

**AUTHORITY REPORT: MEDIUM TERM FINANCIAL STRATEGY 2023/24 TO 2027/28****1. Confidential Report:**

## 1.1 No.

**Executive Summary**

**Purpose of Report** – This report presents the Authority’s Medium Term Financial Strategy (MTFS) for the five years from 2023/24 to 2027/28 with particular focus on the 2023/24 financial year.

**Position** – This report is forecasting an indicative Levy increase of 2.45% in 2023/24 and estimated annual increases over the remainder of the five-year MTFS period ranging from 5.29% to 17.00%. The three key factors impacting on 2023/24 Levy are the estimated tonnages for 2023/24, current high levels of inflation and the forecast 2022/23 in-year underspend.

**Recommendation** – Members are asked to agree the Medium Term Financial Strategy (MTFS) for the years 2023/24 to 2027/28.

**2. Executive Summary**

- 2.1 This report is forecasting an indicative Levy increase of 2.45% in 2023/24 which is significantly lower than the 9.46% increase estimated in the February 2022 report. The three key factors impacting on the change to the Levy are the estimated tonnages for 2023/24, the impact of current lower than budgeted tonnages on the 2022/23 financial position and current high levels of inflation on which the contract cost is based. Estimated annual increases over the remainder of the five-year MTFS period range from 5.29% to 17.00%.
- 2.2 This five-year MTFS reflects a number of factors including tonnages which are expected to increase, but from a lower baseline and at a lower rate, and expected continued high levels of inflation. Whilst the Authority’s procurement options in respect of Waste Management after 2027 remain in development, the MTFS includes £1.500m for procurement costs in 2023/24 and an annual provision of £1.000m thereafter. The MTFS also allows for potential one-off capital expenditure in future years.
- 2.3 The MTFS makes provision for the capital financing costs of the completed and ongoing fire improvement works at Jenkins Lane and Frog Island.
- 2.4 Members have been advised of the 2022/23 in-year forecast position elsewhere on this agenda. This has been taken account of in the forecast 2023/24 Budget and Levy.
- 2.5 The Reserves strategy for the MTFS recommends the reserve levels for the Procurement Reserve, Business Risk Reserve, Insurance Reserve and the Revenue Reserve to support specific initiatives and support financial resilience.

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

### **3. Background**

#### General Budget Strategy

- 3.1 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.
- 3.2 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.
- 3.3 Although the Authority has made savings in overall waste disposal costs under the Integrated Waste Management Services (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 increases in overall tonnages over the medium term and insurances. Contract inflation is a particularly significant element of the forecast Levy increase for 2023/24 with the October RPIX, on which contract inflation is based, standing at 13.87%.
- 3.4 The MTFs takes account of the need to maintain the General Reserve balance at a minimum of £3.000m from 2023/24 onwards to support financial resilience.
- 3.5 The IWMS contract continues to be the dominant element of the budget (approximately 90%). This in turn is driven by tonnage levels and the inbuilt contractual costs. The Budget and Levy setting process for 2022/23 allowed for tonnages to increase to 474,000, as it appeared possible in February 2022 that there may be a degree of economic recovery. Tonnages were forecast to further increase by between 8,000 and 10,000 tonnes per annum over the period 2023/24 to 2026/27. However, for the year to September 2022, tonnages are 22,863 tonnes lower than the previous year and 28,874 tonnes lower than the profiled budget, likely to be due to a combination of economic factors and weather conditions.
- 3.6 Taking into account forecast tonnages for 2022/23, the continued impact of changing behaviours and expected population and properties growth, the 2023/24 MTFs incorporates a reduction in tonnage of 20,000 tonnes per annum compared to the 2022/23 budget (but an increase of 9,000 tonnes compared to the 2022/23 forecast), followed by annual growth of between 4,000 and 5,000 tonnes for 2024/25 through to 2027/28. It remains vital that ELWA continues to negotiate with the operator where possible to manage costs so as to help mitigate Levy increases.
- 3.7 Elsewhere on the agenda is a report which details the budgetary position up to September 2022 and the forecast outturn position as at 31 March 2023. The proposals set out in this report incorporate the forecast 2022/23 revenue surplus of £6.061m in the calculation of the indicative 2023/24 budget.

