

## NORTH LONDON WASTE AUTHORITY

### REPORT TITLE

2015/16 THIRD BUDGET REVIEW AND 2016/17 BUDGET FORECAST

### REPORT OF

FINANCIAL ADVISER

### FOR SUBMISSION TO

AUTHORITY MEETING

### DATE

10 DECEMBER 2015

### 1. 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 £9.620m at 31 March 2016, i.e. an increase of £1.856m compared with the second review.

This review of the 2015/16 budget and the forecast for 2016/17 reflect the continued positive impact of recent operational changes which deliver significant savings to the Authority principally in its Landfill Tax liability. The 2016/17 forecast also reflects the expected commencement of the incineration of waste at a new FCC Electricity from Waste (EfW) facility in Buckinghamshire. This waste has hitherto been sent to landfill.

A detailed assessment of the budget and resource requirements for 2016/17 indicates a net budget requirement of £68.230m. This is an increase of £2.057m compared with the 2015/16 budget and £1.965m higher than the 2016/17 medium term forecast reported in February 2015.

Taking into account income from chargeable waste, the total levy for 2016/17 is currently forecast to be £47.537m consisting of a base element of £44.468m and an RRC element of £3.069m. This represents an increase of 2.33% on 2015/16.

In October 2015 management of the Summers Lane RRC in Barnet passed to the Authority. Forecast net expenditure in 2015/16 and 2016/17 includes estimates of the resultant additional costs. This has the effect of increasing the overall 2016/17 forecast levy by £1.220m which will be collected from Barnet. On a like for like basis therefore, the forecast overall 2016/17 levy is £0.136m or 0.29% lower than 2015/16.

As well as the Summers Lane transfer, the report notes a number of other factors contributing to the increase in the 2016/17 net budget requirement. Those having the greatest impact are contractual compensation payments to LondonWaste Ltd in respect of lower electricity income, evidence that the Authority is entering a period of residual waste growth and an assumption for budgetary purposes that no dividend will be received from LondonWaste Ltd. These are mitigated to some extent by a lower spend on Sites and Planning Process costs.

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 on 12 January 2016. The outcome of this review together with up-to-date advice on the Authority's budget and resource requirements for 2016/17 will be reported to the budget and levy setting meeting in February 2016. 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 2014/15 Annual Audit Letter.

## 2. RECOMMENDATIONS

The Authority is requested to note:-

- (i) The findings and recommendations of the 2014/15 Annual Audit Letter.
- (ii) The third review of the 2015/16 revenue budget.
- (iii) The current assessment of the budget and resource requirements for 2016/17 and the factors that could impact on the level of the 2016/17 levy.
- (iv) The changes to the residual non-household charging arrangements that will need to be approved at the February meeting.
- (v) The proposed levy apportionment arrangements for 2016/17.
- (vi) The issues that will need to be addressed at the 2016/17 budget and levy meeting on 11 February 2016.

**Signed by the Financial Adviser:**

**Agreed by Mike O'Donnell**

**Date: 1 December 2015**

### 3. **External Auditor's Annual Letter to Members**

- 3.1 On the 29 September 2015, the Authority's Auditors, KPMG, issued an unqualified audit opinion on the 2014/15 financial statements and an unqualified conclusion relating to value for money. In addition, they concluded that the Annual Governance Statement was consistent with their understanding.
- 3.2 Owing to the need to consider matters brought to their attention in a prior year by local electors, KPMG are unable to issue a certificate and formally conclude the audit. There are however, no unresolved matters that they consider materially affect the audit opinion and Value for Money conclusion.
- 3.3 The Auditor's letter is contained in Appendix A to this report.

### 4. **Review of the 2015/16 Revenue Budget**

- 4.1 At its meeting on 12 February 2015 the Authority agreed a budget of £66.173m to be financed by using balances of £8.311m, charges to boroughs for non-household waste and chargeable household waste of £9.607m and £1.803m respectively, and a levy of £46.452m.

- 4.2. In subsequent reviews Members have been advised of:

	£m
Higher level of balances brought forward from 2014/15	(3.479)
Forecast reduction in residual waste tonnages (saving)	(0.519)
Slippage from 2014/15 of RRC Improvements	0.043
Transfer of Summers Lane RRC to the Authority	0.363
Reduction in Commingled Payments to Boroughs	(0.220)
Reduction in Commingled Income	0.220
Slippage from 2014/15 of Sites and Planning Costs	0.292
Reductions in Capital Financing Costs	(0.832)
Forecast revenue balance at 31 March 2016	(4.132)

- 4.3 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 2016 by a further £1.856m to £5.988m. Details of the most significant changes identified by the third review are shown below.

#### 4.4 **Transport, Disposal and Landfill Tax: (- £0.019m)**

- 4.4.1 In September Members were advised that tonnage data for April to June 2015 indicated that residual waste delivered to the Authority in 2015/16 would be almost the same as 2014/15. Given however that there were signs suggesting that the trend in recent years of declining tonnages was ending and that the Authority would be entering a period of residual waste growth an additional allowance for growth was factored in to the September report. The second budget review was based on a total residual waste tonnage for 2015/16 of 589,116 tonnes. This was 7,611 or 1.28% lower than budget and provided a forecast saving of £0.519m.

