

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2016/17 THIRD BUDGET REVIEW AND 2017/18 BUDGET FORECAST

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

AUTHORITY MEETING

DATE

7 DECEMBER 2016

SUMMARY OF REPORT

This report is the third in the current year on the Authority's finances. It concludes that the Authority is currently forecast to have a revenue surplus of £5.769m at 31 March 2017, i.e. an increase of £1.748m compared with the second review.

The 2016/17 budget and levy was the first set using a menu pricing basis. The Authority's operating costs are now attributable to individual boroughs using an agreed largely tonnage based methodology and balances resulting from differences between estimated and actual tonnages and costs are similarly attributable to individual boroughs.

A detailed assessment of the budget and resource requirements for 2017/18 indicates a net budget requirement of £65.562m. This is a decrease of £0.283m compared with the 2016/17 budget and £1.357m less than the 2017/18 medium term forecast reported in February 2016.

The total levy for 2017/18 is currently forecast to be £50.300m consisting of a base element of £45.636m and an RRC element of £4.664m. This represents an increase of 7.83% on 2016/17.

Despite a reduction in the net budget requirement in 2017/18, balances at 31 March 2017 available to support the 2017/18 levy are forecast to be £3.832m less than for 2016/17.

The Members' Finance Working Group will have an opportunity to examine the assumptions which underpin the current budget forecast and the levy options at its meeting in January 2017. The outcome of this review together with up-to-date advice on the Authority's budget and resource requirements for 2017/18 will be reported to the budget and levy setting meeting in February 2017. In keeping with established practice it is proposed to liaise with borough Directors of Finance to seek their views on the application of balances and to report back to the Authority at the budget and levy setting meeting in February.

The report also requests the Authority to note the findings and recommendations of the 2015/16 Annual Audit Letter.

RECOMMENDATIONS

The Authority is requested to note:-

- (i) The findings and recommendations of the 2015/16 Annual Audit Letter.
- (ii) The third review of the 2016/17 revenue budget.
- (iii) The current assessment of the budget and resource requirements for 2017/18 and the factors that could impact on the level of the 2017/18 levy.
- (iv) The proposed levy apportionment arrangements for 2017/18.
- (v) The issues that will need to be addressed in setting the budget and levy for 2017/18 at the Authority meeting on 9 February 2017.

Signed by the Financial Adviser:

Agreed by Mike O'Donnell

Date: 28 November 2016

1. INTRODUCTION

- 1.1 This report provides Members with the External Auditor's Annual Letter for noting (section 2), and contains the third budget review for the current financial year. Finally, it sets out the current assessment of the levy requirement for 2017/18, together with the anticipated levy arrangements based on that current assessment, and a note of the issues to be addressed at the Authority meeting in February 2017 when the levy will be set.
- 1.2 The format of the report has been changed so that explanations to the variances are contained within the body of the report. Now that the Authority applies a menu pricing system to apportion the levy and charges, it also needs to apportion the forecast outturn between the constituent boroughs. Appendix B provides the detail as to these calculations relating to the 2016/17 forecast outturn and an explanation of the supporting detail. Appendix C includes similar detail supporting the calculation of the forecast levy and charges by borough for 2017/18.

2. **External Auditor's Annual Letter to Members**

- 2.1 On the 29 September 2016, the Authority's Auditors, KPMG, issued an unqualified audit opinion on the 2015/16 financial statements and an unqualified conclusion on the Authority's arrangements for securing value for money. In addition, KPMG confirmed that the Authority's Annual Governance Statement complied with CIPFA/SOLACE guidance and was consistent with their audit of the financial statements. The certificate which formally completed the audit of the Authority's financial statements was issued on 29 September 2016.
- 2.2 The Auditor's 2015/16 letter is contained in Appendix A to this report.

3. **Review of the 2016/17 Revenue Budget**

- 3.1 At its meeting on 11 February 2016 the Authority agreed a budget of £65.845m to be financed by using balances of £9.591m, charges to boroughs for non-household waste and chargeable household waste of £8.007m and £1.598m respectively, and a levy of £46.649m.
- 3.2 In subsequent reviews Members have been advised of the following changes to outturn compared to the budget:

	£m
Higher level of balances brought forward from 2015/16	(4.283)
Forecast increase in residual waste tonnages	0.438
Slippage from 2015/16 of Sites and Planning Costs	0.272
Reductions in Capital Financing Costs	(0.448)
Forecast revenue balance at 31 March 2017	(4.021)

- 3.3 A further detailed review of the budget has identified a number of other changes, the net effect of which is estimated to increase the level of surplus revenue balances likely to be available at 31 March 2017 by a further £1.748m to £5.769m. A breakdown of the budget and latest forecast has been included as table 1 in appendix B. Tables 2 and 3 in appendix B contain the levy tables by borough and tables 4 and 5 provide a borough breakdown of the charges. Details of the most significant changes identified by the third review are shown in paras 3.4 to 3.11 below.