3.8 The main factors considered and included within this five-year financial plan are as follows:

- a) 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 11.10% for 2023/24. RPIX (at the 80% level) has been forecast in the MTFS at 10.00% for 2024/25, reducing to 8.00% for 2025/26 and 5.00% by 2026/27.
- b) Constituent Councils' population and household increases 2022-27 which are projected as follows:

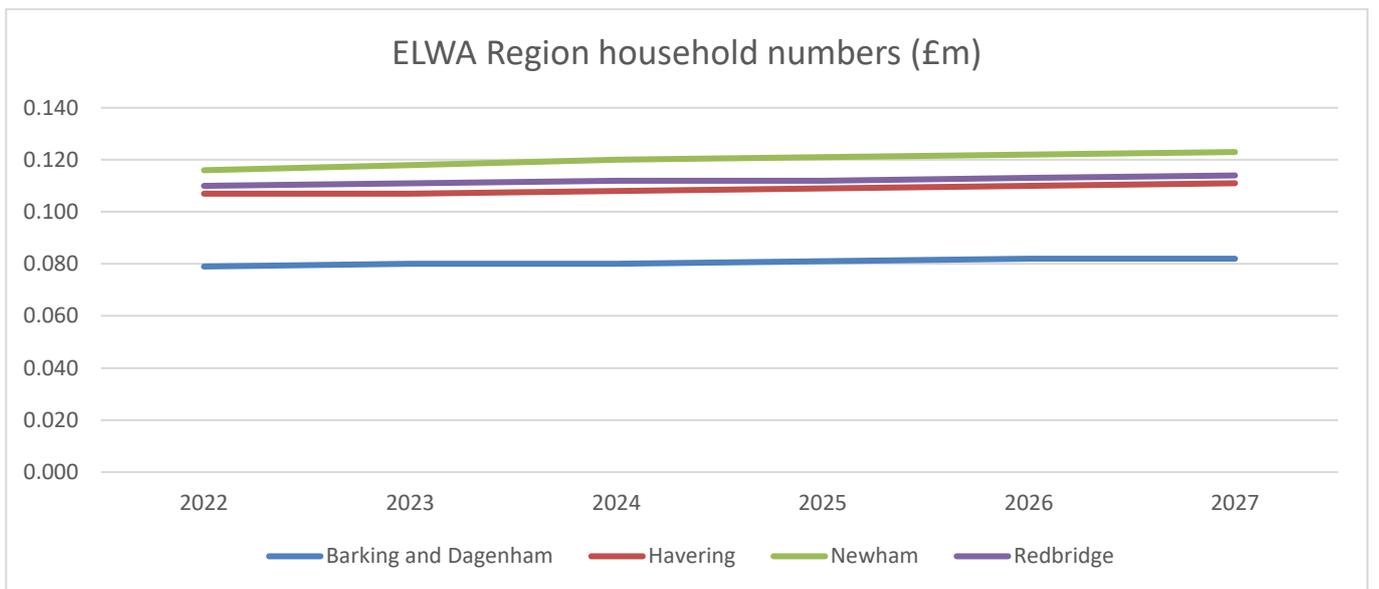
