

NORTH LONDON WASTE AUTHORITY

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| REPORT TITLE | |
| 2016/17 SECOND BUDGET REVIEW | |
| REPORT OF | |
| FINANCIAL ADVISER | |
| FOR SUBMISSION TO | DATE |
| AUTHORITY MEETING | 29 SEPTEMBER 2016 |
| 1. SUMMARY OF REPORT | |
| <p>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 £4.021m at 31 March 2017, i.e. a decrease of £0.438m compared with the first budget review.</p> <p>The forecast for residual waste tonnage has been lowered in the current year by 0.49% compared to budget. However, an increase in tonnage being delivered to Hendon has increased the overall cost of disposal by £0.438m.</p> <p>The Authority's capital programme has been increased in line with the decision to negotiate the purchase of land surrounding the EcoPark taken by Members at the June Authority meeting</p> <p>A further review of the 2016/17 budget together with an up-to-date detailed assessment of the budget and resource requirements for 2017/18 reflecting the expected new contractual arrangements will be reported to the Authority in December.</p> | |
| 2. RECOMMENDATIONS | |
| <p>The Authority is requested to note:-</p> <ul style="list-style-type: none">(i) The second review of the 2016/17 revenue budget.(ii) That a third review of the 2016/17 budget will be reported to the Authority meeting in December together with an up-to-date assessment of the budget and resource requirements for 2017/18. | |
| Signed by the Financial Adviser | |
| Agreed by Mike O'Donnell | |
| Date: 20 September 2016 | |

3. Introduction

- 3.1 At the Authority meeting in June, Members were advised that the 2015/16 outturn resulted in a revenue surplus of £4.283m at 31 March 2016. I also advised that the first review of the 2016/17 budget indicated that a small overall underspend of £0.176m could be expected.

| | £m |
|---|----------------|
| Higher level of balances brought forward from 2015/16 | (4.283) |
| Slippage from 2015/16 of Reuse and Recycling Centre improvement works | 0.111 |
| Slippage from 2015/16 of Future Residual Waste Management costs | 0.161 |
| Savings in borrowing costs & MRP | (0.448) |
| Total | (4.459) |

- 3.2 Taken as a whole therefore, it was forecast that balances at 31 March 2017 would be £4.459m. As a result of the second review, forecast revenue balances at the year-end are now estimated to reduce by £0.438m to £4.021m. 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: (+£0.438m)**

- 4.1.1 The 2016/17 budget was prepared using data showing that year on year reductions in residual waste tonnage had slowed and that there was evidence that tonnages were beginning to rise. Accordingly an allowance for growth was factored into the calculations. Taking this into account, the 2016/17 budget for treating residual waste was based on 600,145 tonnes.

- 4.1.2 Based on April to June tonnage and trends seen in recent years, 2016/17 forecast residual tonnage compared with 2015/16 levels for each borough may be summarised as follows:-

| Table 1 | September Forecast (Second Review) |
|-------------------------|---|
| | % |
| Barnet | +0.36 |
| Camden | - 0.67 |
| Enfield | - 0.94 |
| Hackney | +4.58 |
| Haringey | - 4.19 |
| Islington | +4.08 |
| Waltham Forest | - 6.16 |
| Overall Position | -0.19 |

- 4.1.3 The figures in table 1 reveal a mixed picture at a borough level but the trend suggests a small reduction in tonnage this year. 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 2017/18 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 2017/18 budget prospects. For this review however since the forecast above is based on statistics from years when tonnages were falling it would be prudent to factor in an allowance for growth. Based on the June data, borough forecasts of their own recycling activity and a prudent assumption of underlying waste growth, total residual tonnage for 2016/17 is forecast to be 597,226 i.e. 2,919 tonnes (0.49%) less than budget.

- 4.1.4 Despite the reduction in tonnage, there has been a change in the destination that waste is delivered. In the first quarter, the tonnage delivered to Hendon has increased. If this is extrapolated to the full year, tonnage delivered to Hendon would increase by 3.74% compared to budget. Waste that is sent from Hendon to a third party Energy from Waste facility incurs a higher cost, forecast at an additional £0.596m. Officers are discussing this with Boroughs to better understand this increase and the reasons behind it so that the increase in costs can be minimised. This increase is partially offset by the savings on lower overall tonnage and landfill tax (£0.158m).
- 4.4 A summary of the current position is included at appendix 1.