3.4 Transport, Disposal and Landfill Tax: (- £1.027m)

3.4.1 Residual waste tonnages delivered to the Authority in 2015/16 were 1.53% greater than in 2014/15, the first year on year increase since 2002/03. Projection data for the six months to September 2016 provides further evidence that residual waste tonnages are now on an upward trend. Details of the movement in projected 2016/17 residual waste tonnage levels for each borough compared with 2015/16 are shown below:-

Table 1	September Projection	December Projection	Variance between September and December projections
	<i>(April to June data)</i>	<i>(April to September data)</i>	
	%	%	%
Barnet	+ 0.36	+ 1.08	+ 0.72
Camden	- 0.67	- 1.93	- 1.26
Enfield	- 0.94	- 2.39	- 1.45
Hackney	+ 4.58	+ 2.88	- 1.70
Haringey	- 4.19	+ 2.32	+ 6.51
Islington	+ 4.08	+ 3.55	- 0.53
Waltham Forest	- 6.16	+ 0.17	+ 6.33
Overall Position	- 0.19	+ 0.77	+ 0.96

3.4.2 At the Authority meeting in September Members were advised that forecasts based on tonnage data for April to June 2016 indicated that residual waste delivered to the Authority in 2016/17 would be 0.49% less than budget. Since then, September data suggests that residual waste delivered to the Authority in 2016/17 will be 601,139 tonnes, i.e. 2.21% greater than 2015/16 and 0.17% greater than budget. This forecast allows for an increase of 1% in the total waste stream during the second half of the year.

3.4.3 More waste than allowed for in the 2016/17 budget was being delivered to the Hendon Waste Transfer Station for transport and disposal at the Greatmoor energy from waste facility. Data available to inform this third review suggests that the additional tonnage delivered will be less than reported in September meeting but will nevertheless remain greater than the amount assumed in the budget. Lower than budgeted transport costs partially offset this increase.

3.4.4 The overall forecast position for the cost of treating residual waste at Edmonton and the cost of transporting waste from Hendon to Greatmoor is £34.208m which is £0.275m less than the second review forecast.

3.4.5 The contract with LondonWaste Ltd. (LWL) provides for an element of risk sharing between the Authority and the company in relation to the prices achieved for the electricity the company generates and sells. Electricity prices have risen slightly in recent months and compared with the second review, the value of this claim payable to LWL is estimated to have reduced £0.183m.

- 3.4.6 This review is forecasting a reduction in the cost of RRC residual waste disposal of £0.234m. This arises from lower tonnages particularly from the Barrowell Green site in Enfield.
- 3.4.7 The forecast Landfill Tax liability is £0.355m less than forecast in the second review but this includes an adjustment of £0.255m in respect the 2015/16 settlement.
- 3.4.8 Prices in the Authority's waste contracts including the new contract with LWL are linked to changes in the Retail Price Index (RPI). The 2016/17 budget allowed for an increase of 2.4% at the relevant review date (1 January for most LWL prices) for these contracts, RPI is currently rising at an annual rate of 2.0% (October index). Based on this and HM Treasury's summary of independent forecasts, an RPI increase of 2.4% is still appropriate. Actual December year-on-year inflation levels will be known by the time of the February budget and levy meeting and the fourth budget review therefore will contain the actual rate of change.
- 3.4.9 Allowing for all of the above changes and other minor revisions, the net effect of these changes, compared with the second budget review is to reduce the cost to the Authority by £1.027m in 2016/17.

3.5 MRF and Composting Services: (+ £0.160m)

- 3.5.1 Based on forecast data provided by constituent boroughs, usage of the MRF service for commingled waste in 2016/17 is expected to be 124,343 tonnes. Compared with the 2016/17 budget which was based on 121,421 tonnes, the expenditure on transporting and processing commingled waste is estimated to increase by £0.073m to £6.718m.
- 3.5.2 Members have previously been advised that the DEFRA MRF Code of Practice introduced in 2014 has prompted more stringent inspection regimes at the MRFs with a consequent increase in rejected material requiring disposal. The Authority forecasts that 3,564 tonnes might be rejected and that this additional disposal cost will be £0.113m in 2016/17. The total cost of the MRF service therefore, is estimated at £6.831m, which is £0.187m greater than forecast in the second review.
- 3.5.3 Borough estimates for composting total 54,374 tonnes, a reduction by 145 tonnes compared with the budget. Expenditure on the composting service is forecast to be £2,436m which is £0.027m less than forecast in the second review.

3.6 Re-use and Recycling Centres (RRCs): (+ £0.047m)

- 3.6.1 This budget captures the operating costs of the RRCs, the costs and incomes arising from the transport and treatment of recyclable material and an element of staffing costs. Compared with the second review the third review allows for a net increase of £0.047m due to increased recycling tonnages. This additional cost has been partially offset by savings in other costs.
- 3.6.2 Table 2 in Appendix B provides a summary of the current financial position for each borough:

3.7 Re-use and Recycling Credits and Other Recycling Initiatives: (- £0.033m)

- 3.7.1 The Reuse and Recycling Credits scheme provides funds to reward not-for-profit and charitable organisations for taking waste out of the waste stream which reduces the Authority's costs. The budget reflects information provided by registered organisations

during the application process. The value of claims made so far year suggests that this budget will be under-spent by £0.033m.

3.8 Revenue Funding – Capital Programme: (- £0.400m)

3.8.1 This budget provides for the revenue cost of funding the Authority's capital programme. The latest programme review has identified further interest savings of £0.400m compared with the second review. The savings arise principally because the Authority has been able to defer the need to borrow to fund previous acquisitions.