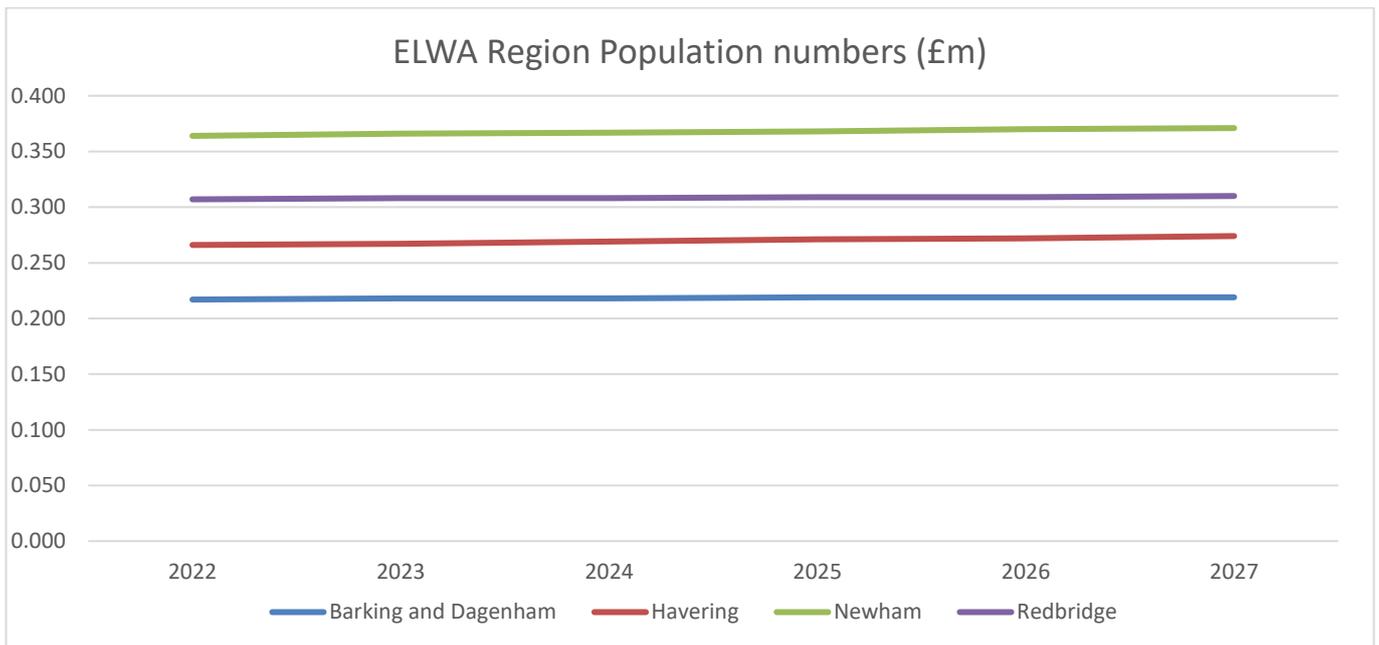
Population projections	2022	2023	2024	2025	2026	2027	increase
	m	m	m	m	m	m	%
Barking and Dagenham	0.217	0.218	0.218	0.219	0.219	0.219	1.3
Havering	0.266	0.267	0.269	0.271	0.272	0.274	3.0
Newham	0.364	0.366	0.367	0.368	0.370	0.371	1.9
Redbridge	0.307	0.308	0.308	0.309	0.309	0.310	0.8
<b>Total</b>	<b>1.154</b>	<b>1.159</b>	<b>1.162</b>	<b>1.167</b>	<b>1.170</b>	<b>1.174</b>	<b>1.7</b>

