period. Salary budgets reflect the cost of the proposed staffing structure for 2021/22.
- 6.12 Inflation of between 1.24% and 3.0% has been added to other non-contract costs as appropriate. These include supplies and services and premises costs as well as Constituent Council costs funded from the ELWA levy such as tonne mileage payments, some recycling initiatives and service level agreements. The payments made to Constituent Councils amount to approximately £3.200m per annum. If arrangements were such that Constituent Councils met these non-SLA costs directly then there would be a reduction in the overall levy and a corresponding increase in Councils' direct costs. It has been the practice to account for these costs within ELWA ever since the Authority was established, such that all waste disposal costs are accounted for in one entity.
- 6.13 The revenue maintenance costs of landfill sites are also met from the non-contractor costs budget. Should these be sold then there will be a revenue saving in this budget.
- 6.14 It is proposed to retain the contingency at £0.500m to manage any unforeseen expenditure and as a first call for in-year additional expenditure that was not originally considered or cannot be met from within the approved budget. The contingency also allows the Authority to maintain its general reserves by keeping spending within budget.

### Capital Financing Charges

- 6.15 The revenue cost of borrowing, also known as capital financing charges, is included within the revenue budget. The budget for 2021/22 makes provision for borrowing of £6m relating to the fire improvement works at Jenkins Lane, with a further £60m in 2022/23.

### Income

- 6.16 ELWA receives income from the Constituent Councils in respect of commercial waste tonnage. The budgeted income figure for 2021/22 is based on the 2020/21 forecast with an uplift of RPIX 1.24%. This assumes the existing commercial waste arrangements continue for the next three years and volumes remain relatively constant. Any change to this position will be reflected in future levy setting and MTFS reports.
- 6.17 There is also some other income, for example, investment income and trade waste royalty income. For royalty income for 2021/22 the budget is set at £0.324m based on a tonnage of 467,000 tonnes, to be reduced by 2.5% each year to reflect increases in tonnage collected.

### Insurance Costs

- 6.18 Members will be aware that insurance premiums have increased significantly in recent years due partly to the major incident in 2014 at the Frog Island Waste facility, but also due to the market place for insurance where, because of the overall number of fires in the wider waste industry, there are very few providers of this type of insurance. The overall increase in the insurance premiums for the year commencing 24 December 2020 has been confirmed at 21.56% from the previous year, which equates to £0.505m. The likely level of future years' premiums is unknown but further increases are anticipated. An increase of 25% has been estimated for the December 2021 renewal and further increases of 15% per annum have been budgeted for the remainder of the planning period.
- 6.19 Members should note that the increases quoted above relate to the gross insurance premiums. The ELWA share of these, through the IWMS payment mechanism, is being worked on during January and there may be minor changes in the final costs.

### Strategy and Waste Prevention Programme Costs

- 6.20 The MTFS makes provision for estimated costs arising from the post 2027 waste disposal strategy work of £1.000m in 2021/22 and a further £1.000m per annum over the remainder of the five-year planning period. Costs of £0.273m are also budgeted in 2021/22 in relation to the time limited Waste Prevention Programme.

## 7. Contract Efficiencies

- 7.1 Achieved contract efficiencies have been built into the five-year MTFS.

