

**REPORT TITLE**

REVENUE BUDGET AND LEVY 2014/15

**REPORT OF  
FINANCIAL ADVISER****FOR SUBMISSION TO****DATE**

AUTHORITY MEETING

13 FEBRUARY 2014

**1. SUMMARY OF REPORT**

This report indicates that following a fourth review of the 2013/14 budget the Authority is currently estimated to have a revenue surplus of £11.907m at 31 March 2014, an increase of £0.109m compared with the third review. A further assessment of the budget and resource requirements for the year ahead indicates that the 2014/15 net budget requirement is £67.055m. This is a reduction of £0.335m compared with the 2013/14 approved budget and £1.652m lower than the 2014/15 medium term forecast of £68,707m reported to the Authority in February 2013. The proposed budget is also some £3m to £4m lower than it would have been had the Authority continued with the procurement in 2014/15.

In September the Authority decided not to proceed with the procurement project but instead to develop an alternative strategic route for its longer term service delivery. For the purpose of setting the 2014/15 budget and levy it will be necessary to ensure that the Authority has sufficient resources to fund the costs of its new strategic direction. This will include the need for the Authority to renew a number of its current waste services contracts, particularly the LWL main waste disposal contract.

As a consequence, and without prejudging the outcome of decisions yet to be made and contractual terms and prices yet to be determined, the 2014/15 proposed budget has been prepared on a business as usual basis, i.e. using current contract terms and prices as uplifted for inflation. Additionally, however, it will be necessary to ensure that the Authority has sufficient resources to fund the cost of future decisions and outcomes in the coming year and therefore in determining the 2014/15 levy it is proposed to not fully utilise revenue balances and instead retain balances of £5m. The retained balances will sit outside of the Authority's operational budget and can be called upon by Members, if required, as decisions are made and contracts awarded. Any balances not utilised in this way would become available to help finance the 2015/16 levy. Borough Directors of Finance have been consulted and are content with this proposed approach.

The Members' Finance Working Group has also met to review and consider the key assumptions which underpinned the 2014/15 budget forecast reported to the Authority in December.

After use of forecast revenue balances of £6.907m and the writing back to revenue of a £1m earmarked reserve, the Authority's budget will require funding of £59.148m by constituent councils. It is proposed that £10.691m is funded through the non-household waste charging arrangement and £2.005m through the household waste charging arrangement.

Finally, it is proposed that the remaining costs of the Authority are funded by a levy, comprising a base levy element of £44.375m, i.e. an increase of £4.935m (12.51%) and a Household Waste Recycling Centre (HWRC) element of £2.077m, i.e. a reduction of £0.312m (13.06%). In aggregate, the proposed 2014/15 levy of £46.452m represents an increase of £4.623m (11.05%).

As indicated above it has been necessary for the Authority to prepare a robust budget which takes into account the financial risks and uncertainties facing the Authority in the coming year; however, if favourable circumstances arise during 2014/15 the Authority may have revenue balances by the time that it needs to take decisions on the budget and resource requirements for 2015/16. Members will be advised of progress against the budget in regular budget review reports to the Authority.

In relation to the levy apportionment arrangements for 2014/15, constituent councils have agreed to a change relating to the capital financing costs of acquiring and developing a HWRC at Western Road in Haringey and also a proposal by LB Barnet which ensures that Barnet pays an equitable share of the additional costs incurred in treating the recyclable waste that it began sending to the Authority in October 2013.

## **2. RECOMMENDATIONS**

The Authority is recommended to:-

- (i) Agree the 2014/15 non-household residual waste charge at £115.00 per tonne, and, in the case of non-household dry recyclable and food wastes £51.49 and £57.79 respectively, and a green waste charge of £36.09.
- (ii) Agree the 2014/15 chargeable household residual waste charge at £115.00 per tonne, and in the case of dry recyclable and food wastes £51.49 and £57.79 respectively, and a green waste charge of £36.09.
- (iii) Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2014/15 budget.
- (iv) Agree to return the earmarked reserve of £1m to revenue to help fund the 2014/15 budget.
- (v) Agree to use revenue balances of £6.907m to help fund the 2014/15 budget and thereby retain balances of £5m (the latter to be used only with the prior agreement of Members).
- (vi) Determine the levy for 2014/15.
- (vii) Note the medium term budget forecasts for 2015/16, 2016/17 and 2017/18.
- (viii) Note that the levy will be apportioned in accordance with the alternative levy arrangements agreed by the constituent councils.
- (ix) Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for household and non-household waste.
- (x) Approve the Prudential Indicators and agree the basis for calculating the Minimum Revenue Provision as set out in section 10.