3.9 Income from the sale of Recyclates: (- £0.421m)

3.9.1 Latest tonnage forecasts provided by the boroughs for comingled waste (paragraph 3.5.1) indicate an increase in tonnage. Prices achieved in the market by the Authority's MRF contractors fell to an average of £21.35 per tonne in 2015/16 but there is evidence in 2016/17 of an improvement. The third review therefore allows for an average of £24.09 per tonne. Taking this into account and the rejected loads that do not attract any income, the third budget review allows for an increase of £0.421m compared with the budget.

3.10 Charges to Boroughs for Non-Household Waste: (- £0.080m)

3.10.1 In the light of borough tonnage declarations, non-household residual waste is currently estimated to increase to 96,070 tonnes compared with the budget assumption of 93,144 tonnes, i.e. an increase of 2,926 tonnes. The declared 9,211 tonnes of recyclable waste represents a decrease of 663 tonnes compared with the 2016/17 budget. Based on these declarations it is estimated that income will increase by £0.080m to £8.086m in 2016/17.

3.10.3 Boroughs make on account payments to the Authority during the year based on the original estimate. Any additional sums due or refunds are determined as part of the 2016/17 final accounts process. A breakdown by borough is provided in table 4 in Appendix B. The table indicates that Camden and Waltham Foest may be entitled to a refund. The other boroughs could be required to make an additional payment to the Authority.

3.11 Charges to Boroughs for Chargeable Household Waste: (+ £0.061m)

3.11.1 The latest declarations by the boroughs indicate a small reduction in residual tonnage sent to the Authority and an increase in recyclable tonnages compared with the budget assumption. Estimated charges are shown in table 5 in Appendix B. Islington may need to make an additional payment to the Authority. Other boroughs could be entitled to a refund.

3.12 Balances at 31 March 2017

3.12.1 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. Tables 2 and 3 in Appendix B show how in-year savings of £0.193m for RRCs and £5.576m for the Base levy might be apportioned (based on current forecast) between the boroughs and used to reduce the levy when the Authority determines its 2017/18 levy.

3.13 Overview

3.13.1 Allowing for the factors outlined above, the total net expenditure in 2016/17 for the Authority is estimated to reduce to £64.377m. This represents a reduction of £1.730m compared with the second budget review in September. Taking into account an increase in non-household and household charges since September of £0.018m, the net revenue surplus at 31 March 2017 is currently forecast to increase to £5.769m, i.e. a net increase of £1.748m since the September forecast.

4. 2017/18 Budget Forecast

4.1 At the Authority meeting in February 2016, Members were provided with an early forecast of the budget and resource requirements for 2017/18. This indicated that the net budget requirement was estimated to be £66.919m. The latest forecast has reduced the estimate for 2017/18 by £1.357m to £65.562m. This is £0.238m lower than the 2016/17 budget. The changes from the 2016/17 budget are discussed in section 6 below.

4.2 In setting the levy for 2016/17, no balances were forecast as being available to support the 2017/18 budget and levy. Taking this into account the levy was forecast to increase by 22.86% in 2017/18. 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 2017 could increase by a further £1.486m to £5.769m.

4.3 The projected year on year change to the levy and charges is summarised below:

Table 2	2016/17 Budget £'000	2017/18 Forecast £'000	Variance £'000	Variance %
Charges – non-household	8,007	7,999	(8)	(0.10)
Charges – household	1,598	1,494	(104)	(6.51)
Levy	46,649	50,300	3,651	7.83
Total	56,254	59,793	3,539	6.29

4.4 As per table 2 above, there is a forecast increase in the headline levy of 7.83%. Although as noted above the Authority's net budget requirement is forecast to reduce in 2017/18 the reduction in balances available, compared with 2016/17, results in a forecast levy increase.

5. 2017/18 Budget Forecast Assumptions

5.1 The Authority's full budget is included at table 1 in Appendix C and include the following factors:-

5.2 Inflation

5.2.1 The majority of the Authority's contracts are linked to changes in the Retail Price Index (RPI) with the most significant of these linked to the December Index. The summary of independent forecasts published by HM Treasury in November 2016 puts the December 2016 annual RPI increase at 2.4% and the budget forecast currently reflects this level of increase in the relevant costs plus a further 3.4% in December 2017. Other categories of

expenditure have been increased by 2.5%. Inflation assumptions will be reviewed and updated at the February budget and levy meeting.

5.3 Transport and disposal

5.3.1 The 2017/18 transport and disposal budget has been based upon a residual waste stream of 617,743 tonnes, i.e. a net increase of 16,604 tonnes over the 2016/17 forecast outturn. Members will be aware that the residual waste stream has entered a period of growth and the increase is based on a 3% growth in the total waste stream. On the basis of information provided by boroughs the 2017/18 residual tonnage forecast allows for a reduction of 6,653 tonnes to reflect the boroughs' planned increase in recycling and composting over the coming year. In accordance with the Inter Authority Agreement tonnage forecasts that will inform the 2017/18 budget and levy proposals will be agreed with borough officers during December.

5.3.2 The overall increase in this budget of £0.179m is primarily due to the impact of the waste tonnage growth mitigated by a reduction in the estimated compensation payable to LondonWaste Ltd under the electricity income claim provisions of the main waste contract. The reduction reflects an anticipated increase in wholesale electricity prices.