Source: Office for National Statistics (ONS)

Household projections	2022	2023	2024	2025	2026	2027	increase
	m	m	m	m	m	m	%
Barking and Dagenham	0.079	0.080	0.080	0.081	0.082	0.082	3.7
Havering	0.107	0.107	0.108	0.109	0.110	0.111	3.7
Newham	0.116	0.118	0.120	0.121	0.122	0.123	5.9
Redbridge	0.110	0.111	0.112	0.112	0.113	0.114	4.2
<b>Total</b>	<b>0.412</b>	<b>0.416</b>	<b>0.420</b>	<b>0.423</b>	<b>0.427</b>	<b>0.430</b>	<b>4.5</b>

Source: Office for National Statistics (ONS)

The graphs illustrate this:



c) The MTFS is based on the annual tonnages set out in the following table:

2022/23 budget	2022/23 forecast	2023/24	2024/25	2025/26	2026/27	2027/28
474,000	445,000	454,000	459,000	463,000	468,000	472,000

- d) A landfill tax rate of £102.10 has been set for 2023/24. Annual increases in landfill tax are tied to the retail price index and these have been included in the five-year projections. Although almost no Authority waste is landfilled, the prevailing landfill tax rate determines the additional diversion supplement payable by the Authority.
- e) As a result of the completion of fire improvement works at Jenkins Lane and progress towards completion of equivalent works at Frog Island, the Authority expects to secure contract-compliant insurances for 2023. The actual cost of the 2023 renewal will be known in December 2022 and will be incorporated into the final 2023/24 Levy setting report. The MTFS currently provides for an increase of 15% in the cost of insurance. As reported to the Authority at the AGM in July, the Authority may consider an element of self-insurance in the future. It is expected that this would reduce the total insurance premiums payable.
- f) The Reserves Strategy, given the current economic landscape, is to increase the Business Risk Reserve by £0.500m to £1.500m to reflect higher levels of risk related to the economy, including inflation, volatile tonnage levels and insurance.

3.9 The Local Government Act 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 proposed levels of reserves are set out in sections 6 and 8 below.

3.10 It is important to note that the projected Levy increase shown at paragraph 2.1 represents the overall increase, not the specific increase for each Constituent Council. The final Levy for each Constituent Council will be based on 2021/22 actual tonnage figures and the respective Council Tax Bases set by each Constituent Council for 2023/24.

3.11 Projected future Levy increases can only be mitigated if ELWA's contractor costs are minimised and significant progress is made in the Authority's and the Constituent Councils' waste minimisation measures.

## 4. Revenue Budget Projections

### 4.1 Movements in the Levy comprise of the following:

	Original projection 2023/24 £m	Updated projection 2023/24 £m	Paragraph reference
<b>2022/23 Levy</b>	<b>72.350</b>	<b>72.350</b>	
IWMS contract			
• tonnage increase / (decrease)	0.657	(1.693)	4.3 – 4.6
• inflation	2.277	6.721	4.3, 4.6
Insurance costs	0.407	0.407	4.9
Non-contract costs and inflation	0.330	0.939	4.10 – 4.16
Capital financing costs	1.116	(1.861)	4.17 – 4.18
Income	(0.082)	(0.419)	4.19 – 4.20
Budgeted reserve movements	2.136	2.136	4.21
2022/23 forecast surplus	-	(4.461)	4.21
<b>Projected 2023/24 Levy</b>	<b>79.191</b>	<b>74.119</b>	

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

#### Contractor Costs

### 4.3 Contractor costs include a decrease of £1.693m, based on past trends and 2021/22 actuals, offset by an increase of £6.721m as a result of contract inflation of 11.10%. This is based on 80% of the October 2022 RPIX of 13.87% in accordance with the contract. Future increases (at the 80% level) have been estimated at 10.00% for 2024/25, 8.00% for 2025/26 and 5.00% thereafter.

### 4.4 The table below shows the projected tonnage breakdown by Constituent Council, based on 2021/22 actuals. The forecast tonnage figures will be reviewed and updated as part of the Budget and Levy Setting process in February 2023.

	<b>2023/24 forecast tonnes</b>
Barking and Dagenham	92,000
Havering	114,000
Newham	135,000
Redbridge	113,000
<b>Total</b>	<b>454,000</b>

### 4.5 The Levy report to be presented in February 2023 will reflect the updated tonnage forecasts based on actual activity to December. 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, the pace of new development and general patterns of consumption as well as the Constituent Councils' monitoring and enforcement of waste collection.

#### Landfill Tax Inflation

- 4.6 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>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Gross	98.60	102.10	104.80	107.15	110.00	113.00
ELWA	83.60	87.10	89.80	92.15	95.00	98.00
% increase	2.3	4.2	3.1	2.6	3.1	3.2

- 4.7 At forecast diversion rates this reflects an additional cost in 2023/24 of £0.525m, of which the majority relates to the additional diversion supplement within the contract cost.

#### Revised Diversion arrangements

- 4.8 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, rising in annual steps up to £0.500m and indexed thereafter.
- 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.

