

**AUTHORITY REPORT:****BUDGETARY CONTROL REPORT TO 30 SEPTEMBER 2022****1. Confidential Report:**

1.1 No.

**Executive Summary**

**Purpose** – This report is to inform Members of the forecast outturn position for 2022/23.

**Position** – The forecast revenue outturn position is an underspend of £6.061m, which has been incorporated in the Medium Term Financial Strategy elsewhere on the agenda. Capital expenditure on the fire improvement works at Jenkins Lane and Frog Island for the current year to 30 September is £0.439m.

**Recommendation** – Members are recommended to note the report and forecast outturn.

**2. Purpose:**

- 2.1 This budgetary control report compares ELWA's actual revenue and capital expenditure for the period ended 30 September 2022 with the original revenue budget approved in February 2022. It is based on information supplied by Renewi UK Services Limited (the Operator), officers of the four Constituent Councils and the Authority's own information.
- 2.2 Budgetary control reports are presented for monitoring and control purposes.
- 2.3 A report on the Integrated Waste Management Services (IWMS) Contract performance to support the financial information for the year 2022/23 to date is presented elsewhere on the agenda.

**3. Background:**Revenue Budget

- 3.1 Based on the profiled budget of £39.643m for net expenditure on services and the actual net expenditure on services of £35.481m, the current position is a net underspend of £4.162m for the year to date (see Appendix A).
- 3.2 The forecast outturn is currently an underspend variance of £6.061m. This is primarily due to actual tonnages for the first six months being cumulatively lower than profiled and capital financing costs being lower than budgeted. Commercial waste income is also forecast to be higher than budgeted.
- 3.3 The principal activity driver on ELWA's budget is the level of waste tonnage delivered from the Constituent Councils. Based on these council returns and ELWA technical officer advice, a prudent assumption of moderate annual growth in tonnages over the medium term was made, resulting in the 2022/23 budget and levy setting process assuming an annual tonnage of 474,000 tonnes. Tonnages have actually fallen over the course of the year, with the total tonnage for the six months to September 2022

being 221,332, 11.5% below the profiled budgeted tonnage and 22,863t lower than the year to September 2021. The September tonnage was 35,977 tonnes, 3,977t lower than September 2021 and 4,870t lower than the anticipated tonnage for the month.

- 3.4 The IWMS contract payment is forecast to be £3.335m lower than budgeted. This is based on actual tonnages for April to September and the remainder of the year forecast in line with the profiled budget.
- 3.5 The 2022/23 budget has taken account of the financial impact of the diversion agreement signed in June 2015. This incentivises the operator to divert from landfill as much waste as possible and thus passes the risk of diversion performance onto the Operator. Consequently, diversion performance no longer affects the cost of the contract to ELWA with cost pressures determined by tonnage levels.
- 3.6 Year-to-date recycling performance (33.5%) is above the annual target of 33%. Each Constituent Council's recycling performance is set out in the table below (subject to final data adjustments by Constituent Council officers). All Constituent Councils are showing an improvement against their 2021/22 year-end positions. Further information on recycling performance is shown in the contract monitoring report elsewhere on the agenda.

<b>Constituent Council Recycling</b>					
	<b>LBBB</b>	<b>LBH</b>	<b>LBN</b>	<b>LBR</b>	<b>ELWA</b>
2021/22 (full year)	31.6%	39.9%	24.7%	30.9%	31.5%
2022/23 to September	34.2%	41.6%	25.9%	33.4%	33.5%

- 3.7 Insurance premiums in the waste market continue to increase. Renewal of the Authority's insurance policies is due in December 2022 for the period 24 December 2022 to 23 December 2023 and three months of the renewal premiums will be charged to the 2022/23 budget. There is no indication at this stage of the likely premium for 2023. As mentioned in paragraph 3.15 below, the Authority may consider potentially self-insuring some of its risks. Whilst this may reduce the annual premiums, at this stage insurance costs are forecast to budget.
- 3.8 The budget for salaries and other employee costs is £0.982m in 2022/23. Salaries are forecast to be underspent by £0.020m as at month 6, which reflects the Procurement Director not being in post for the full year and two additional posts which were included in the budget but have not yet been filled: a Procurement Programme Manager and an office administration post. These savings are partially offset by the cost of temporary maternity cover in the waste prevention team.
- 3.9 The capital financing charges budget of £2.535m includes £0.223m for interest payable on new borrowing to fund the cost of the fire improvement works at Jenkins Lane and Frog Island. Expenditure to date has been financed temporarily from internal borrowing and an underspend of £0.111m relating to the six months to September 2022 is reported. Provision was also made in the budget for the minimum

revenue provision payable in respect of new borrowing which has not yet been taken out. This accounts for £2.182m of the forecast underspend. The capital financing forecast is subject to change depending on the date on which borrowing is taken out.