5.4 Landfill Tax

5.4.1 The standard rate of landfill tax will rise from £84.40 to £86.10 per tonne on 1 April 2017. The impact of the tax increase is nullified by a reduction in residual RRC waste that cannot be incinerated and consequently has to be sent to landfill.

5.5 Composting and MRF Services

5.5.1 The budget forecast reflects the intention of the constituent boroughs to deliver 56,472 tonnes of organic waste to the Authority in 2017/18. Compared with the 2016/17 estimate this represents an increase of 1,953 tonnes.

5.5.2 Boroughs have indicated that they will need treatment capacity for 128,773 tonnes of dry recyclable material in 2017/18, an increase of 7,352 tonnes of the tonnage that informed the 2015/16 budget. The 2017/18 budget forecast also includes provision of £0.119m to meet the additional cost resulting from rejected material that cannot be recycled.

5.6 Re-use and Recycling Centres

5.6.1 The budget provides for the operation of eight Re-use and Recycling Centres at a cost of £4.587m and capital financing costs of £0.270m. The amounts charged to the relevant boroughs through the 2017/18 levy will also allow for the additional balances that arose from the closure of the 2015/16 accounts and forecast additional balances from 2016/17. A breakdown by borough of these costs is provided in table 2 in Appendix C

5.7 Waste Prevention Programme – New Initiatives

5.7.1 The budget forecast provides for the second year costs of the two year programme agreed at the Authority meeting in February 2016.

5.8 Joint Communications Initiative

5.8.1 The budget forecast represents the second year of the three year Communications Campaign on Household Recycling in North London agreed at the Authority meeting in February 2015.

5.9 Recycling Initiatives

5.9.1 The Authority has the power to pay third party re-use and recycling credits. The budget forecast includes a provision of £0.250m for these payments and £0.062m to support the Real Nappy Campaign.

5.10 Sites and Planning Process Costs, Strategy and Options Review & Procurement

5.11.1 The budget forecast reflects an assumption that the outcome of the DCO application will be favourable and that the project will enter the procurement phase.

5.11 Revenue Funding – Capital Programme

5.11.1 The budget forecast provides for the financing of:

- the Authority's investment in LondonWaste Ltd
- Pinkham Way
- acquisition of the RRC site at Western Road
- the planned acquisition of land adjacent to the Ecopark to facilitate construction of the new EfW facility
- the possible acquisition of an additional RRC site and the refurbishment of other RRC sites

5.12 Income from the sale of Recyclates

5.12.1 In view of recent increase in the sale value the 2017/18 budget forecast assumes that these prices will continue and is based on a per tonne income of £24.00.

5.13 Non-household Waste Charges

5.13.1 Based upon estimates provided by the boroughs the Authority is expecting to receive 106,912 tonnes in 2017/18 comprising 96,979 tonnes of residual waste, 8,759 tonnes of dry recyclable waste and 1,174 tonnes of food waste.

5.13.2 The Authority has estimated charges for the treatment of such waste to be £77.84 per tonne for residual waste, £42.10 for dry-recyclable waste and £69.10 for food waste. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with the MRF providers.

5.13.3 Based on the advised tonnages the estimated cost to the boroughs is £7.549m for residual waste, £0.369m for dry recyclable waste and £0.081m for food waste. This is broken down by borough in table 4 in appendix C.

5.14 Chargeable Household Waste

5.14.1 Boroughs have advised the Authority that they will collect 20,351 tonnes of chargeable household waste comprising 17,172 tonnes of residual waste, 4,068 tonnes of recyclable and compostable waste and 884 tonnes of food waste.

5.14.2 The Authority has calculated the estimated charges for the treatment of chargeable household waste as £77.84 for residual waste, £42.10 for dry-recyclable waste and £69.10 for food waste.

5.14.3 Based on the advised tonnages the estimated cost to the boroughs is £1.336m for residual waste, £0.097m for dry recyclable waste and £0.061m for food waste. The cost is broken down by Borough in table 5 in Appendix C.

5.15 **Efficiency Savings and Other Cost Reductions**

5.15.1 Members will be aware that given the demand-led nature of the service provided by the Authority to the constituent councils and the long-term contracts that it has for the majority of these services, that the scope to make savings is limited. Despite these limitations the officers take every opportunity to reduce costs or to improve value for money where possible. Initiatives in recent years include:

- The transfer of waste from Hendon to be incinerated at the Edmonton EcoPark is producing annual savings of some £3m and also protects the Authority from future increases in Landfill Tax.
- The shredding and incineration of most residual waste collected from the Reuse and Recycling Centres is saving a net £1.4m annually, mostly in the Authority's Landfill tax liability.
- From 2016/17, all remaining residual waste from Hendon is sent to an EfW plant in Bedfordshire, saving the Authority £0.4m annually.
- Refinancing a loan in the current year and replanning capital expenditure has resulted in a saving of £0.8m in 2016/17 and ongoing savings of £0.3m per annum.
- Day to day operational costs were reviewed and the 2016/17 budget for Corporate and other Support Service Costs, the Operations Team and the Technical and Planning Team was reduced by more than £0.2m.
- The Authority, through the contract with LondonWaste Ltd, has also secured lower gate fees across a range of services and these have been reflected in budget updates.