Signed by the Financial Adviser:

Agreed by Mike O'Donnell

Date: 5<sup>th</sup> February 2014

### **3. Introduction and Background**

- 3.1 At the Authority's meeting on 12 December 2013 Members were provided with an up-to-date view of the Authority's financial position, including an assessment of the budget and resource requirements for 2014/15. The total 2014/15 net budget requirement was estimated to be £66.841m. Members were also advised that as the Authority would be taking decisions on its new residual waste strategy in 2014/15, including the renewal of a number of its current waste services contracts, it would be prudent to not fully utilise forecast revenue balances in determining the 2014/15 levy, but instead retain balances of £5m to fund possible budget pressures should they arise in the coming year.
- 3.2 After the proposed use of revenue balances (£6.798m), and the return of an earmarked reserve to revenue (£1m), it was estimated that the budget would be additionally be funded by £10.311m through the non-household charging arrangement and £2.008m through the household chargeable waste charging arrangement. The remaining costs would be funded by a levy, comprising a base levy element of £44.492m, i.e. an increase of £5.052m (12.81%) compared to 2013/14, and a HWRC levy element of £2.232m, i.e. a decrease of £0.157m (6.57%).
- 3.3 The third review also drew attention to the budget issues that would need to be addressed at this meeting and noted that the all-party Members' Finance Working Group (MFWG) would meet on 9 January 2014 to discuss the budget setting for the coming financial year. It was also noted that officers would consult with borough Directors of Finance (DOFs) on the proposed use of surplus revenue balances.
- 3.4 The MFWG considered the key assumptions which underpinned the 2014/15 budget forecast. The Group acknowledged that as the Authority only has a once-a-year opportunity to raise resources through a levy, it was important for it to agree a budget that was sufficiently robust and flexible to meet both its day-to-day statutory operational obligations and to ensure that it had sufficient resources to fund its new strategic direction in the coming year. As a consequence, I believe that it would be fair to record that in view of financial risks and uncertainties facing the Authority in the coming year that Members were supportive of the key assumptions underpinning the proposed budget.
- 3.5 In coming to a view on the budget and levy for 2014/15 the MFWG also considered the potential impact on the Authority's resource requirements for 2015/16, and in particular the potential increase in the levy given that no revenue balances were forecast to be available to assist with the funding of the 2015/16 budget. In this context Members noted the need to budget robustly in the coming year but that if circumstances permitted, any favourable change in balances during 2014/15 would potentially be available to assist with the funding of the 2015/16 budget. Officers undertook to ensure that constituent councils were fully aware of the Authority's medium term budget prospects.
- 3.6 Officers met with DOFs on 24 January 2014. Consideration was given to the Authority's budget and resource requirements for 2014/15 and also the budget and levy prospects for 2015/16. As a consequence, DOFs were supportive of the Authority's proposals regarding the retention of and use of revenue balances in 2014/15. The Local Audit and Accountability Act 2014 was enacted on 30 January 2014 and although at the time of writing the provisions of the Act have yet to come into force, it is expected that provisions relating to the Government's council tax referendum legislation will be amended with effect from 2014/15, such that councils must take levies, including the NLWA levy, into account when calculating their referendum ceiling. In 2013/14 the referendum trigger point was set

at 2%; at the time of writing the 2014/15 trigger point had not been announced but there has been speculation in the press that it may be reduced to 1.5%. DOFs are aware of these potential changes and have allowed for the Authority's proposed levy in their referendum calculations. It is understood that boroughs will not exceed their referendum ceiling.

3.7 This report provides an up-to-date assessment of the 2013/14 budget and presents for consideration a draft budget for 2014/15.