4.4.2 Forecast data for the six months to September 2015 provides further evidence that residual waste tonnages are now on an upward trend. Details of the movement in forecast 2015/16 residual waste tonnage levels for each borough compared with 2014/15 are shown below:-

<b>Table 1</b>	<b>September Forecast</b>	<b>December Forecast</b>	<b>Variance between September and December forecasts</b>
	<i>(April to June data)</i>	<i>(April to September data)</i>	
	<b>%</b>	<b>%</b>	<b>%</b>
Barnet	- 0.25	+ 1.62	+ 1.87
Camden	- 2.25	- 1.77	+ 0.48
Enfield	+ 2.57	+ 0.28	- 2.29
Hackney	- 0.30	+ 0.46	+ 0.76
Haringey	- 1.09	- 1.20	- 0.11
Islington	+ 2.78	+ 5.19	+ 2.41
Waltham Forest	- 1.71	- 2.15	- 0.44
<b>Overall Position</b>	<b>- 0.04</b>	<b>+ 0.37</b>	<b>+ 0.41</b>

4.4.3 Given the inherent uncertainty in forecasting waste tonnages and the increase in forecast tonnage, the third review continues to adopt a degree of caution in projecting the outturn for the year and allows for an increase of 1% in the total waste stream during the second half of the year. As a consequence the third budget review assumes a full year residual tonnage forecast that is unchanged from the second review at 589,116 tonnes (i.e. 7,611 less than budget). Data for the period to December 2015 will be available to help inform the decisions that will need to be made in February 2016 on the 2015/16 revised budget and 2016/17 draft budget.

4.4.4 Prices in the Authority's waste contracts including the new contract with LondonWaste Ltd are linked to changes in the Retail Price Index (RPI). Although the 2015/16 budget allowed for an increase of 2.9% at the relevant review date (1 January for most LWL prices) for these contracts, RPI is currently rising at an annual rate of 0.7% (October index). Based on this and HM Treasury's summary of independent forecasts, an RPI increase of 1.2% has been factored in to this review. Actual December year-on-year inflation levels will be known by the time of the February budget and levy meeting and therefore there will contain the actual rate of change.

4.4.5 Also included within this budget category is the cost to the Authority of the annual adjustment in relation to electricity prices achieved by LondonWaste Ltd, which requires the Authority to contribute towards the reduction in the Company's electricity income. The actual amount payable is determined in part by the prices that the company achieves in selling electricity. Electricity prices are currently falling and this review assumes lower prices than were included in the original 2015/16 budget calculations. Compared with the original budget assumptions, the value of this claim in 2015/16 is estimated to have increased by £0.214m.

4.4.6 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 £0.019m in 2015/16.

#### 4.5 **Composting and MRF Services: (- £0.188m)**

4.5.1 Based on forecast data provided by constituent boroughs, usage of the MRF service for commingled waste in 2015/16 is expected to be 119,257 tonnes. Compared with the 2015/16 budget which was based on 118,500 tonnes, the expenditure on the MRF service is estimated to fall by £0.044m to £6.318m. Although there is a small increase in tonnage, current prices are lower than budgeted, providing an overall cost reduction.

4.5.2 Tonnage delivered by the boroughs for composting is projected to be 53,008 tonnes, a reduction by 2,635 tonnes compared with the budget. Expenditure on the composting service has been reduced by £0.144m to £2.336m in the third review.

#### 4.6 **Re-use and Recycling Centres (RRCs): (- £0.265m)**

4.6.1 Overall, compared with the second review the third review allows for a net budget reduction of £0.265m. The net costs of operating RRCs are ring-fenced to the 'home' borough and are recovered from boroughs through a separate element of the levy. Under or over spends 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.

4.6.2 In setting the budget and levy for 2015/16 the Authority estimated that it would have balances of £0.064m to offset the cost of RRCs in 2015/16. In the 2014/15 outturn, balances at 31 March 2015 were £0.414m, an improvement of £0.350m.

4.6.3 Members will recall that in October 2015 management of the Summers Lane RRC in Barnet passed to the Authority and that the Authority's costs in 2015/16 would be retained as a balance at 31 March 2016 to be recovered from Barnet through the 2016/17 levy.

4.6.4 Based on the first six months of the year total net operating costs including Summers Lane and the recently opened Second Time Around re-use shop at the Kings Road RRC in Waltham Forest are forecast be £2.749m, or £0.141m above budget.

4.6.5 Additionally, since the Authority's purchase of the Western Road RRC is not now expected to take place until the latter stages of the financial year, £0.280m of capital financing cost included in the budget will not be incurred. These costs will be apportioned to boroughs based on a visitor survey. The proportions are as agreed in the current levy arrangements and the majority of the saving is attributable to Haringey.

4.6.6 Table 2 below provides a summary of the current financial position for each borough including Operations Team and capital funding costs:

<b>Table 2</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
	<b>Change in RRC Balances at 1 April 2015 (As reported In June)</b>	<b>Total Operating Costs – 2015/16 Original Budget</b>	<b>Total Operating Costs - 2015/16 Third Budget Review</b>	<b>Change in 2015/16 Total Operating Costs</b>	<b>Estimated RRC Balances at 31 March 2016 (Column 1 plus 4)</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	(49)	2,133	387,264	385,131	385,082
Camden	(59,363)	364,228	346,148	(18,080)	(77,443)
Enfield	(31)	4,397	0	(4,397)	(4,428)
Hackney	(15)	1,066	2,135	1,069	1,054
Haringey	(81,661)	945,352	562,274	(383,078)	(464,739)
Islington	(29,108)	580,295	538,249	(42,046)	(71,154)
Waltham Forest	(179,247)	990,380	912,756	(77,624)	(256,871)
<b>Total</b>	<b>(349,474)</b>	<b>2,887,851</b>	<b>2,748,826</b>	<b>(139,025)</b>	<b>(488,499)</b>

4.7.7 Subject to final review in February, RRC balances of £0.488m will be taken into account in calculating the RRC element of the 2016/17 levy. Of this sum, £0.385m is attributable to Barnet and as outline above will be recovered from Barnet through the 2016/17 RRC levy. This will leave credit balances totalling £0.873m which will be taken into account in the 2016/17 levy for the other six boroughs.