5.16 **Contingency**

5.16.1 There is a high degree of uncertainty about the scale of a number of budget pressures in the coming year. This is particularly the case for the Sites and Planning budget. It is proposed that a contingency of £1m be reserved for this budget and related matters in addition to a 2% operational base contingency provision of £1.265m. This is consistent with previous years. This budget cannot be used without further Authority approval.

6. **Levy Apportionment Arrangements**

6.1 All boroughs formally agreed to adopt a menu price based levy for 2016/17 onwards.

6.2 Table 3 on the following page, summarises the estimated levy impact for each council (further details of the calculation for 2017/18 can be found in tables 2 and 3 in Appendix C):

Table 3	2016/17 Levy			2017/18 Forecast Levy			Total estimated levy change (Column 6 minus Column 3)	
	Base	RRC	Total	Base	RRC	Total		
	(1)	(2)	(3)	(4)	(5)	(6)		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Barnet	8,454	1,308	9,762	8,841	1,089	9,930	168	1.72
Camden	4,910	407	5,317	4,840	417	5,257	(60)	(1.13)
Enfield	5,771	72	5,843	5,833	83	5,916	73	1.25
Hackney	6,188	247	6,435	7,002	271	7,273	838	13.02
Haringey	6,166	705	6,871	7,242	981	8,223	1,352	19.68
Islington	4,657	577	5,234	4,894	735	5,629	395	7.55
Waltham Forest	6,444	743	7,187	6,984	1,088	8,072	885	12.31
Total	42,590	4,059	46,649	45,636	4,664	50,300	3,651	7.83

7. Medium Term Budget Forecast for 2018/19 to 2020/21

7.1 Assuming that no balances are available to support budgets for these years, net expenditure and levies are forecast as follows:

Table 13	Net Expenditure	Base Levy	RRC Levy	Total	Increase
	£m	£m	£m	£m	%
2018/19	69,146	54,224	4,975	59,199	17.69
2019/20	73,442	57,796	5,093	62,889	6.23
2020/21	77,456	61,190	5,213	66,403	5.59

8. Conclusion

8.1 This third review indicates that the 2016/17 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year and balances at 31 March 2017 are likely to be significantly higher than was assumed when the budget was set in February 2016. There is no certainty that any further balances will emerge in 2017/18 and the forecast levy for 2018/19 to 2020/21 includes no allowance for them.

8.2 In February it will be necessary for Members to take decisions to ensure that the 2017/18 budget is sufficient to meet the Authority's statutory obligations in the year ahead. To assist with this process the Member Finance Working Group will be meeting in January 2017 to review the assumptions which underpin the 2017/18 budget forecast and to

consider levy options. It is also proposed to liaise with borough Directors of Finance. The outcome from these reviews together with up-to-date advice on the Authority's budget and resource requirements for 2017/18 will be reported to the budget and levy setting meeting in February.

9. **Comments of the Legal Adviser**

- 9.1 The Authority may in accordance with Regulation 3(1) of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006, issue levies on its constituent councils to meet all liabilities falling to be discharged by it for which no provision is otherwise made.
- 9.2 The amount to be levied by the Authority in respect of any financial year from each of its constituent councils is determined in accordance with Regulation 4 by apportioning the total amount to be levied either in such proportions as all the constituent councils may agree or in absence of such agreement, by a combination of:
- 9.2.1 apportioning costs in proportion to the tonnage of household waste delivered by each of council; and
 - 9.2.2 for non-household waste and other costs, apportioning costs on the basis of the council tax base.
- 9.3 As stated in Paragraph 7.1 above, all the constituent councils have agreed that alternative levy apportionment arrangements will apply from 2012/13 until replaced by arrangements set out in the Inter Authority Agreement. This sufficiently meets the requirements of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:-
Reports to the Authority dated 12 February, 25 June and 25 September 2015.
2014/15 budgetary control and 2016/17 budget working papers