## 8. Reserves Strategy

- 8.1 Reserves are an integral part of the Budget and MTFS. The Finance Director (S73 Officer) has a statutory responsibility and is required to provide professional advice on the robustness of the budget and the adequacy of reserves to ensure financial resilience and sustainability. There must be a balance between seeking to mitigate levy increases and maintaining an adequate level of reserves.
- 8.2 Following on from prior years and the Levy Setting report in February 2020, the minimum level of General Revenue Reserves needed to cover risks facing the Authority will be maintained at £3.000m. The MTFS takes account of the need to maintain the General Reserves Balance at a minimum of £3.000m from 2021/22 onwards.
- 8.3 The Business Risk Reserve was established in 2017/18 to cover any unforeseen business risks, while maintaining the Revenue Reserve at £3.000m. The Business Risk Reserve currently stands at £3.000m. The Finance Director has reviewed the financial risks facing the Authority and recommends a reduction in the level of this reserve to £1.000m with effect from 2021/22. The remaining Business Risk Reserve will only be utilised if a business risk arises and all exhaustive management action has been taken to mitigate the risk and the financial impact.
- 8.4 The Strategy Reserve was established to cover costs arising out of the post 2027 waste disposal arrangements (e.g. strategy development costs, procurement costs and other costs associated with developing a local facility(ies)). Current indications are that this requirement will be lower than previously anticipated and it is proposed that costs are now funded through the revenue budget or, where appropriate, capitalised. Provision of £1.000m per annum has been made within the revenue budget in the MTFS. Opportunities to potentially capitalise expenditure will depend on the nature of the specific work undertaken as well as other technical accounting considerations. The revenue implications of capitalising these costs have been included in the budget.
- 8.5 This will enable a one off release, through the levy setting process, of an indicative amount of £19.059m from the Strategy Reserve in 2021/22, which will reduce the reserve to £2.000m over the period 2021/22 to 2025/26. These proposals will be confirmed as part of the Budget and Levy Setting in February 2021. The release of reserves is made possible as a result of the Authority reconsidering the likely costs of the post 2027 waste disposal arrangements and how these costs are funded. Should the expenditure in any year exceed the budgetary provision available, the Authority can draw on the remaining Strategy Reserve, however the reserve will need to be replenished in the following year.
- 8.6 Members must be aware that any decision to release reserves at this stage will limit the Authority's choices in terms of funding future strategy and procurement costs from reserves already set aside which will impact on future levies as costs are funded from in-year revenue budgets (or potentially capitalised, with the associated revenue cost of capital financing costs also impacting on the revenue budget).

- 8.7 The amount of reserves that may to be released is influenced by the need to ensure that adequate resources are available to manage any future risks that may crystallise over the medium-term planning period. This includes the risks set out in section 12. Proposals to release reserves will therefore be confirmed as part of the Budget and Levy Setting process in February 2021.
- 8.8 The final element of the reserves strategy is to hold a capital reserve of £0.100m. This reserve was established to fund potential future costs at Aveley.
- 8.9 The table below summarises the overall reserves position.

<b>Reserve Positions</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Strategy Reserve</b>						
Opening Balance	18.265	21.059	2.000	2.000	2.000	2.000
Drawdowns	(0.281)	(19.059)	-	-	-	-
Contributions	3.075	-	-	-	-	-
<b>Closing Balance</b>	<b>21.059</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>
<b>Revenue Reserve</b>						
Opening Balance	3.000	3.000	3.000	3.000	3.000	3.000
In year movement	-	-	-	-	-	-
<b>Closing Balance</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>	<b>3.000</b>
<b>Business Risk Reserve</b>						
Opening Balance	3.000	3.000	1.000	1.000	1.000	1.000
Drawdowns	-	(2.000)	-	-	-	-
<b>Closing Balance</b>	<b>3.000</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>	<b>1.000</b>
<b>Capital Reserve</b>						
Opening Balance	0.100	0.100	0.100	0.100	0.100	0.100
In year movement	-	-	-	-	-	-
<b>Closing Balance</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>	<b>0.100</b>

## 9. Closed Landfill Sites

- 9.1 The responsibility for and maintenance of the three remaining closed landfill sites continues to carry a financial risk for ELWA, including the cost of potential damage to third parties. Currently maintenance operations are at relatively low cost but the nature of the sites, including the risk of fly tipping, creates some financial uncertainty for the future. Therefore, it is necessary to retain the current existing budgets.
- 9.2 Further disposal of sites may affect revenue budgets.

## 10. Determination of the Levy and Levy Apportionment

- 10.1 The calculation of the levy is determined by the costs and income detailed in sections 6 and 7, and the use of reserves as described in section 8. Based on the analysis in the previous paragraphs a levy decrease of 30.53% in 2021/22 is projected.
- 10.2 Key projections such as tonnages will need to be reviewed against latest levels of tonnage arisings by ELWA technical officers to ensure they are accurate before the 2021/22 levy report is presented.
- 10.3 The table below summarises the draft financial plan for the next five years, highlighting the expenditure budget requirements, the projected levy decrease/increases and movements in reserves. This is based on a total release of £21.059m from the Earmarked Reserves (Strategy Reserve and Business Risk Reserve) in 2021/22.