#### Insurance Costs

- 4.9 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 marketplace for insurance where, because of the number of fires in the wider waste industry, there are very few providers of this type of insurance. As a result of the completion of fire improvement works at Jenkins Lane and progress towards completion of equivalent works at Frog Island, the Authority expects to secure contract-compliant insurances for 2023. The actual cost of the 2023 renewal

will be known in December and will be incorporated into the final February Levy setting report. The MTFS currently provides for an increase of 15% in the cost of insurance. As reported to the Authority at the AGM in July, the Authority may consider an element of self-insurance in the future in order to reduce the impact on the revenue budget of significant year-on-year increases in insurance premiums.

#### Non-Contractor Costs

- 4.10 Non-contractor costs include a projected increase of £0.939m.
- 4.11 Salaries and related costs and support services provided by Constituent Councils are assumed to increase by between 3.0% and 5.0% per annum over the five-year period. Salary budgets reflect the cost of the proposed staffing structure for 2023/24.
- 4.12 Inflation of between 5.0% and 10.0% has been added to other non-contract costs as appropriate. These include supplies and services, premises costs and professional fees.
- 4.13 Total payments to Constituent Councils, including RRC rents and support services SLAs, are estimated at £3.446m for 2023/24. 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. RRC rents will be subject to a five yearly rent review in December 2022. The MTFS currently provides for a 10% increase on the current rents. This will be updated for the February 2023 Budget and Levy setting report once the rents that will apply for the next five years are confirmed.
- 4.14 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 as well as a capital receipt.
- 4.15 Non-contractor costs include the budgetary provision for the post-2027 procurement process. The MTFS includes an increase of £0.500m in 2023/24. Modelling of potential procurement costs indicated that costs would be lower in the early years of the process and that £1.000m per annum would be likely to be insufficient in the 'peak' years. This has been borne out by the levels of expenditure seen to date. Underspends in this particular budget have not been set aside but have formed part of the general underspends that have been incorporated in the following year's Levy calculation. As a result, it is proposed to increase the procurement budget for 2023/24 to £1.500m with it currently assumed to revert to £1.000m for the remainder of the planning period.
- 4.16 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 reserves by keeping spending within budget.

#### Capital Financing Charges

- 4.17 The revenue cost of borrowing, also known as capital financing charges, is included within the revenue budget. The 2023/24 budget makes provision for the revenue cost of borrowing to finance the fire improvement works at both Jenkins Lane and Frog Island, estimated at £9.000m, as well as the cost of existing borrowing. The MTFS for 2025/26 onwards makes provision for borrowing of £60m; the need for this requirement will be assessed in future Budget and MTFS reports.
- 4.18 Minimum Revenue Provision (MRP) is a charge to revenue made in respect of repaying the principal sum of borrowing undertaken to finance the capital programme. MRP must be charged in the year following the year in which an asset becomes operational. MRP is therefore chargeable in 2023/24 in respect of the fire improvement works at Jenkins Lane which were completed and became operational in 2022/23. The remaining years of the MTFS include an MRP charge relating to the fire improvement works at both sites. MRP on the potential borrowing of £60m is provided for from 2026/27.

#### Income

- 4.19 ELWA receives income from the Constituent Councils in respect of commercial waste tonnage. The budgeted income for 2022/23 of £2.700m was based on the 2021/22 forecast which, at the time the budget was set, was significantly lower than budgeted. However, the actual income for 2021/22 was just over £3.000m and the 2022/23 forecast is also expected to be in the region of £3.000m. A budget of £3.000m has therefore been set for 2023/24, rising by contract inflation thereafter. The medium term forecast assumes that the existing commercial waste arrangements continue for the next three years and volumes remain relatively constant.
- 4.20 There is also some other income, for example investment income, trade waste royalty income and rental income. For 2023/24 the budget for royalty and rental income is set at £0.400m based on a tonnage of 454,000 tonnes. The budget for investment income is set at £0.100m reflecting increasing interest rates.