- 3.10 The 2022/23 budget for commercial waste income was reduced to £2.700m which reflected the lower levels of activity being seen during 2021/22. Actual income for the 2021/22 year was £3.057m, which was £0.057m more than budgeted. Levels of income have now recovered to pre-pandemic levels and income is currently forecast to be £3.000m, £0.300m higher than budgeted. However, commercial waste income remains volatile and the forecast may change.
- 3.11 The royalty arrangements with the Operator which were provisionally agreed in September 2016 continue. This guarantees royalty payments to the Authority up to the level of spare capacity whether this was utilised or not. Based on tonnages to date it is likely that the annual income target will be exceeded; an over-achievement of £0.083m is forecast. This position will continue to be closely monitored because increases/decreases in future monthly tonnage levels will alter the spare capacity available and thus the size of the royalty payment. Other income also includes £0.050m of unbudgeted income received from ELWA Ltd which is the net proceeds from dismantling and removing plant and equipment from Jenkins Lane.
- 3.12 The budget for interest receivable was reduced to £0.025m for 2022/23, reflecting low interest rates and reduced levels of balances following the release of reserves in 2021/22. The position as at September is that interest income has overachieved by £0.049m, as a result of rates increasing. The overall forecast for the year is currently an overachievement of income of £0.055m.
- 3.13 The contingency budget for 2022/23 remains at £0.500m. There are no commitments against this budget as at September 2022.
- 3.14 All other areas of activity are forecast to be broadly in line with budget at year end.
- 3.15 As part of the 2022/23 budget and levy setting process, the Authority released £2.136m of reserves, reflecting the forecast 2021/22 surplus at the time the levy was set. The final surplus for 2021/22 was £3.037m; the remainder was placed in an Insurance Reserves to provide the opportunity for the Authority to potentially self-insure some of its risks.
- 3.16 The Authority also retains a general revenue reserve of £3.000m, as well as other earmarked reserves totalling £3.330m. It is important, however, that robust monitoring of the financial position remains in place throughout the year and that tonnage levels are minimised, such that any changes likely to be made to the following year's budget, levy and reserves can be planned and communicated in advance to the Constituent Councils. Given the single purpose nature of ELWA it is difficult for remedial action to be taken on areas of overspend or to recover insufficient income collection.

### Capital Budget

- 3.17 The approved capital budget for 2022/23 comprises £6.000m in respect of fire improvement works at the Jenkins Lane and Frog Island sites and £0.400m for potential capital works at landfill sites. £6.000m was also approved as part of the 2021/22 budget, making £12.000m in total for fire improvement works at both sites.

- 3.18 Total expenditure on the fire improvement works at Jenkins Lane and Frog Island for 2022/23 to 30 September is £0.439m. Expenditure to date totals £4.416m for both sites.

	2020/21 £m	2021/22 £m	30 September 2022 £m	Total £m
Jenkins Lane	0.235	3.654	0.315	4.204
Frog Island	-	0.088	0.124	0.212
<b>TOTAL</b>	<b>0.235</b>	<b>3.742</b>	<b>0.439</b>	<b>4.416</b>

- 3.19 The Jenkins Lane project is now complete with the exception of the final retention amount of £0.089m payable in July 2023. Works at Frog Island are expected to be substantially complete by June 2023.
- 3.20 The Authority sets Prudential Indicators covering borrowing, lending and capital expenditure limits. These are monitored by the Finance Director monthly and the Authority remains within the limits set by the Prudential Indicators.

#### 4. Conclusion:

- 4.1 The Authority's position will continue to be closely monitored on a monthly basis throughout the financial year. The ability to remain within budget will depend to a great extent on tonnage trends and income collection.

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#### 5. Relevant officers:

Maria G. Christofi, Finance Director / e-mail: [finance@eastlondonwaste.gov.uk](mailto:finance@eastlondonwaste.gov.uk)

#### 6. Appendices attached:

- 6.1 Appendix A: Budget Monitoring Statement to 30 September 2022
- 6.2 Appendix B: ELWA Tonnage Profile 2022/23

#### 7. Background papers:

- 7.1 None.

#### 8. Legal considerations:

- 8.1 This report is brought to Members in accordance with the Authority's requirements in relation to the review and reporting of financial and non-financial performance (Section D, Constitution, paragraphs 17 and 18), detailing actual and forecast performance against targets. The report is to be noted, rather than for decision, and no further implications arise other than those detailed in the report.

#### 9. Financial considerations:

- 9.1 As outlined in the main body of the report.

**10. Performance management considerations:**

10.1 The financial position and projections should reflect service performance trends.

**11. Risk management considerations:**

11.1 The projected position depends on the performance of the contractor, tonnage levels and income recoveries. The amount of reserves held is set at a level to take account of the risks.

**12. Equalities considerations:**

12.1 None.

**13. Follow-up reports:**

13.1 Budgetary Control Report, next meeting.

**14. Websites and links for further information:**

14.1 [www.eastlondonwaste.gov.uk](http://www.eastlondonwaste.gov.uk)

**15. Glossary:**

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

The Contractor = ELWA Limited

ELWA/the Authority = East London Waste Authority

IWMS = Integrated Waste Management Services contract

The Operator = Renewi UK Services Limited (formerly Shanks Waste Management Ltd)

**16. Reviewed by Management Board:**

16.1 14 November 2022.

**17. Confidentiality:**

17.1 Not Applicable.