3.8 Having taken account of the relevant factors the Authority must:-

- (i) be satisfied that the proposed budget will be sufficient to meet the net expenditure requirements for the year; and
- (ii) determine the levy for 2014/15.

3.9 Details of the approved budget and levy for 2014/15 must be notified to constituent councils for inclusion in their Council Tax charge before 15 February 2014.

#### **4. Review of the 2013/14 Revenue Budget**

4.1 At its meeting on 12 February 2013 the Authority agreed a budget of £67.390m to be financed by estimated balances of £14.253m, charges to boroughs for non-household waste and chargeable household waste of £9.570m and £1.738m respectively and a levy of £41.829m.

4.2 In subsequent reviews, Members have been advised of:

|  | <b>£m</b>              |
|--|------------------------|
| Higher level of surplus balances brought forward from 2012/13            | (3.779)                |
| Transfer Stations & Other Sites – reduction in operating costs           | (1.256)                |
| Reduction in residual waste entering the waste stream                    | (1.074)                |
| Projected increase in dry recyclable waste tonnages                      | 0.706                  |
| Reduced HWRC operating costs   | (0.193)                |
| Reduced corporate and administration costs                               | (0.121)                |
| Slippage from 2012/13 –waste data management system (implementation)     | 0.050                  |
| Reduced procurement and sites & planning costs                           | (0.217)                |
| Capital programme slippage and use of cash balances in lieu of borrowing | (1.256)                |
| Increased non-household and household income                             | (0.170)                |
| Improved dividend from LondonWaste Ltd                                   | (4.500)                |
| Other (net)  | 0.012                  |
| <b>Total</b>   | <b><u>(11.798)</u></b> |

4.3 The Authority is in a strong financial position and well placed when it comes to taking decisions on the level of the 2014/15 levy.

4.4 As a consequence of previous reviews the Authority was forecast to have revenue balances at 31 March 2014 of £11.798m. A fourth review of the budget has identified a number of further changes, the net effect of which is estimated to increase the level of

surplus revenue balances likely to be available at 31 March 2014 by £0.109m to £11.907m. This review forms the basis of the 2013/14 revised budget. Details of the most significant changes and issues identified by the fourth review are discussed below.

#### 4.5 Transport, Disposal and Landfill: (+ £0.078m)

- 4.5.1 Residual waste tonnage data for the nine months to December 2013 indicates that compared with 2012/13 there could be a net reduction of 1.94% in the 2013/14 residual waste stream, i.e. an adverse change of 1.13% compared with the forecast in the third review. Given the scale of the adverse change in the third quarter and the possibility that this trend may continue for the remainder of the year a degree of caution has been applied in projecting the tonnage outturn for the year. Accordingly, the residual waste stream for the year is projected to be 586,584 tonnes, i.e. an increase of 6,180 tonnes compared with the third budget review. Overall, this represents a tonnage reduction of 0.92% compared with 2012/13.
- 4.5.2 The Authority's waste contracts are linked to changes in the Retail Price Index (RPI) with the LondonWaste Ltd main contract due each year for a price review in December. The third budget review allowed for a year-on-year RPI increase of 2.6% (October index); however, the increase in the December index was 2.7%. The latter has been reflected in the fourth review across all budgets where the December 2013 price review date is relevant.
- 4.5.3 The overall net effect of these changes is estimated to increase transport, disposal and landfill tax costs by £0.078m in 2013/14 compared with the third review.
- 4.5.4 Details of the percentage movement in 2013/14 forecast residual tonnage levels for each borough compared with the 2012/13 actual tonnages may be summarised as follows: -