#### 4.8 Corporate and Other Support Service Costs: (- £0.166m)

4.8.1 Included in this budget are the Legal and Governance, Finance and External Relations teams and other support costs of operating the Authority. The latter includes the costs of the lead borough support arrangements, the core costs of operating the Authority and the cost of engaging external consultants to support the work of the Managing Director and Authority Advisers.

#### 4.9 Operations Team: (+ £0.038m)

4.9.1 The revised budget includes expenditure of £0.030m to promote Re-use of Waste Electrical and Electronic Equipment (WEEE) at the Re-use and Recycling Centres. This is funded by a grant from the Department for Business and Skills (BIS) Local Project Fund so there is no cost to the Authority. The grant income is shown in a separate budget line.

#### 4.10 Planning and Technical Team: (- £0.160m)

4.10.1 The budget provision for external support has been reviewed and reduced to reflect expected activity.

#### **4.11 Joint Communications Initiative: (- £0.305m)**

4.11.1 In February 2015 Members approved the extension of the annual campaign to a three year programme and noted that this campaign would be delivered commencing 2015/16. However, in the light of the proposed pan-London 'Recycle for London' campaign, reported elsewhere on this agenda, it was agreed to pause the development of the campaign to assess whether the proposed capital-wide branding and messages should be adopted in north London instead. The reason for the pause was reported to the Members Recycling Working Group in September and following review of an options paper by the Members Recycling Working Group the originally approved campaign is now being progressed. The pause has delayed the procurement process and the three-year campaign will now commence in 2016/17.

#### **4.12 Re-use and Recycling Credits and Other Recycling Initiatives: (- £0.060m)**

4.12.1 The Reuse and Recycling Credits scheme budget 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 in the first quarter of this year was lower than expected and if this trend continues there could be a saving of £0.060m.

#### **4.13 Commingled Income Payment Scheme/Income from the sale of Recyclates**

4.13.1 The value of payments made to the boroughs under this scheme is limited in practice to the value of income received by the Authority from the sale of recyclates, i.e. there is no net cost to the Authority. Latest tonnage forecasts provided by the boroughs for 2015/16 indicate an increase in their use of the scheme compared with 2014/15. As regards prices achieved in the market by the Authority's MRF contractors, these fell to an average of £21.81 per tonne in 2014/15 and have declined further in 2015/16. The third review therefore allows for an average of £19.54 per tonne. Taking this into account, the third budget review allows for a reduction of £0.040m compared with the 2014/15 budget. The reduction is reflected in both budgets which therefore remain cost neutral to the Authority. Boroughs may also wish to take a cautious approach when reviewing their own budgets.

#### **4.14 Sites & Planning Process Costs and Strategy and Options Review: (- £0.554m)**

4.14.1 The resources required for the remainder 2015/16 have been reviewed now that the Development Consent Order (DCO) application has been accepted by the Planning Inspectorate. The date of the start of the examination in February 2016 suggests that the budget will be required in 2016/17 instead.

#### **4.14 Revenue Funding – Capital Programme: (- £0.069m)**

4.14.1 This budget provides for the revenue cost of funding the Authority's capital programme. The latest programme review has identified savings of £0.069m on interest charges compared with the second review and £0.901m compared with the original budget. The forecast allows for the Purchase of the Western Road RRC by the end of March 2016.

#### 4.15 Charges to Boroughs for Non-Household Waste: (+ £0.050m)

4.15.1 In the light of borough tonnage declarations, non-household residual waste is currently estimated to fall to 85,519 tonnes compared with an original budget assumption of 86,413 tonnes, i.e. a reduction of 894 tonnes. The declared 10,591 tonnes of recyclable waste represents an increase of 1,069 tonnes over the 2015/16 estimate. Based on these declarations it is estimated that income will fall by £0.050m to £9.557m in 2015/16.

4.15.2 Estimated charges for the disposal of non-household waste in 2015/16 compared with the original budget assumptions are shown in the table below:-

<b>Table 3</b>	<b>2015/16 Original Estimate</b>	<b>2015/16 Current Forecast</b>	<b>Estimated Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	1,033,759	1,015,530	(18,229)
Camden*	2,966,151	2,909,243	(56,908)
Enfield	939,551	994,814	55,263
Hackney*	1,848,277	1,868,287	20,010
Haringey *	347,105	295,776	(51,329)
Islington *	2,325,974	2,326,957	983
Waltham Forest	146,521	146,383	(138)
<b>Total</b>	<b>9,607,338</b>	<b>9,556,990</b>	<b>(50,348)</b>

\* Including income from non-household recyclable wastes.

4.15.3 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 2015/16 final accounts process. The table indicates that Enfield, Hackney and Islington may need to make additional payments to the Authority. The other boroughs could be entitled to a refund.

