

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2017/18 SECOND BUDGET REVIEW

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

28 SEPTEMBER 2017

1. SUMMARY OF REPORT

This report is the second in the current year on the Authority's finances. It concludes that the Authority is forecast to have a revenue surplus of £5.287m at 31 March 2018, i.e. an increase of £0.985m compared with the first budget review.

Based on early data the forecast residual waste tonnage for the year is 0.86% less than budget. Delivered tonnes of recyclable waste are also forecast to be less than budget.

Members will be aware that the Reuse and Recycling Centre at Park View Road is scheduled to close in late October 2017. This report examines the impact of the closure on the Authority's financial position.

A further review of the 2017/18 budget together with a detailed assessment of the budget and resource requirements for 2018/19 will be reported to the Authority in December.

2. RECOMMENDATIONS

The Authority is requested to note: -

- (i) The second review of the 2017/18 revenue budget.
- (ii) That a third review of the 2017/18 budget will be reported to the Authority meeting in December together with a detailed assessment of the budget and resource requirements for 2018/19.

Signed by the Financial Adviser

Agreed by Mike O'Donnell

Date: 18 September 2017

3. **Introduction**

- 3.1 At the Authority meeting in June, Members were advised that the 2016/17 outturn would provide an additional revenue surplus of £4.857m at 31 March 2017 to support the 2018/19 budget and levy. The Authority was also advised however that mainly because of the slippage of some expenditure from 2016/17 to 2017/18 the first review of the 2017/18 budget indicated that an in year overspend of £0.555m could be expected.

	£m
Higher level of balances brought forward from 2016/17	(4.857)
Slippage from 2016/17 of NLHPP costs	0.824
Rephasing of Communications projects into 2017/18	0.052
Savings in capital financing costs	(0.321)
Total	(4.302)

- 3.2 Taken as a whole therefore, it was estimated that balances at 31 March 2018 would be £4.302m. As a result of the second review, forecast revenue balances at the year-end are estimated to increase by £0.985m to £5.287m. This report provides details of the main changes and other issues that have arisen since the June meeting.

4. **Second Budget Review**

4.1 **Transport, Disposal and Landfill Tax: (-£0.746m)**

- 4.1.1 Until 2014/15 the Authority had seen year on year reductions in the amount of residual waste delivered by the boroughs although the speed of the reductions was slowing. 2015/16 saw a reversal of this trend and residual waste tonnage in that year was 1.5% higher than 2014/15. The 2017/18 budget was prepared using this historical data and 2016/17 year to date data. At that stage it was unclear as to whether 2015/16 had been the start of a period of waste growth or could be regarded as a 'blip' in the downward trend. Accordingly, the 2017/18 budget reflected an assumption that the Authority had entered a period of increasing residual waste tonnage.

- 4.1.2 Based on April to June tonnage and after making certain assumptions about growth and changes in recycling levels, 2017/18 forecast residual tonnage compared with the budget for each borough may be summarised as follows:-

Table 1	2016/17 Actual Tonnes	2017/18 Budget Tonnes	2017/18 Forecast Tonnes	Change %
Barnet	102,436	104,026	100,255	-3.63
Camden	82,872	85,447	77,237	-9.61
Enfield	85,885	88,990	90,839	+2.08
Hackney	91,798	94,017	95,076	+1.13
Haringey	73,729	75,927	75,923	-0.01
Islington	78,769	81,617	85,140	+4.32
Waltham Forest	70,746	71,993	72,379	+0.54
Total	586,235	602,017	596,849	-0.86