5. **Capital Programme**

- 5.1 At the Authority meeting in June, Members agreed to negotiate the purchase of freehold land around the Edmonton EcoPark. This had been factored in to the plan for 2017/18 but is now likely to be completed this year. This additional spend forecast to be in the region of £2.250m will not breach the Prudential Indicators for external debt and treasury management that were approved by Members at the February 2015 meeting.

6. **Review of the Outlook for 2016/17, 2017/18 and 2018/19**

- 6.1 The changes to the budget that have been presented in both the first and second reviews have largely been one off in nature with the exception of the changes to the Authority's borrowing requirements. The refinancing of a loan has created a recurring saving of £0.283m per annum.

7. **Conclusion**

- 7.1 Subject to member decisions, the improvement in the revenue balance at 31 March 2016 and the variations included in this review indicate that the Authority's reserves at the end of March 2016 will have increased by £0.438 m from the first review to £4.021m. A more detailed view of future years will be presented to the December meeting.

8. **Comments of the Legal Adviser**

- 8.1 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 11 February 2016 and 17 June 2016
2016/17 budgetary control working papers

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Appendix 1

| | 2016/17 Budget | 2016/17 First Review | 2016/17 Second Review | Variance |
|---|-------------------|----------------------------|-----------------------------|------------|
| | £'000 | £'000 | £'000 | £'000 |
| Expenditure | | | | |
| Main Waste Disposal Contract (ex CA Waste) | 34,213 | 34,213 | 34,666 | 453 |
| Civic Amenity Waste | 1,320 | 1,320 | 1,320 | 0 |
| Landfill Tax | 2,091 | 2,091 | 2,076 | (15) |
| Composting Services | 2,463 | 2,463 | 2,463 | 0 |
| MRF Services | 6,645 | 6,645 | 6,645 | 0 |
| Transfer Stations and Other Sites | 1,541 | 1,541 | 1,541 | 0 |
| Reuse and Recycling Centres | 3,215 | 3,215 | 3,215 | 0 |
| Corporate and other Support Service Costs | 2,481 | 2,481 | 2,481 | 0 |
| Operations Team | 488 | 488 | 488 | 0 |
| Waste Reduction Programme – New Initiatives | 333 | 333 | 333 | 0 |
| Technical and Planning Team | 427 | 427 | 427 | 0 |
| Joint Communications Initiative | 313 | 313 | 313 | 0 |
| Recycling Initiatives | 312 | 312 | 312 | 0 |
| Sites and Planning Process Costs | 2,041 | 2,152 | 2,152 | 0 |
| Future Residual Waste Management | 660 | 821 | 821 | 0 |
| Revenue Funding – Capital Programme | 7,619 | 7,171 | 7,171 | 0 |
| | 66,162 | 65,986 | 66,424 | 438 |
| Less | | | | |
| Income | | | | |
| Rents | (108) | (108) | (108) | 0 |
| Sale of Recyclates | (2,489) | (2,489) | (2,489) | 0 |
| Interest on Balances | (40) | (40) | (40) | 0 |
| Estimated Dividend Stream | 0 | 0 | 0 | 0 |
| | (2,637) | (2,637) | (2,637) | 0 |
| Net Expenditure | 63,525 | 63,349 | 63,787 | 438 |
| Contingency | 2,320 | 2,320 | 2,320 | 0 |
| Total Net Expenditure | 65,845 | 65,669 | 66,107 | 438 |
| Financed By | | | | |
| Use of Balances | (9,591) | (13,874) | (13,874) | 0 |
| Charges to Boroughs (Non-household waste) | (8,007) | (8,007) | (8,007) | 0 |
| Charges to Boroughs (Chargeable Household Waste) | (1,598) | (1,598) | (1,598) | 0 |
| 2016/17 Levy - Base Element | (42,590) | (42,590) | (42,590) | 0 |
| - HWRC Element | (4,059) | (4,059) | (4,059) | 0 |
| Total Levy | (46,648) | (46,648) | (46,648) | 0 |
| Total Resources Available | (65,845) | (70,128) | (70,128) | 0 |
| Estimated Additional Revenue Balances at 31 March 2017 | 0 | (4,459) | (4,021) | 438 |