

EAST LONDON WASTE AUTHORITY

21 JUNE 2010

JOINT REPORT OF EXECUTIVE DIRECTOR AND FINANCE DIRECTOR

BUDGETS AND SAVINGS – FUTURE STRATEGY	FOR APPROVAL
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1 Purpose

- 1.1 The purpose of this report is to give preliminary consideration to the need for efficiencies and savings in future years.

2 Background

- 2.1 The Constituent Councils will advise, in due course, on their financial position for 2011/12 and subsequent years, and no firm decisions need to be taken in advance of clearer information. A close review of ELWA budgets was carried out prior to the 2010/11 levy.

- 2.2 With respect to ELWA's financial position for 2011/12 and subsequent years, the Finance Director reported in the Levy Report February 2010:

- a) a balance has to be struck between prudent financial management that secures the long term operational viability of ELWA and keeping the annual increases in the levy requirement to a minimum;
- b) there is a reducing level of reserves available to support the levy;
- c) the major underlying cost pressures are in respect of tonnage growth, increases in landfill taxes and inflation on contract costs. The IWMS Contract makes up 95% of ELWA's gross expenditure.
- d) these points (e.g. less reserves available, higher levels of landfill tax) indicated that the levy was likely to rise by approximately £4m pa (9%) in 2011/12 and 2012/13.

3 Considerations

- 3.1 The ELWA levy for 2010/11 increased by 6%. The two significant expenditure changes from 2009/10 were:

- increase in landfill tax of £1.5m
- inflation on contract costs for £0.6m

- 3.2 By the end of 2012/13 ELWA Reserves are likely to be at minimal levels and therefore the current level of support to the levy from Reserves cannot be continued.

3.3 ELWA's expenditure can be summarised as follows:-

- a) payments under IWMS Contract for managing and disposing of almost 0.5 million tonnes of waste (600+ bring sites, 4 RRC sites, 2 Bio Mrfs, 1 orange bag MRF, Ilford Recycling Centre and 1 general MRF) = approximately £45m (net of income and charges);
- b) management of 4 closed landfill sites = approximately £150,000 p.a.;
- c) governance and administration including Service Level Agreements for support from Boroughs – approximately £300,000 p.a.
- d) employees – approximately £450,000 including our costs.

3.4 Appendix A sets out ELWA's main items of spending.

3.5 An assessment of current expenditure.

- a) ELWA's budgets, outside of the IWMS Contract, are relatively small and have already been reduced to a 'basic maintenance' level in the 2010/11 Levy. Efficiencies can be sought but it is unlikely that significant savings can be made without threatening the governance and basic administration arrangements of the Authority.
- b) The IWMS Contract is a fixed term, fixed price contract and although efficiencies can be sought it is unlikely the significant savings can be made without:
 - significantly reducing the service (if that is feasible);
 - paying compensation to the contractor (of perhaps a similar sum).
- c) The most easily achievable savings to the ELWA's expenditure comes from the change in activities/operations of the Boroughs by, for example.
 - reducing waste (which reduces the gate fee paid to the contractor)
 - presenting more waste in a form that can be recycled (thus reducing landfill tax liabilities).

3.6 It is early in the year 2010/11 but there are already pressures on the current years' budget because:-

- tonnages delivered by the Boroughs are higher than expected;
- Shanks has had difficulties in maintaining the previous high levels of Solid Recovered Fuel (SRF) being sent to cement kilns. As a result alternative outlets are being investigated;

- One of the proposals in the 2010/11 ABSDP requires works to be carried out for over 6 months at the RRC Mrf at Frog Island. This is likely to reduce recycling performance in that period and landfill tax liability could therefore increase. This proposal is still under careful evaluation;
- In 2010/11 the level of the contingency provision was effectively reduced to nil. In previous years it has exceeded £300k.

4 Strategies for the future

4.1 The key activities to manage the difficult financial situation will include:-

- a) looking at parts of contractual services that can be reduced (preferably that also result in savings to the contractor because the latter would reduce any potential claims for compensation). Some of these contractual services are run on behalf of the Boroughs and therefore this will have to be a joint activity between ELWA and the Boroughs;
- b) re-opening negotiations with the Contractor concerning incentives. The intention would be to incentivise higher levels of diversion from landfill (by recycling or by other means) with the result that the Authority's landfill tax liability is reduced. This would probably incur fees for legal advice and be necessarily linked to medium term operational changes;
- c) looking again at the current levy mechanism to see whether some aspects might benefit from a more detailed charging system that would incentivise different behaviours in the Boroughs and thus achieve savings in ELWA's costs;
- d) identifying new funding. It is unlikely that, in ELWA's position, there are significant opportunities to attract grants that would reduce general revenue expenditure but it may be that sources of funding can be explored to support any required development of services;
- e) ensuring the position on long term PFI contracts is understood. Environment services are unlikely to be protected against cuts in government grants but it is possible that a special case for PFI funded services can be made. It has already been reported in the press (Public Finance) that PFI contracts were likely to be protected because of legal issues involved in terminating them;
- f) making ELWA's assets 'work harder'. In practice ELWA's main assets are the four closed landfill sites. Considerable effort has been invested in establishing any disposal opportunities for the four sites.

5 Recommendations

5.1 The Authority is recommended to consider:

- i) a strategy for a future Budget and Savings Review including, for example, the structure set out in Appendix A as a basis for a more detailed and thorough review of the ELWA Budget, perhaps at the forthcoming workshop. In particularly the flexibility around each Budget Head could be considered;
- ii) further developing that strategy when firmer information is available from the Boroughs on their financial position over the next 3 to 5 years and on their performance targets over the same period.

Tony Jarvis
EXECUTIVE DIRECTOR

Appendices		
A	ELWA's main Budget Heads	
Background Papers		
Nov 2009	Plan	3 Year Financial Plan
Feb 2010	Report	2010/11 Estimates and Levy Report