- 4.1.3 The figures in table 1 prepared by Authority officers are based on complete data for the first three months and indicate a small reduction in overall tonnage this year compared to budget. Nevertheless, this overall picture contains some significant movements in the numbers at a borough level. Camden has introduced fortnightly collection of residual waste and an enhanced recycling service which is probably a major contributory factor to its forecast reduced tonnage in 2017/18, but this reduction is being offset by increases in most of the other boroughs.
- 4.1.4 In preparation for the forthcoming budget process the Authority will liaise with borough officers to determine whether the early year waste stream changes are likely to continue for the remainder of the year and beyond. The outcome of this review together with an up-to-date assessment by boroughs of their recycling ambitions will help inform an assessment of the impact that this could have on the Authority's 2018/19 waste treatment services and budget requirements. Conclusions from these discussions will be reported to the December meeting of the Authority as part of the detailed update on 2018/19 budget prospects.
- 4.1.5 Within this modest forecast overall reduction in tonnage compared to the budget, there have been changes in the destination to which waste is delivered. In the first quarter, the tonnage delivered to Hendon is less than assumed in the budget and if this is extrapolated to the full year, would be 9% less than budget. Waste sent from Hendon by rail to a third party Energy from Waste facility incurs a higher cost than processing waste at the EcoPark so reductions in this tonnage give rise to budget savings. This, together with a consequent reduction in the element of waste delivered to Hendon but then transported by road to the EcoPark for processing and other tonnage related savings provides a forecast overall saving of £0.765m compared with the first review
- 4.1.6 Haringey Council will be closing the Reuse and Recycling Centre at Park View Road towards the end of October. The Authority has made an assessment of the closure's impact on its budgets and has concluded that a net saving of £0.022m in the costs of treating RRC residual waste could be expected in 2017/18. Additionally, overall RRC residual waste delivered to the Authority has continued to fall and the resultant forecast savings have been factored into this review. Taking all of this into account, the Authority is forecasting a budget saving in the transport and disposal of RRC residual waste of £0.107m.

4.2 **Composting and MRF Services: (-£0.233m)**

Tonnage projection data received from constituent boroughs reveals that compostable waste delivered to the Authority will be 2.5% less than budget resulting in a saving to the Authority of £0.121m. Tonnages of dry recyclable material processed by the Authority's MRF providers is forecast to be 7.1% less than budget resulting in a saving of £0.112m.

4.3 **Reuse and Recycling Centres – Park View Road Closure: (-£0.117m)**

The Authority estimates that a budget saving of £0.117m will arise in 2017/18. This reflects assumptions about the amount of recyclable waste that will be displaced to the remaining RRCs and no liability for any closure costs.

4.4 **Revenue Funding – Capital Programme: (-£0.178m)**

There has been no requirement to borrow to fund capital purchases and works so far this year. The timing of borrowing has been reviewed and one off savings have been identified.

4.5 A table detailing the forecast outturn and how it has changed from the first review is shown in the appendix as table 2.

Table 2

	2017/18 Budget	2017/18 First Review	2017/18 Second Review	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Main Waste Disposal Contract (ex CA Waste)	33,526	33,820	33,199	(621)
Civic Amenity Waste	1,131	1,131	1,024	(107)
Landfill Tax	1,937	1,937	1,919	(18)
Composting Services	2,614	2,614	2,493	(121)
MRF Services	7,512	7,218	7,106	(112)
Transfer Stations and Other Sites	1,562	1,562	1,562	0
Reuse and Recycling Centres	3,541	3,541	3,424	(117)
Corporate and other Support Service Costs	2,507	2,559	2,559	0
Operations Team	491	502	502	0
Waste Reduction Programme – New Initiatives	340	340	340	0
Technical and Planning Team	433	433	433	0
Joint Communications Initiative	305	294	294	0
Recycling Initiatives	267	267	267	0
North London heat and Power Project	2,463	3,287	3,287	0
Revenue Funding – Capital Programme	7,590	7,269	7,091	(178)
	66,219	66,774	65,500	(1,274)
Less				
Income				
Rents	(111)	(111)	(111)	0
Sale of Recyclates	(3,142)	(3,142)	(3,188)	(46)
Interest on Balances	(60)	(60)	(60)	0
	(3,313)	(3,313)	(3,359)	(46)
Net Expenditure	62,906	63,461	62,141	(1,320)
Contingency	2,258	2,258	2,258	0
Total Net Expenditure	65,164	65,719	64,399	(1,320)
Financed By				
Use of Balances	(7,217)	(12,074)	(12,074)	0
Charges to Boroughs (Non-household waste)	(8,491)	(8,491)	(8,088)	403
Charges to Boroughs (Chargeable Household Waste)	(1,508)	(1,508)	(1,576)	(68)
2017/18 Levy - Base Element	(43,240)	(43,240)	(43,240)	0
- HWRC Element	(4,708)	(4,708)	(4,708)	0
Total Levy	(47,947)	(47,947)	(47,947)	0
Total Resources Available	(65,164)	(70,021)	(69,686)	335
Estimated Additional Revenue Balances at 31 March 2018	0	(4,302)	(5,287)	(985)