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Annual Audit Letter 2015/16

North London Waste Authority

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October 2016



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

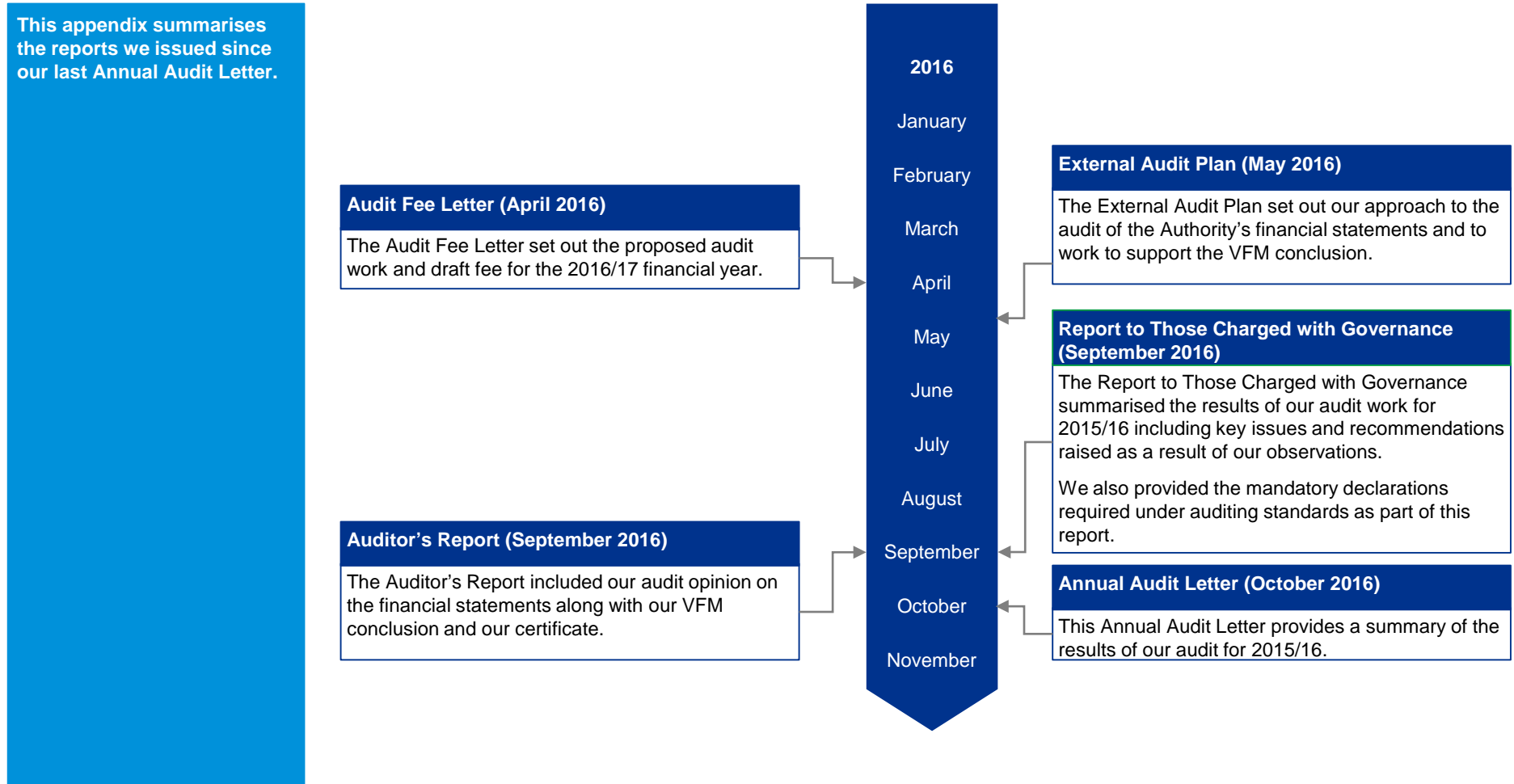
We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at North London Waste Authority in relation to their 2015/16 audit year.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

VFM conclusion	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2015/16 on 29 September 2016. This means we are satisfied that during the year that Authority had proper arrangements for informed decision making, sustainable resource deployment and working with partners and third parties.</p> <p>To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>
VFM risk areas	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion. We did not identify any VFM risks in our External audit plan 2015/16. We worked with officers throughout the year to discuss VFM matters. There are no matters of any significance arising as result of our VFM audit work.</p>
Audit opinion	<p>We issued an unqualified opinion on the Authority's financial statements on 29 September 2016. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the Authority's Group, which consists of the Authority itself and Londonwaste Limited.</p>
Financial statements audit	<p>Our audit did not identify any audit adjustments The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the accounts from these presentational adjustments.</p> <p>The group financial statements incorporated one unadjusted error originally reported to LondonWaste Limited (LWL) by its auditors, BDO. The effect of this unadjusted error would be to increase the group's surplus by £84,000, with no effect on the group's net assets.</p> <p>We have noted an improvement in the quality of the accounts and the supporting working papers. The quality of the accounts and the supporting working papers were of a good standard this year. Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p>
Other information accompanying the financial statements	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.</p>
High priority recommendations	<p>We have not raised any recommendations as a result of our 2015/16 audit work.</p>
Certificate	<p>We issued our certificate on 29 September 2016. The certificate confirms that we have concluded the audit for 2015/16 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.</p>
Audit fee	<p>Our fee for 2015/16 was £18,270, excluding VAT. This is the same as the planned fee and the scale fee set by PSAA Ltd.</p> <p>We did not charge any additional fees for other services.</p>

Appendix 1: Summary of reports issued





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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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2016/17 Forecast Outturn and Forecast Balances

1.1 Table 1 below provides a summary of the current financial position against budget and with a comparison to the second and third reviews:

Table 1	2016/17 Original Budget	2016/17 Second Review	2016/17 Third Review	Variance between Second and Third Reviews
	£'000	£'000	£'000	£'000
Expenditure				
Main Waste Disposal Contract (ex CA Waste)	34,213	34,666	34,208	(458)
Civic Amenity (RRC) Residual Waste	1,320	1,320	1,086	(234)
Landfill Tax	2,091	2,076	1,741	(335)
Composting Services	2,463	2,463	2,436	(27)
MRF Services	6,645	6,645	6,832	187
Transfer Station and Other Sites	1,541	1,541	1,535	(6)
Re-use and Recycling Centre Operations	3,215	3,215	3,262	47
Corporate and Other Support Service Costs	2,481	2,481	2,464	(17)
Operations Team	488	488	481	(7)
Waste Prevention Programme – New Initiatives	333	333	333	0
Technical and Planning Team	427	427	429	2
Joint Communications Initiative	313	313	305	(8)
Recycling Initiatives	312	312	279	(33)
Sites and Planning Process Costs	2,041	2,152	2,152	0
Next Steps – Strategy and Options Review	660	821	821	0
Revenue Funding – Capital Programme	7,619	7,171	6,771	(400)
	66,162	66,424	65,135	(1,289)
Less				
Income				
Rents	(108)	(108)	(108)	0
Sale of Recyclates	(2,489)	(2,489)	(2,910)	(421)
Interest on Balances	(40)	(40)	(60)	(20)
	(2,637)	(2,637)	(3,078)	(441)
Net Expenditure	63,525	63,787	62,057	(1,730)
Contingency	2,320	2,320	2,320	0
Total Net Expenditure	65,845	66,107	64,377	(1,730)
Financed by:				
Balances b/fwd	(9,591)	(13,874)	(13,874)	0
Charges to Boroughs (non-household waste)	(8,007)	(8,007)	(8,086)	(79)
Charges to Boroughs (household waste)	(1,598)	(1,598)	(1,537)	61
Levy – Base Element	(42,590)	(42,590)	(42,590)	0
Levy - RRC Element	(4,059)	(4,059)	(4,059)	0
Total Resources Available	(65,845)	(70,128)	(70,146)	(18)
Estimated Revenue Balance at 31 March 2017	0	(4,021)	(5,769)	(1,748)
Retained Balances	0	0	0	0

2 Re-use and Recycling Centre (RRCs) Balances:

- 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.
- 2.2 In setting the budget and levy for 2016/17 the Authority estimated that it would have balances of £0.473m to offset the cost of RRCs in 2016/17. The 2015/16 outturn produced balances at 31 March 2016 of £0.437m, a decrease of £0.036m.
- 2.3 The Authority's purchase of the Western Road RRC is not expected to take place until later this financial year so £0.275m of capital financing costs included in the 2016/17 second review will not be incurred.
- 2.4 Table 2 below provides a summary of the current financial position for each borough:

Table 2	1	2	3	4	5
	Change in RRC Balances at 1 April 2016 (As reported In June)	Total Operating Costs – 2016/17 Original Budget	Total Operating Costs - 2016/17 Third Budget Review	Change in 2016/17 Total Operating Costs	Estimated RRC Balances at 31 March 2017 (Column 1 plus 4)
	£'000	£'000	£'000	£'000	£'000
Barnet	(13)	992	1,013	21	8
Camden	(9)	480	426	(54)	(63)
Enfield*	0	77	75	(2)	(2)
Hackney	0	246	255	9	9
Haringey	28	1,148	890	(258)	(230)
Islington	48	610	637	27	75
Waltham Forest	(18)	979	1007	28	10
Total	36	4,532	4,303	(229)	(193)

* 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.

- 2.5 Subject to final review in February, RRC balances of £0.193m will be taken into account in calculating the RRC element of the 2017/18 levy.

3 Base Levy Balances at 31 March 2017

- 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 2016/17 levy included estimated balances of £9.591m which enabled the Authority to set a levy of £42.590m. Since the levy is fixed for the year, the additional balances arising from the 2015/16 outturn feed into the estimated balance at 31 March 2017 and can be taken into account together with any in-year savings when the Authority determines its 2017/18 levy.

Table 3	Additional balance at 1 April 2016 (reported In June)	2016/17 Budget Levy Costs	2016/17 Levy Costs - Third Budget Review	Forecast Change in 2016/17 Levy Costs	Estimated Balance at 31 March 2017 (Column 1 plus 4)
	1	2	3	4	
	£'000	£'000	£'000	£'000	£'000
Barnet	(955)	10,460	10,039	(421)	(1,376)
Camden	(568)	6,078	5,731	(347)	(915)
Enfield	(588)	6,970	6,632	(338)	(926)
Hackney	(532)	7,339	7,420	81	(451)
Haringey	(580)	7,417	7,539	122	(458)
Islington	(505)	5,711	5,511	(200)	(705)
Waltham Forest	(592)	7,733	7,580	(153)	(745)
Total	(4,320)	51,708	50,452	(1,256)	(5,576)

4 Charges to Boroughs for Non-Household Waste:

- 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.
- 4.1 Forecast charges to boroughs for the disposal of non-household waste in 2016/17 compared with the original budget assumptions are shown in the table below:-

Table 4	2016/17 Original Estimate	2016/17 Current Forecast	Estimated Variance
	£	£	£
Barnet	891,259	911,277	20,018
Camden*	2,372,121	2,319,645	(52,476)
Enfield	761,779	762,599	820
Hackney*	1,602,471	1,619,345	16,874
Haringey *	278,608	308,135	29,527
Islington *	1,976,929	2,051,525	74,596
Waltham Forest	123,357	113,710	(9,647)
Total	8,006,524	8,086,236	79,712

* Including income from non-household recyclable wastes.