| <b>Table 1</b>          | <b>September<br/>Forecast<br/>(Second<br/>Review)</b> | <b>December<br/>Forecast<br/>(Third<br/>Review)*</b> | <b>Current<br/>Forecast<br/>(Fourth<br/>Review)</b> | <b>Variance<br/>between Third<br/>&amp; Fourth<br/>Review<br/>Forecasts</b> |
|-------------------------|---|--|---|---|
|                         | <b>%</b>  | <b>%</b>   | <b>%</b>  | <b>%</b>  |
| Barnet                  | - 0.78  | - 1.66   | - 3.95  | - 2.29  |
| Camden                  | - 2.11  | - 2.58   | - 1.52  | + 1.06  |
| Enfield                 | + 0.41  | + 0.31   | + 2.63  | + 2.32  |
| Hackney                 | - 4.87  | - 5.50   | - 3.17  | + 2.33  |
| Haringey                | - 5.32  | - 5.66   | - 3.33  | + 2.33  |
| Islington               | - 2.08  | - 2.42*  | - 0.68  | + 1.74  |
| Waltham Forest          | - 2.99  | - 4.73   | - 2.90  | + 1.83  |
| <b>Overall Position</b> | <b>- 2.43</b>   | <b>- 3.07*</b>                                       | <b>- 1.94</b>                                       | <b>+ 1.13</b>   |

\* Revised.

All boroughs except Barnet experienced a growth in their residual waste in the third quarter. In October 2013 Barnet implemented enhanced collection arrangements for recyclable waste; the latest data suggests that this is already having a beneficial effect on this borough's residual waste stream.

#### 4.6 **Commingled Income Payment Scheme (CIPS)/Income from the Sale of Recyclates**

4.6.1 As reported in December, tonnage forecasts provided by the boroughs indicate a significant increase in their use of the scheme in 2013/14. This is largely due to LB Barnet starting to use the service in the second half of the year and changes to the collection arrangements in Camden. Market prices in the first half of the year were a little higher than originally budgeted but there is little sign at present of any significant pick-up in the remainder of the year. As a consequence there is little change to the CIPS/income figures reported in December other than the need to allow for a further increase of 2,000 tonnes in the Barnet tonnages. Payments towards the additional costs of collection of participating boroughs will be made, and the level of these payments will be set by reference to the income received by the Authority from its MRF contractors. Given that market prices are by no means certain, and could fall, boroughs may wish to take a cautious approach when updating their outturn forecasts for 2013/14.

4.6.2 The following table provides an indication of the potential income that participating boroughs may receive from the CIPS and reflects the cautious line taken by the Authority in its forecasting.

| <b>Table 2</b> | <b>2013/14<br/>Commingled<br/>Dry<br/>Recyclable<br/>Tonnes</b> | <b>2013/14<br/>Forecast<br/>CIPS<br/>Payment<br/>£'000</b> |
|----------------|---|--|
| Barnet         | 12,864  | 322  |
| Camden         | 17,000  | 456  |
| Enfield *      | 0   | 0  |
| Hackney        | 14,553  | 377  |
| Haringey       | 20,000  | 526  |
| Islington      | 14,273  | 373  |
| Waltham Forest | 19,000  | 507  |
| <b>Total</b>   | <b>97,690</b>   | <b>2,561</b>   |

\* Enfield does not currently deliver dry recyclable waste to the Authority for treatment.

#### 4.7 **Miscellaneous Changes since the Third Budget Review: (- £0.230m)**

4.7.1 The most significant change arises from the release to revenue of a creditor provision for landfill tax of £0.235m included in the 2012/13 accounts which is not now required. Other changes include an increase of £0.053m in the forecast cost of MRF Services (increase in Barnet tonnages) and a review of the communications budget which has identified further savings; mainly arising from the cessation of the procurement project of £0.048m.

#### 4.8 **Charges to Boroughs for Non-Household Waste: (+ £0.043m)**

4.8.1 In the light of nine months actual tonnage data and recent information provided by the boroughs the Authority's income is forecast to reduce by £0.043m compared with the third budget review but increase by £0.004m compared with the original budget.

4.8.2 Assuming boroughs continue to deliver waste at current levels the potential impact on individual boroughs is set out in Table 3 below. The figures indicate that Camden, Enfield

and Islington may need to make additional payments to the Authority. The other boroughs could be entitled to a refund. The final figures will be determined as part of the 2013/14 final accounts process.