#### Budgeted Reserve Movements and Forecast Surplus

- 4.21 As part of the 2022/23 Budget and Levy setting process, the forecast 2021/22 surplus as at December 2021 of £2.136m was incorporated in the calculation of the 2022/23 Levy. It is proposed that the same approach is taken for 2023/24. As reported elsewhere on the agenda, the forecast underspend for 2022/23 as at September is £6.061m, of which £4.461m is proposed to be released in 2023/24 as part of the Levy.

## **5. Contract Efficiencies**

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

## 6. Reserves Strategy

- 6.1 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.
- 6.2 Following on from prior years and the Levy setting report in February 2022, 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 this level from 2023/24 onwards.
- 6.3 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 £1.000m and is proposed to be increased to £1.500m to reflect higher levels of risk related to the economy, including inflation, volatile tonnage levels and insurance. The 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.
- 6.4 The Procurement Reserve (formerly the Strategy Reserve) provides funding for the costs of the Procurement and Contract Expiry (PACE) Programme, which covers the various strands of work required to prepare for the end of the IWMS Contract and the procurement of new arrangements and services to replace it. The Procurement Reserve currently stands at £2.230m. Provision of £1.500m in 2023/24 and £1.000m per annum thereafter has been made within the revenue budget in the MTFS for costs relating to the procurement of post 2027 waste services. Opportunities to potentially capitalise expenditure will be considered, depending 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.
- 6.5 The Levy Reserve was established to hold funds set aside from any in-year underspends to be utilised as part of the Levy setting process for the following year. As described in paragraph 4.21, the Levy Reserve stood at £2.136m at 1 April 2022 and is being released as part of the 2022/23 budget. The reserve will be increased by the 2022/23 forecast underspend which, similarly, will be released in 2023/24.
- 6.6 The Insurance Reserve was created in 2021/22 to accumulate funds to enable the Authority to consider an element of self-insurance in the future, thus reducing the cost of its annual insurance premiums and, in particular, the high cost of the policy which insures the gap between the level of deductible available in the market and the contract compliant deductible. A contribution to this reserve is proposed from the forecast 2022/23 underspend to increase the reserve to £2.000m.
- 6.7 The final element of the strategy is to hold a capital reserve of £0.100m. This reserve, originally established to fund potential future costs at Aveley, could be used for any unforeseen capital requirement.

6.8 The table below summarises the overall reserves position.

Reserve	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
<b>Procurement Reserve</b>						
Opening Balance	2.230	2.230	2.230	2.230	2.230	2.230
In year movement	-	-	-	-	-	-
<b>Closing Balance</b>	<b>2.230</b>	<b>2.230</b>	<b>2.230</b>	<b>2.230</b>	<b>2.230</b>	<b>2.230</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	1.000	1.500	1.500	1.500	1.500	1.500
In year movement	0.500	-	-	-	-	-
<b>Closing Balance</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>	<b>1.500</b>
<b>Levy Reserve</b>						
Opening Balance	2.136	4.461	-	-	-	-
In year movement	2.325	(4.461)	-	-	-	-
<b>Closing Balance</b>	<b>4.461</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Insurance Reserve</b>						
Opening Balance	0.901	2.000	2.000	2.000	2.000	2.000
In year movement	1.099	-	-	-	-	-
<b>Closing Balance</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</b>	<b>2.000</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>

## 7. Closed Landfill Sites

7.1 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. The recent demolition of the derelict cottages at Aveley reduces the risk, however, it is proposed to retain the current existing budgets.

7.2 Further disposal of sites may affect revenue budgets.

## 8. Determination of the Levy and Levy Apportionment

- 8.1 The calculation of the Levy is determined by the costs and income detailed in paragraph 4 and 5, and the reserves strategy described in section 6. Based on the analysis in the previous paragraphs a Levy increase of 2.45% in 2023/24 is projected.
- 8.2 Key projections such as tonnages will need to be reviewed against latest levels of tonnage arisings by ELWA officers to ensure they are accurate before the 2023/24 Levy report is presented.
- 8.3 The table below summarises the draft financial plan for the next five years, highlighting the expenditure budget requirements and the projected Levy increases. The year-end levels of reserves incorporating the movements described elsewhere in the report are also set out below.