5 **Review of the Outlook for 2018/19**

- 5.1 With the exception of the closure of the Park View Road RRC, it would be prudent to assume that the variations from budget that have emerged so far in 2017/18 will not continue into future years. In setting the levy for 2017/18, no balances were forecast as being available to support the 2018/19 budget and levy. Taking this into account the levy was forecast to increase by 18.4% in 2018/19. Since then, revenue balances at 31 March 2016 improved by £4.283m. In addition, reviews of the 2016/17 budget reveal the likelihood that revenue balances at 31 March 2018 could increase by a further £0.430m to £5.287m. If this balance was used to reduce the levy, the overall increase would be reduced to 7.4%. Each borough's levy would be different based on the tonnages and types of waste delivered to the Authority. A break down by borough is provided in table A5 in Appendix A.

6. **Conclusion**

- 6.1 Subject to Member decisions, the improvement in the revenue balance at 31 March 2017 and the variations included in this review indicate that the Authority's reserves at the end of March 2018 will have increased by £0.985m from the first review to £5.287m. A further review of the Authority's financial performance in 2017/18 will be presented to the December meeting.

7. **Comments of the Legal Adviser**

- 7.1 The Legal Adviser has been consulted in the preparation of this report, and comments have been incorporated into the report.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report: -
Reports to the Authority 9 February 2017 and 22 June 2017
2017/18 budgetary control working papers

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2017/18 Forecast Balances

1.1 The following commentary and tables provide further detail relating to the balances that are anticipated to arise during the year:

1.2 **Re-use and Recycling Centre (RRCs) Balances at 31 March 2018:**

1.2.1 Under the menu price based levy the net costs of operating each RRC is attributed to boroughs in accordance with a visitor survey. Under or over spends continue to be attributable to individual sites and are carried forward to the levy calculation in the following year so the net cost to each borough in any year also reflects the changes in its balance position.

1.2.2 In setting the budget and levy for 2017/18 the Authority estimated that it would have balances of £0.183m to offset the cost of RRCs in 2017/18. The 2016/17 outturn produced balances at 31 March 2016 of £0.172m, a decrease of £0.011m.

1.2.3 The Authority's purchase of the Western Road RRC is not expected to take place until later this financial year so £0.172m of capital financing costs included in the 2017/18 budget will not be incurred.

1.2.4 Table 2 below provides a summary of the current financial position for each borough:

Table A1	Change in RRC Balances at 1 April 2017 (As reported in June)	Total Operating Costs – Original Budget	Total Operating Costs - Second Budget Review	Change in 2017/18 Total Operating Costs	Estimated RRC Balances at 31 March 2018 (Column 1 plus 4)
	£'000	£'000	£'000	£'000	£'000
Barnet	16	1,063	1,036	(27)	(11)
Camden	9	422	414	(8)	1
Enfield*	0	83	67	(16)	(16)
Hackney	1	280	273	(7)	(6)
Haringey	(14)	997	694	(303)	(317)
Islington	13	749	744	(5)	8
Waltham Forest	(14)	1,114	1,098	(16)	(30)
Total	11	4,708	4,326	(382)	(371)

* The Authority does not manage Enfield's RRC; the cost of disposing of this site's residual waste is included in Enfield's base levy.

1.2.5 Subject to final review in February, RRC balances of £0.371m will be taken into account in calculating the RRC element of the 2018/19 levy.

1.3 Base Levy Balances at 31 March 2018

1.3.1 Under the previous levy system neither costs nor balances were directly attributable to individual boroughs. The menu price based levy requires the authority to attribute all of its costs to the boroughs and to hold borough specific balances. A positive balance for a borough can be used to support a future year's levy but if negative will be recovered through an addition to the levy. The following table sets out the forecast balance position excluding RRCs. It should be noted the costs in columns 2 and 3 are those that are attributable to the levy; they do not include the costs of processing non household and chargeable household waste. The 2017/18 base levy included estimated balances of £7.217m which enabled the Authority to set a base levy of £43.240m. Since the levy is fixed for the year, the additional balances arising from the 2016/17 outturn feed into the estimated balance at 31 March 2018 and can be taken into account together with any in-year savings when the Authority determines its 2018/19 levy.