#### 4.16 Charges to Boroughs for Chargeable Household Waste: (- £0.072m)

4.16.1 The latest declarations by the boroughs indicate increases in both residual and recyclable tonnages compared with the budget assumption. Estimated charges are shown in the table below

<b>Table 4</b>	<b>2015/16 Original Estimate</b>	<b>2015/16 Current Forecast</b>	<b>Estimated Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	239,992	239,764	(228)
Camden*	423,218	433,762	10,544
Enfield	150,627	150,484	(143)
Hackney*	537,705	534,904	(2,801)
Haringey *	251,707	255,079	3,372
Islington *	199,295	260,201	60,906
Waltham Forest	0	0	0
<b>Total</b>	<b>1,802,544</b>	<b>1,874,194</b>	<b>71,650</b>



Camden, Haringey and Islington may need to make additional payments to the Authority. Other boroughs could be entitled to a refund.

#### 4.17 **Overview**

- 4.17.1 Allowing for the factors outlined above, the total net expenditure in 2015/16 for the Authority is estimated to reduce to £63.685m. This represents a reduction of £1.835m compared with the second budget review in September. Taking into account an increase in non-household and household charges since September of £0.021m, the net revenue surplus at 31 March 2016 is currently forecast to increase to £9.620m, i.e. a net increase of £1.856m since the September forecast.

4.17.2 Table 5 below provides a summary of the current financial position:

<b>Table 5</b>	<b>2015/16 Original Budget</b>	<b>2015/16 Second Review</b>	<b>2015/16 Third Review</b>	<b>Variance between Second and Third Reviews</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>				
Main Waste Disposal Contract (ex CA Waste)	25,305	25,082	25,340	258
Civic Amenity (RRC) Residual Waste	1,472	1,472	1,304	(168)
Landfill Tax	9,058	8,762	8,653	(109)
Composting Services	2,480	2,480	2,336	(144)
MRF Services	6,362	6,362	6,318	(44)
Transfer Station and Other Sites	1,516	1,516	1,500	(16)
Re-use and Recycling Centre Operations	2,608	3,014	2,749	(265)
Corporate and Other Support Service Costs	2,611	2,611	2,445	(166)
Operations Team	459	459	497	38
Waste Prevention Programme – New Initiatives	373	373	332	(41)
Technical and Planning Team	479	479	319	(160)
Joint Communications Initiative	305	305	0	(305)
Recycling Initiatives	305	305	244	(61)
Commingled Income Payment Scheme	2,370	2,150	2,330	180
Sites and Planning Process Costs	3,566	3,858	3,284	(574)
Next Steps – Strategy and Options Review	250	250	270	20
Revenue Funding – Capital Programme	7,906	7,074	7,005	(69)
	<b>67,425</b>	<b>66,552</b>	<b>64,926</b>	<b>(1,626)</b>
<b>Less</b>				
<b>Income</b>				
Rents	(107)	(107)	(106)	1
WEEE Re-use grant	0	0	(30)	(30)
Sale of Recyclates	(2,370)	(2,150)	(2,330)	(180)
Interest on Balances	(55)	(55)	(55)	0
Dividend (LondonWaste Ltd)	(1,000)	(1,000)	(1,000)	0
	<b>(3,532)</b>	<b>(3,312)</b>	<b>(3,521)</b>	<b>(209)</b>
Net Expenditure	63,893	63,240	61,405	(1,835)
Contingency	2,280	2,280	2,280	0
<b>Total Net Expenditure</b>	<b>66,173</b>	<b>65,520</b>	<b>63,685</b>	<b>(1,835)</b>
<b>Financed by:</b>				
Balances b/fwd	(8,311)	(11,790)	(11,790)	0
Charges to Boroughs (non-household waste)	(9,607)	(9,607)	(9,557)	50
Charges to Boroughs (household waste)	(1,803)	(1,803)	(1,874)	(71)
Levy – Base Element	(43,629)	(43,629)	(43,629)	0
Levy - RRC Element	(2,823)	(2,823)	(2,823)	0
<b>Total Resources Available</b>	<b>(66,173)</b>	<b>(69,652)</b>	<b>(69,673)</b>	<b>(21)</b>
<b>Estimated Revenue Balance at 31 March 2016</b>	<b>0</b>	<b>(4,132)</b>	<b>(5,988)</b>	<b>(1,856)</b>
<b>Retained Balances</b>	<b>(3,632)</b>	<b>(7,764)</b>	<b>(9,620)</b>	<b>(1,856)</b>

## 5. **2016/17 Budget Forecast**

- 5.1 At the Authority meeting in February 2015, Members were provided with an early forecast of the budget and resource requirements for 2016/17. This indicated that the net budget requirement for the year ahead was estimated to be £66.265m. In setting a standstill levy for 2015/16, forecast balances of £3.632 became available to support the 2016/17 budget and levy. Taking this into account the levy was forecast to increase by 10.90% in 2016/17. Since then, revenue balances at 31 March 2015 improved by £3.479m. In addition, reviews of the 2015/16 budget reveal the likelihood that revenue balances at 31 March 2016 could increase by a further £2.509m to £5.988m. Total forecast balances available to support the 2016/17 budget and levy are therefore £9.620m
- 5.2 The Authority's 2016/17 net budget is currently estimated to be £68.230m, i.e. an increase of £2.057m compared with the 2015/16 budget and £1.965m higher than the 2016/17 medium term forecast reported to the Authority in February 2015. The increase from the 2015/16 budget has arisen mainly from contractual payments to LondonWaste Ltd in respect of the electricity income claim, evidence that the Authority is entering a period of residual waste growth, the transfer of Summers Lane RRC and an assumption that no dividend will be received from LondonWaste Ltd. These are mitigated to some extent by a lower spend on Sites and Planning Process costs.
- 5.3 The projected year on year change is summarised below:

<b>Table 6</b>	<b>2015/16 Budget £'000</b>	<b>2016/17 Forecast £'000</b>	<b>Variance £'000</b>	<b>Variance %</b>
Charges – non-household	9,607	9,195	(412)	(4.29)
Charges – household	1,803	1,878	75	4.16
Levy	46,452	47,537	1,085	2.34
<b>Total</b>	<b>57,862</b>	<b>58,610</b>	<b>748</b>	<b>1.29</b>

- 5.4 As per table 6 above, there is forecast to be a headline increase in the levy of 2.34%. This includes the costs borne by the Authority since the transfer of Summers Lane on 4 October 2015. If these costs and balances are excluded from the headline levy figure to make the years comparable (as these costs are recoverable from LB Barnet, see 5.6 below), there is an underlying decrease in the levy of 0.29%. Providing conditions remain favourable, 2016/17 will be the fifth time in the last seven years that the Authority has been able to report a standstill or reduced levy.

5.6. Table 7 below provides a summary of the 2016/17 budget forecast:-

<b>Table 7</b>	<b>2015/16 Original Budget £'000</b>	<b>2016/17 Budget Forecast £'000</b>	<b>Year on year change £'000</b>
<b>Expenditure</b>			
Main Waste Disposal Contract (ex CA Waste)	25,305	34,075	8,770
Civic Amenity (RRC) Residual Waste	1,472	1,331	(141)
Landfill Tax	9,058	2,044	(7,014)
Composting Services	2,480	2,438	(42)
MRF Services	6,362	6,620	258
Transfer Stations and Other Sites	1,516	1,520	4
Re-use and Recycling Centre Operations	2,523	3,282*	759
Corporate and other Support Service Costs	2,611	2,481	(130)
Operations Team	544	488	(56)
Waste Prevention Programme – New Initiatives	373	333	(40)
Technical and Planning Team	479	427	(52)
Joint Communications Initiative	305	313	8
Recycling Initiatives	305	312	7
Commingle Income Payment Scheme	2,370	2,368	(2)
Sites and Planning Process Costs	3,566	2,041	(1,525)
Next Steps – Strategy and Options Review	250	660	410
Revenue Funding – Capital Programme	7,906	7,695	(211)
	<b>67,425</b>	<b>68,428</b>	<b>1,003</b>
<b>Less Income</b>			
Rents	(107)	(108)	(1)
Sale of Recyclates	(2,370)	(2,368)	2
Interest on Balances	(55)	(40)	15
Estimated Dividend Stream	(1,000)	0	1,000
	<b>(3,532)</b>	<b>(2,516)</b>	<b>1,016</b>
Net Expenditure	63,893	65,912	2,019
Contingency	2,280	2,318	38
<b>Total Net Expenditure</b>	<b>66,173</b>	<b>68,230</b>	<b>2,057</b>
<b>Financed By</b>			
Use of Balances	(8,311)	(9,620)	(1,309)
Charges to Boroughs (Non-household waste)	(9,607)	(9,195)	412
Charges to Boroughs (Chargeable household waste)	(1,803)	(1,878)	(75)
Estimated Levy – Base Element	(43,629)	(44,468)	(839)
Estimated Levy – RRC Element	<u>(2,823)</u>	<u>(3,069)*</u>	<u>(246)</u>
Total Estimated Levy	(46,452)	(47,537)	(1,085)
<b>Total Estimated Resource Requirement</b>	<b>(66,173)</b>	<b>(68,230)</b>	<b>(2,057)</b>
<b>Retained Balances</b>	<b>(3,632)</b>	<b>0</b>	<b>3,632</b>

\* The Authority took over management of the Summers Lane RRC in October 2015. The net operating expenditure of this RRC is £833,000 and the forecast levy reflects both this and £387,000

of costs that relate to 2015/16. This latter sum will be held as balance at 31 March 2015 and recovered from Barnet through the 2016/17 levy.

## **6. 2016/17 Budget Forecast Assumptions**

6.1 The following factors have been taken into account:-

### **6.2 Inflation**

6.2.1 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 October 2015 puts the December 2015 annual RPI increase at 1.2% and the budget forecast currently reflects this level of increase in the relevant costs plus a further 2.7% in December 2016. Other categories of expenditure have been increased by 2.0%. Inflation assumptions will be reviewed and updated at the February budget and levy meeting.

### **6.3 Transport and disposal**

6.3.1 The 2016/17 transport and disposal budget has been based upon a residual waste stream of 599,778 tonnes, i.e. a net increase of 10,662 tonnes over the 2015/16 projected outturn. Members will be aware that there is strong evidence to support the view that the residual waste stream has entered a period of growth and the increase is based on a 2% increase growth in the total waste stream. On the basis of information provided by boroughs the 2016/17 residual tonnage forecast allows for a reduction of 4,221 tonnes to reflect the boroughs' planned increase in recycling and composting over the coming year. These forecasts will be reviewed afresh in the light of the actual tonnage data to December 2015 that will become available in the early weeks of January 2016.