<b>Summary Budget</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>2027/28 £m</b>
Gross revenue budget	82.571	90.713	100.923	107.583	113.063
Previous year's forecast surplus	(4.461)	-	-	-	-
Sub Total	78.110	90.713	100.923	107.583	113.063
<b>Financed By</b>					
PFI grant	3.991	3.991	3.991	3.991	3.991
Levy	74.119	86.722	96.932	103.592	109.072
Projected Levy increase over previous year	2.45%	17.00%	11.77%	6.87%	5.29%

<b>Year End Reserves</b>	<b>31 March 2024 £m</b>	<b>31 March 2025 £m</b>	<b>31 March 2026 £m</b>	<b>31 March 2027 £m</b>	<b>31 March 2028 £m</b>
General Reserves	3.000	3.000	3.000	3.000	3.000
Procurement Reserve	2.230	2.230	2.230	2.230	2.230
Business Risk Reserve	1.500	1.500	1.500	1.500	1.500
Levy Reserve	-	-	-	-	-
Insurance Reserve	2.000	2.000	2.000	2.000	2.000
Capital Reserve	0.100	0.100	0.100	0.100	0.100

- 8.4 ELWA Members will understand the impact of its 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 two 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 2023/24 to 2027/28 period, during which new service arrangements will succeed the current IWMS contract.

- 8.5 The table below shows the impact of the projected Levy increases by Constituent Council, based on the 2021/22 household tonnages and 2022/23 Council Tax Base figures [to be updated to 2023/24 for the February 2023 Levy report].

	Provisional Figures – Subject to Update					
Constituent Councils - Levy	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m	£m
Barking and Dagenham	13.661	13.781	16.124	18.023	19.261	20.280
Havering	18.015	18.404	21.533	24.068	25.722	27.083
Newham	21.725	22.353	26.154	29.233	31.242	32.894
Redbridge	18.949	19.581	22.911	25.608	27.367	28.815
<b>Total</b>	<b>72.350</b>	<b>74.119</b>	<b>86.722</b>	<b>96.932</b>	<b>103.592</b>	<b>109.072</b>

- 8.6 It is important to highlight that these estimates will change when the February 2023 Levy report is produced as up to date numbers of Band D equivalent properties will have been confirmed by the Constituent Councils.
- 8.7 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.
- 8.8 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.
- 8.9 The Levy forecasts for 2024/25 to 2027/28 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, such as measures still being contemplated by the Government under its Resources and Waste Strategy 2018, could significantly impact on the overall projections.
- 8.10 In summary, the proposal is to finance the overall increased net costs by a Levy increase of 2.45% in 2023/24 and between 5.29% and 17.00% in the years 2024/25 to 2027/28.

## 9. Underlying assumptions in the MTFs

- 9.1 Volumes have been based on 2022/23 tonnages to date with an estimation of growth for population and household increases.

- 9.2 The following inflation rates have been used in the calculation of the indicative 2023/24 budget:
- a) Contract inflation 11.10% (80% of RPIX 13.87%) for 2023/24, 10.00% for 2024/25, 8.00% for 2025/26 and 5.00% thereafter (all at the 80% level). The 2022/23 MTFS included contract inflation of 4.90% (80% of 6.13%).
  - b) Government landfill tax rate increase 3.5% (2022/23 MTFS: 2.0%)
  - c) Salary inflation 5.0% and 3.0% thereafter (2022/23 MTFS: 3.0%)
  - d) General inflation for non-contract costs 10.0% reducing to 8.0% in 2024/25 and 5.0% thereafter (2022/23 MTFS: 5.0%)
  - e) Insurance inflation 15.0% (2022/23 MTFS 15.0%)
- 9.3 The latest forecast position for 2022/23 is an underspend of £6.061m, which has been incorporated in the calculation of the indicative 2023/24 budget.