| <b>Table 3</b> | <b>2013/14<br/>Original<br/>Estimate<br/>£</b> | <b>2013/14<br/>Current<br/>Forecast<br/>£</b> | <b>Estimated<br/>Variance<br/>£</b> |
|----------------|--|---|-------------------------------------|
| Barnet         | 1,334,062                                      | 1,232,852                                     | (101,210)                           |
| Camden         | 3,278,721                                      | 3,314,475                                     | 35,754                              |
| Enfield        | 902,847  | 931,082                                       | 28,235                              |
| Hackney        | 1,762,095                                      | 1,701,045                                     | (61,050)                            |
| Haringey *     | 317,095  | 238,312                                       | (78,783)                            |
| Islington *    | 1,759,650                                      | 1,977,824                                     | 218,174                             |
| Waltham Forest | 215,555  | 178,834                                       | (36,721)                            |
| <b>Total</b>   | <b>9,570,025</b>                               | <b>9,574,424</b>                              | <b>4,399</b>                        |

\* Including income from non-household recyclable wastes.

#### 4.9 Charges to Boroughs for Household Waste: (+£0.001m)

4.9.1 The Controlled Waste Regulations 2012 permit the Authority to charge for certain categories of waste. Accordingly, the Authority implemented new charging arrangements in 2013/14. As with non-household waste, boroughs make on account payments during the year which are adjusted as part of the annual accounts closure process. Compared with the original budget income is forecast to increase by £0.121m but reduce by £0.001m compared with the third budget review. The forecast suggests that Haringey and Islington may need to make additional payments to the Authority.

| <b>Table 4</b> | <b>2013/14<br/>Original<br/>Estimate<br/>£</b> | <b>2013/14<br/>Current<br/>Forecast<br/>£</b> | <b>Estimated<br/>Variance<br/>£</b> |
|----------------|--|---|-------------------------------------|
| Barnet         | 241,863  | 241,840                                       | (23)                                |
| Camden         | 459,114  | 459,071                                       | (43)                                |
| Enfield        | 151,800  | 151,786                                       | (14)                                |
| Hackney*       | 556,815  | 553,178                                       | (3,637)                             |
| Haringey *     | 204,734  | 256,868                                       | 52,134                              |
| Islington *    | 123,486  | 196,221                                       | 72,735                              |
| Waltham Forest | 0  | 0   | 0                                   |
| <b>Total</b>   | <b>1,737,812</b>                               | <b>1,858,964</b>                              | <b>121,152</b>                      |

\*Including income from chargeable household recyclable wastes.

#### 4.10 Overview of the 2013/14 Revised Budget

4.10.1 Allowing for the above factors, the proposed 2013/14 revised budget for the Authority is £59.388m. This represents a net reduction of £0.153m when compared with the third budget review in December. Allowing also for a £0.043m reduction in non-household charges and a very small reduction in chargeable household income, the net revenue surplus at 31 March 2014 is estimated to increase by £0.109m to £11.907m.