6.3.2 The overall increase in this budget of £8.770m is primarily due to the planned move to incinerate waste from Hendon at FCC's EfW facility at Greatmoor with effect from 1 April 2016. This results in a higher disposal cost although this is more than offset by savings in Landfill Tax which are shown in a separate budget line (paragraph 6.4). The net saving from this change is anticipated to be £0.398m

6.3.3 As indicated in the notes supporting the third review of the 2015/16 budget (paragraph 4.4.5), falls in the market price for electricity have the effect of increasing the amount the Authority must pay to LondonWaste Ltd under the electricity income claim provisions of the main waste contract. At £5.077m the estimated cost in 2016/17 is £1.997m higher than estimated for 2015/16.

### **6.4 Landfill Tax**

6.4.1 The standard rate of landfill tax will rise from £82.60 to £84.40 per tonne on 1 April 2016.

6.4.2 The forecast saving of £7.014m reflects the planned incineration of the remaining Hendon tonnage at FCC's EfW facility at Greatmoor with effect from 1 April 2016, as mentioned above in paragraph 6.3.2. This waste has hitherto been sent to landfill. The 2016/17 forecast also makes reasonable assumptions about the incineration capacity of the Edmonton EfW facility. The 2016/17 forecast is therefore based on residue and ash

tonnage from the Edmonton facility plus the element of RRC residual waste that cannot be shredded and incinerated.

## 6.5 Composting and MRF Services

6.5.1 The budget forecast reflects the intention of the constituent boroughs to continue to deliver a significant amount of organic waste to the Authority in 2016/17, i.e. a total of 54,019 tonnes. Compared with the 2015/16 third budget review this represents an increase of 1,011 tonnes. The overall cost of the composting service in 2016/17 is estimated to be £2.438m.

6.5.2 The boroughs have indicated that they will need treatment capacity for up to 121,421 tonnes of dry recyclable material in 2016/17 (an increase of 2,164 tonnes over their projected tonnage requirement for 2015/16). The overall cost of the service in 2015/16 is estimated to be £6.620m.

## 6.6 Re-use and Recycling Centres

6.6.1 The budget provides for the operation of eight Re-use and Recycling Centres at a cost of £3.282m and capital financing costs of £0.274m. There is also a small addition to all boroughs' costs (except LB Enfield, as the Authority does not run their RRC) for the estimated net costs of operating the Second Time Around re-use shop at Kings Road. The intention is that the shop will break even and the net cost to the Authority is a precautionary measure in its first full trading year. The amounts charged to the relevant boroughs through the 2016/17 levy will also allow for the additional balances that arose from the closure of the 2014/15 accounts and forecast additional balances from 2015/16.

6.6.2 The revenue costs arising from the capital investment in acquiring the Western Road facility will be recovered from boroughs over future years through the levy using the visitor survey method of apportionment which are as agreed in the current levy arrangements.

<b>Table 8</b>	<b>2016/17 Estimated Operating Costs</b>	<b>2016/17 Capital Charges re. Western Road</b>	<b>2016/17 Total Estimated Operating Costs (Inc. Capital Charges)</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	833,264	2,094	835,358
Camden	379,038	132	379,170
Enfield	0	4,318	4,318
Hackney	6,426	1,047	7,473
Haringey	598,191	264,265	862,456
Islington	552,292	2,749	555,041
W. Forest	913,023	261	913,284
<b>Total</b>	<b>3,282,234</b>	<b>274,866</b>	<b>3,557,100</b>

6.6.3 The forecast RRC levy for 2016/17 is shown in the following table:

<b>Table 9</b>	<b>RRC Forecast Balances as at 1 April 2016</b>	<b>2016/17 Total Estimated Operating Costs</b>	<b>2016/17 Estimated RRC Levy</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	385,082	835,358	1,220,440
Camden	(77,443)	379,170	301,727
Enfield	(4,428)	4,318	(110)
Hackney	1,054	7,473	8,527
Haringey	(464,739)	862,456	397,717
Islington	(71,154)	555,041	483,887
W. Forest	(256,871)	913,284	656,413
<b>Total</b>	<b>(488,499)</b>	<b>3,557,100</b>	<b>3,068,601</b>

#### 6.7 Waste Prevention Programme – New Initiatives

6.7.1 A report elsewhere on this agenda proposes a new two year programme. The budget forecast provides for the first year costs of the programme.

#### 6.8 Joint Communications Initiative

6.8.1 The budget forecast represents the first year of a three year campaign approved in February 2015. As noted in the review of the 2015/16 budget, the decision taken subsequently to pause the development of the campaign resulted in a delay to the procurement process and the three year campaign is now expected to commence in 2016/17.

#### 6.9 Recycling Initiatives

6.9.1 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.

6.9.2 The budget forecast allows a sum of £0.062m to support the Real Nappy Campaign.

#### 6.10 Commingled Income Payment Scheme/Income from the sale of Recyclates

6.10.1 The value of payments made under this scheme is in practice limited to the value of income received by the Authority from the sale of recyclates, i.e. there is no net cost to the Authority. In view of recent reductions in the sale value of recyclates the 2016/17 budget forecast assumes that these prices will continue. When deciding the level of its contributions towards the relevant boroughs' additional costs of collection, the Authority will continue to have regard to the income it receives from the MRF service contractors from the sale of recyclates. Given that payment levels are by no means certain, and could be less than forecast, boroughs may also wish to take a more cautious approach when

finalising their budgets for both 2015/16 and 2016/17. The 2016/17 budget forecast assumes a payment of £19.50 per tonne.