## 10. Risks

- 10.1 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.
- a) The increase in the IWMS contract cost is based on 80% of RPIX which, as at October 2022, stands at 13.87% (11.10% at the 80% level). Other staff and non-staff costs are also subject to annual inflationary increases. There is a risk that inflation could exceed the provisions made in the MTFS for future years. A 1% increase in RPIX increases the IWMS contract cost by £0.446m.
  - b) Waste volumes could increase at a different rate than that assumed in these figures. The extra cost is £0.434m 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 2023/24 to 2027/28. Every £1 per tonne on landfill tax increases costs by approximately £0.150m per annum, the majority of which relates to the additional diversion supplement. 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) Insurance is subject to annual renewal, the cost of which is difficult to estimate until the renewal process is undertaken. The rate of increase could exceed that provided for in the MTFS. A 10% change in the estimated increase in insurance premiums would increase the 2023/24 levy by £0.075m.
  - e) Variations in interest rates will impact on the cost of borrowing and could exceed the rates allowed for in the MTFS. A 1% increase in PWLB rates would increase the levy by £0.090m.

- f) The forecast underspend for 2022/23 incorporated in the calculation of the 2023/24 Levy may be lower than currently expected.
  - g) There may be new regulations over waste, problems around contract delivery and / or the need to change the contract.
  - h) The PFI contract could be affected by political change nationally.
  - i) 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 having reduced the Procurement Reserve, which had been built up to fund these costs, that the provision made within the revenue budget could be insufficient or that higher than forecast Levy increases will be required in future years.
- 10.2 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 2023.

## **11. Next Steps**

- 11.1 In early January 2023 forecast future tonnage figures will be updated based on information from ELWA and Constituent Council officers and each Council's 2023/24 Council Tax Base figures will be obtained. This, together with the actual 2021/22 tonnages that have already been confirmed, will determine the split of the Levy between Constituent Councils.
- 11.2 At the next Authority meeting (10 February 2023) Members will approve the 2023/24 Revenue Budget and set the Levy.

## **12. Conclusion**

- 12.1 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.
- 12.2 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.
- 12.3 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 suggests that the overall annual Levy increase will be between 2.45% and 17.00% over the five-year period.
- 12.4 The level of the estimated Levy increase for 2023/24 is lower than had been forecast in February 2022. Despite high levels of inflation, the current lower levels of wastes, which are anticipated to continue, together with the release of £4.461m of the

forecast 2022/23 underspend into the 2023/24 Levy, have contained the increase at 2.45%. However, these factors cannot be assumed to continue over the medium term. It is the view of the Finance Director that the subsequent projected 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.

- 12.5 The Budget Strategy recommended in this report will need to be kept under review in the light of any new circumstances.

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**13. Relevant officer:**

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

**14. Appendices attached:**

- 14.1 None.

**15. Background Papers:**

- 15.1 27/9/10 Alternative Methodology for Calculating the ELWA Levy - Report and Minute 2010/29.
- 15.2 3/12/21 Medium Term Financial Strategy 2022/23 to 2026/27.
- 15.3 4/2/22 Revenue and Capital Budgets and Levy 2022/23.

**16. Legal Considerations:**

- 16.1 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.
- 16.2 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.

**17. Financial considerations:**

- 17.1 As detailed in the report.

**18. Performance management considerations:**

- 18.1 As detailed in the report.

**19. Risk management considerations:**

- 19.1 As detailed in the report.

**20. Equalities considerations:**

- 20.1 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.

**21. Follow-up reports:**

- 21.1 Levy setting report February 2023.

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

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

**23. Glossary:**

ELWA = East London Waste Authority

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

IWMS = Integrated Waste Management Strategy

MRP = Minimum Revenue Provision

PFI = Private Finance Initiative

RDF = Refuse Derived Fuel

RPIX = Retail price index excluding mortgages

SRF = Solid Recovered Fuel

**24. Reviewed by Management Board**

- 24.1 14 November 2022.

**25. Confidentiality:**

- 25.1 Not Applicable.