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

| <b>Table 5</b>                                       | <b>2013/14<br/>Original<br/>Budget</b> | <b>2013/14<br/>Third<br/>Review</b> | <b>2013/14<br/>Fourth<br/>Review</b> | <b>Variance<br/>between<br/>Third and<br/>Fourth<br/>Reviews</b> |
|--|--|-------------------------------------|--------------------------------------|--|
|  | <b>£'000</b>                           | <b>£'000</b>                        | <b>£'000</b>                         | <b>£'000</b>   |
| <b>Expenditure</b>                                   |  |                                     |                                      |  |
| Main Waste Disposal Contract (ex CA Waste)           | 25,243                                 | 24,454                              | 24,723                               | 269  |
| Civic Amenity Waste                                  | 1,360                                  | 1,351                               | 1,345                                | (6)  |
| Landfill Tax   | 13,131                                 | 12,855                              | 12,670                               | (185)  |
| Composting Services                                  | 3,124                                  | 2,838                               | 2,848                                | 10   |
| MRF Services   | 4,006                                  | 4,998                               | 5,051                                | 53   |
| Transfer Stations and Other Sites                    | 2,655                                  | 1,399                               | 1,389                                | (10)   |
| Household Waste Recycling Centres                    | 2,367                                  | 2,174                               | 2,174                                | 0  |
| Corporate and Other Support Service Costs            | 2,131                                  | 2,043                               | 1,995                                | (48)   |
| Operations Team                                      | 685                                    | 594                                 | 594                                  | 0  |
| Waste Reduction Programme – New Initiatives          | 308                                    | 308                                 | 308                                  | 0  |
| Technical and Planning Team                          | 0                                      | 108                                 | 108                                  | 0  |
| Joint Communications Initiative                      | 290                                    | 290                                 | 290                                  | 0  |
| Recycling Initiatives                                | 267                                    | 237                                 | 237                                  | 0  |
| Commingled Income Payment Scheme                     | 1,937                                  | 2,451                               | 2,561                                | 110  |
| Procurement Process Costs                            | 3,031                                  | 2,656                               | 2,656                                | 0  |
| Sites and Planning Process Costs                     | 255                                    | 413                                 | 413                                  | 0  |
| Revenue Funding – Capital Programme                  | 9,178                                  | 7,922                               | 7,922                                | 0  |
| Excess Creditor – Previous Year                      | 0                                      | 0                                   | (235)                                | (235)  |
|  | <b>69,968</b>                          | <b>67,091</b>                       | <b>67,049</b>                        | <b>(42)</b>  |
| <b>Less</b>  |  |                                     |                                      |  |
| <b>Income</b>  |  |                                     |                                      |  |
| Rents  | (101)                                  | (101)                               | (102)                                | (1)  |
| Sale of Recyclates                                   | (2,029)                                | (2,501)                             | (2,611)                              | (110)  |
| Interest on Balances                                 | (250)                                  | (250)                               | (250)                                | 0  |
| Estimated Dividend Stream                            | (2,500)                                | (7,000)                             | (7,000)                              | 0  |
|  | <b>(4,880)</b>                         | <b>(9,852)</b>                      | <b>(9,963)</b>                       | <b>(111)</b>   |
| Net Expenditure                                      | 65,088                                 | 57,239                              | 57,086                               | (153)  |
| Contingency  | 2,302                                  | 2,302                               | 2,302                                | 0  |
| <b>Total Net Expenditure</b>                         | <b>67,390</b>                          | <b>59,541</b>                       | <b>59,388</b>                        | <b>(153)</b>   |
| <b>Financed by:</b>                                  |  |                                     |                                      |  |
| Balances b/fwd                                       | (14,253)                               | (18,032)                            | (18,032)                             | 0  |
| Charges to Boroughs (non-household waste)            | (9,570)                                | (9,618)                             | (9,575)                              | 43   |
| Charges to Boroughs (household waste)                | (1,738)                                | (1,860)                             | (1,859)                              | 1  |
| Levy – Base Element                                  | (39,440)                               | (39,440)                            | (39,440)                             | 0  |
| Levy – HWRC Element                                  | (2,389)                                | (2,389)                             | (2,389)                              | 0  |
| <b>Total Resources Available</b>                     | <b>(67,390)</b>                        | <b>(71,339)</b>                     | <b>(71,295)</b>                      | <b>44</b>  |
| <b>Estimated Revenue Balance as at 31 March 2014</b> | <b>0</b>                               | <b>(11,798)</b>                     | <b>(11,907)</b>                      | <b>(109)</b>   |