#### **6.11 Sites and Planning Process Costs and Strategy and Options Review**

6.11.1 The budget forecast includes a provision of £2.701m to enable the Authority to progress the DCO application and review the options. It includes the £0.574m rescheduled from 2015/16 as part of the Planning Inspectorate examination process and additional funding for Local Partnerships.

#### **6.12 Revenue Funding – Capital Programme**

6.12.1 The budget forecast provides for the financing of the Authority's investment in LondonWaste Ltd, Pinkham Way, the acquisition and development of the RRC site at Western Road, and the possible acquisition of an additional RRC site.

#### **6.13 Dividend Income (LondonWaste Ltd)**

6.13.1 Members will be aware that LondonWaste Ltd. has stopped taking non-Borough trade waste and that the contract prices that the Authority is charged are lower than in previous years. The budget for 2016/17 assumes that no dividend will be paid in 2016/17 however this does not preclude one being received if conditions are favourable.

#### **6.14 Non-household Waste Charges**

6.14.1 Calculation of non household tonnages for charging purposes requires assumptions regarding the relationship between waste volumes and weight. The Authority has commissioned a volume to weight survey with a view to updating these ratios but the survey results won't be available until after this report is published. The tonnages and charges in this report are therefore prepared using the current ratios. Changes arising from the survey will be considered for inclusion in the February budget report.

6.14.2 Based upon estimated non-household residual tonnages of 85,551 tonnes and a forecast cost per tonne of £107.08 the cost to boroughs in 2015/16 is estimated to be £8.857m. Tonnages have been derived using the existing volume to weight ratios.

6.14.3 The Authority is required by statute to make a reasonable charge for the cost of making arrangements for the disposal of commercial and industrial waste collected in its area; in this instance, non-household waste delivered to the Authority by its constituent boroughs. Currently, for residual waste the Authority charges the prevailing LondonWaste Ltd base gate fee plus a landfill tax element which includes a discount recognising the significant reductions in the Authority's Landfill Tax liability resulting from the transfer of 50,000 tonnes of waste from Hendon to the EcoPark. As mentioned in paragraph 5.4.2 the remaining Hendon waste will also no longer be sent to landfill. This has the effect of reducing the projected charge per tonne to £100.61. The Authority will be requested to approve this approach at its February meeting. Based on declared borough tonnages of 85,551 the cost to the boroughs is estimated to be £8.607m in 2016/17.

6.14.4 In addition to the non-household residual waste stream, four boroughs deliver non-household recyclable wastes to the Authority for treatment. This will result in an estimated income of £0.588m (10,742 tonnes).



6.14.5 The Authority has calculated the estimated charges for the treatment of such waste to be £54.52 for dry-recyclable waste and £56.60 for food waste. Dry recyclable tonnages will also be eligible for a CIPS payment.

6.14.6 The cost to boroughs in 2016/17 is estimated to be:-

<b>Table 10</b>	<b>2016/17 Estimated Tonnes</b>	<b>2016/17 Estimated Cost (£)</b>
Barnet	9,602	966,057
Camden*	30,664	2,861,695
Enfield	9,632	969,076
Hackney	19,377	1,820,750
Haringey *	2,818	264,898
Islington *	22,808	2,172,577
Waltham Forest	1,392	140,049
<b>Total</b>	<b>96,293</b>	<b>9,195,102</b>

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

6.14.6 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.

## 6.15 Chargeable Household Waste

6.15.1 As outlined above, the possible adoption of new volume to weight ratios for 2016/17 may result in changes to the estimated costs shown in the table below. Additionally, the proposed revised basis for calculating the per tonne cost of non-household residual waste also applies to chargeable household residual waste.

6.15.2 Boroughs have advised the Authority that they will collect 20,515 tonnes of chargeable household waste comprising 16,447 tonnes of residual waste and 4,068 tonnes of recyclable and compostable waste.

6.15.3 The Authority has calculated the estimated charges for the treatment of chargeable household waste as £100.61 for residual waste, £54.52 for dry-recyclable waste and £56.60 for food waste. Dry recyclable tonnages will also be eligible for a CIPS payment.

6.15.4 The cost to boroughs in 2016/17 is estimated to be:

<b>Table 11</b>	<b>2016/17 Estimated Tonnes</b>	<b>2016/17 Estimated Cost (£)</b>
Barnet	2,280	229,391
Camden	4,651	421,292
Enfield	1,431	143,973
Hackney	5,723	524,462
Haringey	2,776	246,983
Islington	3,654	312,247
Waltham Forest *	0	0
<b>Total</b>	<b>20,515</b>	<b>1,878,348</b>

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

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

## 6.16 Efficiency Savings and Other Cost Reductions

6.16.1 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.
- In 2016/17, the plan to send all remaining residual waste from Hendon to an EfW plant in Bedfordshire will save the Authority £0.4m annually.
- Refinancing a loan in the current year and replanning capital expenditure has resulted in a saving of £0.9m in 2015/16 and ongoing savings of £0.2m per annum.
- Day to day operational costs have been reviewed and the 2016/17 budget for Corporate and other Support Service Costs, the Operations Team and the Technical and Planning Team have been reduced by more than £0.2m (6.5%).