Summary Budget	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
Net revenue budget excl. reserves	71.932	75.813	79.266	81.445	83.642
Net movement in reserves	(21.059)	-	-	-	-
Sub Total	50.873	75.813	79.266	81.445	83.642
<b>Financed By</b>					
PFI grant	(3.991)	(3.991)	(3.991)	(3.991)	(3.991)
Levy	46.882	71.822	75.275	77.454	79.651
Projected levy (decrease)/increase over previous year	(30.53%)	53.20%	4.81%	2.90%	2.84%

Year End Reserves	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
General Reserves	3.000	3.000	3.000	3.000	3.000
Strategy Reserve	2.000	2.000	2.000	2.000	2.000
Business Risk Reserve	1.000	1.000	1.000	1.000	1.000
Capital Reserve	0.100	0.100	0.100	0.100	0.100

- 10.4 ELWA Members will understand the impact of the levy on the Constituent Councils' budgets and, subject to the continual need for financial prudence and operational viability, the importance of keeping any annual increases to a minimum, whilst at the same time minimising volatility in year-on-year changes in the levy. These pressures must be balanced and Members must also take a five-year view on the MTFs. It is likely that ELWA will continue to face uncertainty in the future and financial pressures cannot be ruled out for the remainder of the current year and for the 2021/22 to 2025/26 period that follows.

- 10.5 The table below shows the impact of the projected levy increases by Constituent Council, based on the 2019/20 household tonnages and 2020/21 Band D figures.

	Provisional Figures – Subject to Update					
Constituent Councils - Levy	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Barking and Dagenham	12.531	8.723	13.363	14.006	14.411	14.820
Havering	16.363	11.348	17.385	18.221	18.748	19.280
Newham	20.244	14.161	21.694	22.737	23.396	24.059
Redbridge	18.350	12.650	19.380	20.311	20.899	21.492
<b>Total</b>	<b>67.488</b>	<b>46.882</b>	<b>71.822</b>	<b>75.275</b>	<b>77.454</b>	<b>79.651</b>

- 10.6 It is important to highlight that these estimates will change when the February 2021 levy report is produced as up to date numbers of Band D equivalent properties will have been confirmed by the Constituent Councils.
- 10.7 This MTFS highlights various complex issues facing ELWA, which necessitates a prudent approach to its projections and strategy. Waste management generally continues to be subject to many changes, a number of which are beyond ELWA's control. The projection and strategy have been prepared in conjunction with, and are supported by, all of the ELWA Directors.
- 10.8 When considering the MTFS, Members will need to have regard to the Authority's longer-term position and the level of its reserves over the next few years. This is in the context of both the financial risk and levy increases over the five-year period as well as the need to maintain reserves at an adequate and prudent level.
- 10.9 The levy forecasts for 2021/22 to 2025/26 clearly can only be taken as an attempt to provide the most helpful indication currently possible for planning purposes, together with an explanation of some of the relevant factors concerned. However, a change in any of a number of uncertain factors, for example growth in waste, inflation assumptions and any new legislation could significantly impact on the overall projections; this will particularly be the case as the Government consults later this year on its more detailed proposals under the Resources and Waste Strategy for new duties and financial regimes for waste authorities and producers of products.
- 10.10 Paragraphs 8.3 - 8.5 propose releasing a total of £21.059m from the Strategy and Business Risk Reserves in 2021/22. The impact of this on the 2021/22 levy is an average reduction of 30.53% from 2020/21 compared to the increase that would apply without the release of reserves of 0.67%. It is also important to note that the indicative levy decreases / increases shown at 10.5 reflect the impact on the levy of:
- future procurement costs being funded from the revenue budget where the Strategy Reserve is reduced to a minimum level,

- the revenue cost of borrowing to fund expenditure that is assumed to be capitalised, and
- other general upward pressures, mainly inflation and increases in tonnages.