## **5. 2014/15 Draft Budget**

- 5.1 At the Authority meeting in February 2013, I provided Members with an early forecast of the budget and resource requirements for 2014/15. This indicated that the net budget requirement for the year ahead was estimated to be in the order of £68.707m. Given the full use of projected revenue balances to assist with the funding of the 2013/14 budget, and assuming no revenue balances at 31 March 2014, the overall cost to constituent councils was forecast to increase by 34.58% in 2014/15. Since then revenue balances at 31 March 2013 improved by £3.779m. In addition the first three reviews of the 2013/14 budget revealed the likelihood that revenue balances at 31 March 2014 could rise by a further £8.019m to £11.798m.
- 5.2 The fourth review of the 2013/14 budget indicates that revenue balances at 31 March 2014 are estimated to be £11.907m. The Authority therefore remains in a strong financial position. This has been due mainly to the strong performance of LondonWaste Ltd and the payment of an enhanced dividend, a reduction in the waste stream and lower than budgeted capital financing costs. The resulting financial improvement is not one that could have been safely contemplated at the time of setting the 2013/14 original budget. The 2013/14 budget continues to allow for a prudent level of contingency and therefore it is not unreasonable for the Authority to use these balances to assist with the funding of future years' budgets.
- 5.3 Following the decision not to proceed with the procurement project and to develop an alternative route for its longer term service delivery, it will be necessary to ensure that Authority has sufficient resources in 2014/15 to fund the costs of its new strategic direction. This will include the need for the Authority to renew a number of its current waste services contracts, particularly the LWL main waste disposal contract. For these reasons, and without prejudging the outcome of decisions yet to be made and contractual terms and prices yet to be determined, the 2014/15 draft budget forecast has been prepared on a business as usual basis, i.e. using current contract terms and prices as uplifted for inflation. It will, however, be necessary to ensure that the Authority has sufficient resources to fund the cost of future decisions and outcomes in the coming year and therefore in determining the 2014/15 levy it is proposed to not fully utilise revenue balances and instead retain balances of £5m which Members can call upon if required as decisions are made and contracts awarded. Any balances not utilised in this way would become available to limit the increase in the 2015/16 levy.
- 5.4 The 2014/15 proposed budget of £67.055m has been prepared on this basis using the latest tonnage information and costs. This represents a reduction of £0.335m compared with the 2013/14 approved budget and is £1.652m lower than the 2014/15 medium term forecast reported to the Authority in February 2013.
- 5.5 Allowing for the use of forecast revenue balances of £6.907m at 31 March 2014 and the return to revenue of a £1.000m earmarked reserve the net cost to constituent councils in 2014/15 is estimated to be £59.148m; comprising charges for non-household waste of £10.691m, household charges of £2.005m and a levy of £46.452m (comprising a base levy element of £44.375m in respect of household waste and the core costs of operating the Authority, and an HWRC levy element of £2.077m). The cost to boroughs may be summarised as follows:

| <b>Table 6</b>              | <b>2013/14<br/>£'000</b> | <b>2014/15<br/>£'000</b> | <b>Variance<br/>£'000</b> | <b>Variance<br/>%</b> |
|-----------------------------|--------------------------|--------------------------|---------------------------|-----------------------|
| Non-household waste charges | 9,570                    | 10,691                   | 1,121                     | 11.71                 |
| Household waste charges     | 1,738                    | 2,005                    | 267                       | 15.36                 |
| Levy – base element *       | 39,440                   | 44,375                   | 4,935                     | 12.51                 |
| Levy – HWRC element *       | 2,389                    | 2,077                    | (312)                     | (13.06)               |
| <b>Total Levy *</b>         | <b>41,829</b>            | <b>46,452</b>            | <b>46,452</b>             | <b>11.05</b>          |
| <b>Total</b>                | <b>53,137</b>            | <b>59,148</b>            | <b>6,011</b>              | <b>11.31</b>          |

\* The total estimated levy for 2014/15 rises from £41.829m (2013/14) to £46.452m, i.e. an increase of £4.623m (11.05%).

- 5.6 The following table compares the proposed 2014/15 levy and other charges with the actual levy and other charges for the past 5 years:

| <b>Table 7</b>            | <b>Levy<br/>(Base<br/>Element)</b> | <b>Levy<br/>(HWRC<br/>Element)<br/>(New from<br/>2012/13)</b> | <b>Total<br/>Levy</b> | <b>Household<br/>Charges<br/>(New from<br/>2013/14)</b> | <b>Non-<br/>household<br/>charges</b> | <b>Total</b> |
|---------------------------|------------------------------------|---|-----------------------|---|---------------------------------------|--------------|
| <b>Financial<br/>Year</b> | <b>£'000</b>                       | <b>£'000</b>  | <b>£'000</b>          | <b>£'000</b>  | <b>£'000</b>                          | <b>£'000</b> |
| <i>Actual</i>             |                                    |   |                       |   |                                       |              |
| 2009/10                   | 43,647                             | 0   | 43,647                | 0   | 12,146                                | 55,793       |
| 2010/11                   | 43,512                             | 0   | 43,512                | 0   | 12,388                                | 55,900       |
| 2011/12                   | 43,512                             | 0   | 43,512                | 0   | 10,061                                | 53,573       |
| 2012/13                   | 38,600                             | 2,014   | 40,614                | 0   | 9,981                                 | 50,595       |
| 2013/14                   | 39,440                             | 2,389   | 41,829                | 1,738   | 9,570                                 | 53,137       |
| <i>Proposed</i>           |                                    |   |                       |   |                                       |              |
| 2014/15                   | 44,375                             | 2,077   | 46,452                | 2,005   | 10,691                                | 59,148       |