5 **Charges to Boroughs for Chargeable Household Waste:**

5.1 Forecast charges to Boroughs for the disposal of Chargeable household waste in 2016/17 compared with the original budget assumptions are shown in the table below

Table 5	2016/17 Original Estimate	2016/17 Current Forecast	Estimated Variance
	£	£	£
Barnet	202,058	182,448	(19,610)
Camden*	348,103	331,296	(16,807)
Enfield	116,826	114,510	(2,316)
Hackney*	441,977	429,548	(12,429)
Haringey *	215,243	204,494	(10,749)
Islington *	273,733	274,630	897
Waltham Forest	0	0	0
Total	1,597,940	1,536,926	(61,014)

2017/18 Budget Forecast of Levy & Charges

1.1 Table 1 below provides a summary of the 2017/18 budget forecast:-

Table 1	2016/17 Original Budget £'000	2017/18 Budget Forecast £'000	Year on year change £'000
Expenditure			
Main Waste Disposal Contract (ex CA Waste)	34,213	34,392	179
Civic Amenity (RRC) Residual Waste	1,320	1,115	(205)
Landfill Tax	2,091	2,069	(22)
Composting Services	2,463	2,603	140
MRF Services	6,645	7,246	601
Transfer Stations and Other Sites	1,541	1,562	21
Re-use and Recycling Centre Operations	3,215	3,520	305
Corporate and other Support Service Costs	2,481	2,431	(50)
Operations Team	488	491	3
Waste Prevention Programme – New Initiatives	333	340	7
Technical and Planning Team	427	433	6
Joint Communications Initiative	313	305	(8)
Recycling Initiatives	312	312	0
Sites and Planning Process Costs	2,041	144	(1,897)
Next Steps – Strategy and Options Review	660	50	(610)
Procurement Process	0	1,769	1,769
Revenue Funding – Capital Programme	7,619	7,688	69
	66,162	66,470	308
Less			
Income			
Rents	(108)	(111)	(3)
Sale of Recyclates	(2,489)	(3,003)	(514)
Interest on Balances	(40)	(60)	(20)
	(2,637)	(3,174)	(537)
Net Expenditure	63,525	63,296	(229)
Contingency	2,320	2,266	(54)
Total Net Expenditure	65,845	65,562	(283)
Financed By			
Use of Balances	(9,591)	(5,769)	3,822
Charges to Boroughs (Non-household waste)	(8,007)	(7,999)	8
Charges to Boroughs (Chargeable household waste)	(1,598)	(1,494)	104
Estimated Levy – Base Element	(42,590)	(45,636)	(3,046)
Estimated Levy – RRC Element	(4,059)	(4,664)	(605)
Total Estimated Levy	(46,649)	(50,300)	(3,651)
Total Estimated Resource Requirement	(65,845)	(65,562)	283
Retained Balances	0	0	0

2. Re-use and Recycling Centre Levy

- 2.1 The amounts charged to the relevant boroughs through the 2017/18 levy allow for the additional balances that arose from the closure of the 2015/16 accounts and forecast additional balances from 2016/17.

Table 2	Forecast balances at 1 April 2017	2017/18 Estimated operating costs	2017/18 Estimated Levy
	£'000	£'000	£'000
Barnet	8	1,081	1,089
Camden	(63)	480	417
Enfield	(1)	84	83
Hackney	8	263	271
Haringey	(230)	1,211	981
Islington	75	660	735
W. Forest	10	1,078	1,088
Total	(193)	4,857	4,664

3. Base Levy

- 3.1 The amounts charged to the relevant boroughs through the 2017/18 base levy allow for the additional balances that arose from the closure of the 2015/16 accounts and forecast additional balances from 2016/17.

Table 3	Forecast balances at 1 April 2017	2017/18 Estimated Levy Requirement	2017/18 Estimated Levy
	£'000	£'000	£'000
Barnet	(1,376)	10,217	8,841
Camden	(915)	5,755	4,840
Enfield	(926)	6,759	5,833
Hackney	(451)	7,453	7,002
Haringey	(458)	7,700	7,242
Islington	(705)	5,599	4,894
W. Forest	(745)	7,729	6,984
Total	(5,576)	51,212	45,636

4. Non-household Waste Charges

- 4.1 The cost to boroughs in 2017/18 is estimated to be:-

Table 4	2017/18 Estimated Tonnes	2017/18 Estimated Cost (£)
Barnet	11,250	875,661
Camden*	30,838	2,265,057
Enfield	9,660	751,901
Hackney*	22,151	1,626,385
Haringey *	4,053	300,819
Islington *	27,539	2,067,949
Waltham Forest	1,421	110,606
Total	106,912	7,998,378

* Including tonnages and income from non-household recyclable wastes.

4.2 The final charges will be calculated as part of the 2016/17 final accounts process and reported to the Authority in June 2017. Any under or over payment by boroughs will be collected from or repaid to boroughs at the conclusion of the final accounts process.

5. Chargeable Household Waste

5.1 The cost to boroughs in 2017/18 is estimated to be:

Table 5	2017/18 Estimated Tonnes	2017/18 Estimated Cost (£)
Barnet	2,280	177,467
Camden	4,446	323,154
Enfield	1,431	111,384
Hackney	5,731	422,110
Haringey	2,866	200,994
Islington	3,597	259,201
Waltham Forest *	0	0
Total	20,351	1,494,310

* Waltham Forest has indicated that it does not collect such waste.

5.2 Arrangements for the settling of over or under payments by the boroughs are the same as for non-household waste.