A release in reserves in the short term will result in higher levy increases in future years as costs are funded on a 'pay-as-you-go' basis rather than from accumulated reserves.

## 11. Underlying assumptions in the MTFS

- 11.1 Volumes have been based on 2020/21 tonnages to date with an estimation of growth for population and household increases.
- 11.2 The following inflation rates have been used in the calculations in the MTFS:
- Contract inflation 1.55% (2020/21 MTFS: 2.39%)
  - Government landfill rate increase 2.71% (2020/21 MTFS: 3.07%)
  - Salary inflation 2.0% (2020/21 MTFS: 2.0%)
  - General inflation for non-contract costs 3.0% (2020/21 MTFS: 3.0%)
  - Insurance inflation 25.6% (2020/21 MTFS 36.3%)
  - Commercial waste inflation 1.55% (2020/21 MTFS: 2.39%)
- 11.3 The latest forecast position for 2021/21 is an underspend of £2.404m. Past practice has been such that the forecast underspend would be transferred to the Strategy Reserve. The proposals set out in the report include this forecast underspend within the balances proposed to be released through the levy setting process to assist with the funding of 2021/22 costs.
- 11.4 It has been assumed that the monies required for the future waste options post 2027 will be a combination of revenue and capital. Accordingly, the MTFS makes provision for the financing of potential capital expenditure on both the future waste strategy and fire improvement works.

## 12. Risks

- 12.1 The setting of the levy and the determination of the level of reserves needs to take account of the risks facing the Authority. These are detailed below.
- The Authority could potentially incur large-scale increases in insurance costs, insurance deductibles or be unable to secure adequate insurance cover.
  - Waste volumes could increase at a different rate than that assumed in these figures. The extra cost is £0.394m per 1% increase in waste. The impact of population increases and urban development projections could vary from actuals.

- c) Landfill tax will increase these costs in the five years 2021/22 to 2025/26. Every £1 per tonne on landfill tax increases costs by approximately £0.154m per annum. Landfill tax is currently linked to RPI, however there is a risk that the Government could change this or introduce new waste taxes. Should this be the case, this could have a significant impact on costs. The diversion rate could reduce from its current level but to a level above the contractual rate of 67%.
- d) Salary inflation and / or non-salary inflation is higher than the provisions, although any impact would be minimal in the context of the overall budget.
- e) New regulations over waste; problems around contract delivery and / or the need to change the contract; PFI contract affected by legislative change nationally.
- f) Monies required for waste options post 2027 built into the MTFs are a prudent estimate, and provision has been made for the financing costs should some of the costs be able to be capitalised. There is a risk in reducing the Strategy Reserve, which had been built up to fund these costs, to a minimum level of £2.000m that the provision made within the revenue budget could be insufficient or that higher than forecast levy increases will be required in future years.

12.2 A further review of the likelihood of risk will be undertaken as part of the levy setting report to be considered by Members in February 2021.

### 13. Next Steps

13.1 In early January 2021, forecast future tonnage figures will be updated based on information from ELWA and Constituent Council officers and each Council's 2021/22 Council Tax Base figures will be obtained. This, together with the actual 2019/20 tonnages that have already been confirmed, will determine the split of the levy between Constituent Councils.

13.2 At the next Authority meeting (8 February 2021) Members will consider the 2021/22 Revenue Budget and set the levy.

### 14. Conclusion

14.1 Waste disposal has been subject to much legislation and regulation over many years and there is potential for further legislation in this area. Coupling this agenda with the dramatic cuts in council funding means the focus on sizeable cost reductions will be an ongoing and potentially volatile theme.

14.2 Waste volumes in the Constituent Councils drive the cost pressures in ELWA's budget. With significant increased development projected, it is essential that the Constituent Councils have waste minimisation as a priority and the appropriate contract monitoring procedures are in place.