Table A2	Additional balance at 1 April 2016 (reported In June)	2017/18 Budget Levy Costs	2017/18 Levy Costs - Second Budget Review	Forecast Change in 2017/18 Levy Costs	Estimated Balance at 31 March 2018 (Column 1 plus 4)
	1	2	3	4	
	£'000	£'000	£'000	£'000	£'000
Barnet	(680)	8,156	8,050	(106)	(786)
Camden	(629)	4,787	4,509	(278)	(907)
Enfield	(463)	5,597	5,892	295	(168)
Hackney	(702)	6,574	6,658	84	(618)
Haringey	(1,011)	6,878	6,509	(369)	(1,380)
Islington	(589)	4,552	4,861	309	(280)
Waltham Forest	(794)	6,696	6,713	17	(777)
Total	(4,868)	43,240	43,192	(48)	(4,916)

1.4 Charges to Boroughs for Non-Household Waste:

1.4.1 Although charges for non-household waste must be separate from the levy, the calculation methodology for these charges is set out in the provisions of the menu price based levy.

1.4.2 Forecast charges to boroughs for the disposal of non-household waste in 2017/18 compared with the original budget assumptions are shown in the table below: -

Table A3	2017/18 Original Estimate £'000	2017/18 Second Review £'000	Estimated Variance £'000
Barnet	1,066	892	(174)
Camden*	2,534	2,212	(322)
Enfield	761	741	(20)
Hackney*	1,622	1,672	50
Haringey *	302	290	(12)
Islington *	2,094	2,181	87
Waltham Forest	112	100	(12)
Total	8,491	8,088	(403)

* Including income from non-household recyclable wastes.

1.5 Charges to Boroughs for Chargeable Household Waste:

1.5.1 Forecast charges to Boroughs for the disposal of Chargeable household waste in 2017/18 compared with the original budget assumptions are shown in the table below

Table A4	2017/18 Original Estimate £'000	2017/18 Second Review £'000	Estimated Variance £'000
Barnet	180	182	2
Camden*	327	325	(2)
Enfield	113	114	1
Hackney*	425	484	59
Haringey *	203	206	3
Islington *	260	264	4
Waltham Forest	0	0	0
Total	1,508	1,575	67

* Including income from non-household recyclable wastes.

1.6 2018/19 Levy Projection

1.6.1 After taking the balance into account, the increase compared to the approved 2017/18 levy has reduced from 18.4% reported in February to 7.4%. The table below shows how this increase is broken down by borough.

Table A5	2017/18 Actual Levy	2018/19 Budget Forecast Levy	Forecast Levy Increase	2016/17 Additional Year End Balances	2017/18 Second Review Balances	Additional Balance to reduce the 2018/19 Levy	2018/19 Revised Forecast Levy	Revised Forecast Levy Increase
	£'000	£'000 a	%	£'000 b	£'000 c	£'000 d (b+c)	£'000 (a+d)	%
Barnet	9,220	11,170	21.1%	(664)	(133)	(797)	10,373	12.5%
Camden	5,208	6,089	16.9%	(621)	(286)	(907)	5,182	-0.5%
Enfield	5,680	7,076	24.6%	(463)	279	(184)	6,892	21.3%
Hackney	6,854	7,870	14.8%	(701)	77	(624)	7,246	5.7%
Haringey	7,875	9,127	15.9%	(1,024)	(672)	(1,696)	7,431	-5.6%
Islington	5,301	6,402	20.8%	(576)	304	(272)	6,130	15.6%
Waltham Forest	7,810	9,044	15.8%	(808)	1	(807)	8,237	5.5%
Total	47,948	56,778	18.4%	(4,857)	(430)	(5,287)	51,492	7.4%

1.6.2 The balances available to each borough reflect changes to the amounts of each type of waste delivered to the Authority. For example, Haringey has a larger additional 2016/17 year end balance than other boroughs as they delivered less recyclable material than forecast (3,163 fewer tonnes of mixed dry recyclates and 1,231 tonnes fewer of compostable material) as mentioned in the June report. In addition, Haringey has second review balances caused by the saving of Minimum Revenue Provision relating to the delay in purchasing the Western Road RRC site and the planned closure of Park View Road RRC (paragraph 4.1.6).

1.6.3 Other borough movements are mainly affected by the changes in tonnages. Table 1 at paragraph 4.1.2 of the main report shows that the forecast for residual waste tonnage in Barnet and Camden has reduced while the forecast for Enfield, Hackney, Islington and Waltham Forest had increased. Residual waste is the most expensive waste stream and tonnage variances will generate the largest movements. These amounts will be adjusted by variances in other waste streams.