In 2014/15 and 2015/16 the Authority has worked extensively with LondonWaste Ltd to make improvements to services, resulting in a significant reduction in the Authority's cost base. The Authority has also secured lower gate fees across a range of services and these have been reflected in this budget update.

## 6.17 Contingency

- 6.17.1 There is a high degree of uncertainty about the scale of a number of budget pressures in the coming year. This 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 £1.318m. This is consistent with previous years.

## 7. Levy Apportionment Arrangements

- 7.1 The decision on the apportionment of the levy is a matter for the Authority's constituent councils. Unless all seven councils can agree unanimously on the way the levy is to be apportioned, the levy will be calculated in accordance with the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006. Constituent councils have, however, agreed that alternative levy apportionment arrangements will apply from 2012/13 until replaced by arrangements set out in the proposed Inter Authority Agreement.
- 7.2 From 2012/13 constituent councils agreed that the 'household' element of the levy will continue to be apportioned on a tonnage basis and the 'other costs' element on a council tax basis. The RRC element of the levy will be calculated to ensure that councils only incur costs associated with the running of the Re-use and Recycling Centres (RRCs) that are situated within their borough boundary and which have been transferred to the Authority. The exception to this is the cost of financing the purchase of the Western Road site which is apportioned using a visitor survey.
- 7.3 The alternative levy apportionment arrangements require constituent boroughs to formally notify the Authority of both their council tax base for 2016/17 and also their household waste tonnages for 2014/15 by 31 January 2016. Members will be aware that the Authority already holds details of the 2014/15 household waste tonnages as this data originates from the Authority's records of tonnages delivered to the Authority by the boroughs for treatment. As a consequence, constituent councils have been asked to confirm the household tonnage data held by the Authority (attached at Appendix C).
- 7.4 Allowing for the level of revenue balances projected to be available at 31 March 2016 and the Authority's current forecast of its 2016/17 budget requirements, Table 12 below provides an indication of the relative share of the levy that could be borne by each constituent borough based upon the current alternative levy apportionment arrangements agreed by constituent boroughs. It is important to bear in mind that this illustration uses 2014/15 council tax data that will need to be updated when constituent boroughs have completed their calculations of their 2016/17 council tax base and duly notified this to the Authority. The 2014/15 household waste tonnage data as used in the levy apportionment will not change (subject to borough confirmation).

7.5 Table 12 summarises the estimated levy impact for each council (further details of the calculation can be found at Appendix B):

Table 12	2015/16 Actual Levy			2016/17 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	9,461	1	9,462	9,558	1,220	10,778	1,316	13.91
Camden	5,214	352	5,566	5,487	302	5,789	223	4.01
Enfield	5,187	4	5,191	5,236	0	5,236	45	0.87
Hackney	5,867	1	5,868	6,171	9	6,180	312	5.32
Haringey	6,333	849	7,182	6,442	398	6,840	(342)	(4.76)
Islington	4,880	546	5,426	4,784	484	5,268	(158)	(2.91)
Waltham Forest	6,687	1,070	7,757	6,789	656	7,445	(312)	(4.02)
<b>Total</b>	<b>43,629</b>	<b>2,823</b>	<b>46,452</b>	<b>44,467</b>	<b>3,069</b>	<b>47,536</b>	<b>1,084</b>	<b>2.33</b>
Excluding Barnet RRC					<b>1,220</b>	<b>1,220</b>	<b>1,220</b>	
<b>Total</b>	<b>43,629</b>	<b>2,823</b>	<b>46,452</b>	<b>44,467</b>	<b>1,849</b>	<b>46,316</b>	<b>(136)</b>	<b>(0.29)</b>

7.6 As outlined earlier in this report, in October 2015 the Authority took over the management of the Summers Lane RRC in Barnet. The 2016/17 forecast RRC levy for Barnet includes the Authority's cost for the second half of 2015/16 and the full year costs for 2016/17. Almost all of these costs were until October 2015 incurred directly by Barnet. For meaningful year on year overall comparison purposes therefore the Barnet RRC levy should be disregarded. A like for like comparison shows that the overall 2016/17 forecast levy is actually 0.29% lower than 2015/16. As in previous years, the change in levy at borough level is not uniform; some boroughs could be facing an increase and others a decrease.

## 8. Medium Term Budget Forecast for 2017/18 to 2019/20

8.1 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	%
2017/18	66,972	52,016	3,597	55,613	16.99
2018/19	71,916	56,570	3,676	60,246	8.33
2019/20	74,205	58,044	3,754	61,798	2.58

9. **Conclusion**

- 9.1 This third review indicates that the 2015/16 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year and balances at 31 March 2016 are likely to be significantly higher than was assumed when the budget was set in February 2015. This has allowed the possibility (after excluding the impact of Summers Lane RRC) of a small levy decrease in 2016/17. This is possible largely because of the balances that are forecast to be available. There is no certainty that any further balances will emerge in 2016/17 and the forecast levy for 2017/18 to 2019/20 includes no allowance for them.
- 8.2 In February it will be necessary for Members to take decisions to ensure that the 2016/17 budget is sufficient to meet the Authority's statutory obligations in the year ahead. To assist with this process the Members' Finance Working Group will be meeting on 12 January 2016 to review the assumptions which underpin the 2016/17 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 2016/17 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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pg/nlwa/201516 3<sup>rd</sup> budget review