14.3 ELWA, by letting an IWMS contract and gaining PFI support put itself in a better financial position than others who had no PFI funding in previous years. However, the long-term nature of the contract is now a constraint for the Authority and will be until 2027. It is imperative that all measures possible are taken to minimise costs within this constraint and to continue to review possible alternative approaches. This

report sets out the projected financial pressures on ELWA, proposes a strategy for the use of reserves and indicates provisionally that the overall annual levy change will range from a decrease of 30.53% to an increase of 53.20% over the five-year period.

- 14.4 The increase in the levy over the five years takes account of the proposals for release of £21.059m from the Strategy and Business Risk Reserves as detailed in section 8. The final amount to be released will be confirmed as part of the February levy setting process. Detailed calculations of actual levy increases will also be considered at the February meeting of the Authority prior to the start of the 2021/22 financial year.
- 14.5 It is the view of the Finance Director that, despite the proposed reduction in the 2021/22 levy, the projected future increases in the levy will be extremely challenging for the four Constituent Councils in the existing financial climate where local authorities are having to make significant service reductions. Therefore, it is vital that waste tonnages are minimised.
- 14.6 The Budget Strategy recommended in this report will need to be kept under review in the light of any new circumstances.

**15. Relevant officer:**

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**16. Appendices attached:**

16.1 None.

**17. Background Papers:**

- 17.1 27/09/10 Alternative Methodology for Calculating the ELWA Levy - Report and Minute 2010/29.
- 17.2 02/12/19 Medium Term Financial Strategy 2020/21 to 2024/25.
- 17.3 10/02/20 Revenue and Capital Budgets and Levy 2020/21.

**18. Legal Considerations:**

- 18.1 As set out in the main body of the report, local authorities including ELWA are under an explicit statutory duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk.
- 18.2 This is set by sound public accounting practice guidance. As part of this requirement a forward thinking medium term budget strategy is key to ensuring stability. This includes taking account of future income, liabilities, risks, investments, contingencies, statutory compliances, contractual obligations and of course securing best value for money.

18.3 The Local Government Act 2003 Section 25 sets a specific duty on an Authority's Chief Financial Officer (finance Director) to make a report to the authority for it to take into account when it is considering its budget and funding for the forthcoming year. The report must deal with the robustness of the estimates and the adequacy of the reserves included within the budget. The 2003 Act requires the Authority to have regard to the report in making its decisions. Section 26 of the Act gives the Secretary of State power to set a minimum level of reserves for which an authority must provide in setting its budget. The Secretary of State stated that 'the provisions are a fall back against the circumstances in which an authority does not act prudently, disregards the advice of its Chief Financial Officer and is heading for serious financial difficulty'.

18.4 The proposals with regard to the reserve(s) distribution are founded on the information known at the time however circumstances can change and as such the MTFS is a living document which must adjust according to the situation the authority encounters and further anticipates. As a consequence, there is an ongoing need to maintain a level of reserves which enables the Authority to be prepared to deal with risks, contingencies and its future strategic vision.

**19. Financial considerations:**

19.1 As detailed in the report.

**20. Performance management considerations:**

20.1 As detailed in the report.

**21. Risk management considerations:**

21.1 As detailed in the report.

**22. Equalities considerations:**

22.1 The proposals and recommendation in this report are to agree the MTFS for the next five years. The Managing Director advises that the proposals do not particularly affect any one group as defined by the equalities legislation.

**23. Follow-up reports:**

23.1 Revenue and Capital Budgets and Levy 2021/22, February 2021.

**24. Websites and e-mail links for further information:**

24.1 [http://www.recycleforyourcommunity.com/waste\\_authority/meetings/default.aspx](http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx)

**25. Glossary:**

ELWA = East London Waste Authority

Constituent Councils = London Boroughs of Barking & Dagenham, Havering, Newham & Redbridge

IWMS = Integrated Waste Management Strategy

PFI = Private Finance Initiative

RDF = Refuse Derived Fuel

RPIX = Retail price index excluding mortgages

SRF = Solid Recovered Fuel

**26. Reviewed by Management Board**

26.1 6 January 2021.

**27. Confidentiality:**

27.1 None.