- 5.7 Members should bear in mind that if balances are utilised as proposed in 2014/15, constituent councils face the prospect of a further significant increase in 2015/16. Whilst borough Directors of Finance currently remain content to accommodate this potential increase in their own budget planning, Members should note that if favourable circumstances arise during 2014/15, it is possible that the Authority's balances may improve by the time it needs to take decisions on its budget and resource requirements for 2015/16. This cannot be relied upon in taking decisions on the 2014/15 budget and levy.
- 5.8 Further information on the 2014/15 proposed budget assumptions can be found in section 6.
- 5.9 Table 8 below provides a summary of the 2014/15 proposed budget.

Table 8

|  | 2013/14<br>Original<br>Budget<br>£'000 | 2014/15<br>Proposed<br>Budget<br>£'000 | Year on<br>year<br>change<br>£'000 |
|--|--|--|------------------------------------|
| <b>Expenditure</b>                               |  |  |                                    |
| Main Waste Disposal Contract (ex CA Waste)       | 25,243                                 | 26,073                                 | 830                                |
| Civic Amenity Waste                              | 1,360                                  | 1,382                                  | 22                                 |
| Landfill Tax                                     | 13,131                                 | 13,809                                 | 678                                |
| Composting Services                              | 3,124                                  | 2,967                                  | (157)                              |
| MRF Services                                     | 4,006                                  | 6,126                                  | 2,120                              |
| Transfer Stations and Other Sites                | 2,655                                  | 1,585                                  | (1,070)                            |
| Household Waste Recycling Centres                | 2,367                                  | 2,457                                  | 90                                 |
| Corporate and other Support Service Costs        | 2,131                                  | 2,843                                  | 712                                |
| Operations Team                                  | 685                                    | 766                                    | 81                                 |
| Waste Reduction Programme – New Initiatives      | 308                                    | 316                                    | 8                                  |
| Technical and Planning Team                      | 0                                      | 259                                    | 259                                |
| Joint Communications Initiative                  | 290                                    | 298                                    | 8                                  |
| Recycling Initiatives                            | 267                                    | 297                                    | 30                                 |
| Commingled Income Payment Scheme                 | 1,937                                  | 2,974                                  | 1,037                              |
| Procurement Process Costs                        | 3,031                                  | 0                                      | (3,031)                            |
| Sites and Planning Process Costs                 | 255                                    | 1,000                                  | 745                                |
| Revenue Funding – Capital Programme              | 9,178                                  | 8,242                                  | (936)                              |
|  | 69,968                                 | 71,394                                 | 1,426                              |
| <b>Less<br/>Income</b>                           |  |  |                                    |
| Rents  | (101)                                  | (105)                                  | (4)                                |
| Sale of Recyclates                               | (2,029)                                | (2,974)                                | (945)                              |
| Interest on Balances                             | (250)                                  | (75)                                   | 175                                |
| Estimated Dividend Stream                        | (2,500)                                | (2,500)                                | 0                                  |
|  | (4,880)                                | (5,654)                                | (774)                              |
| Net Expenditure                                  | 65,088                                 | 65,740                                 | 652                                |
| Contingency                                      | 2,302                                  | 1,315                                  | (987)                              |
| <b>Total Net Expenditure</b>                     | <b>67,390</b>                          | <b>67,055</b>                          | <b>(335)</b>                       |
| <b>Financed By:</b>                              |  |  |                                    |
| Use of Balances                                  | (14,253)                               | (6,907)                                | 7,346                              |
| Return of Earmarked Reserve to Revenue           | 0                                      | (1,000)                                | (1,000)                            |
| Charges to Boroughs (Non-household waste)        | (9,570)                                | (10,691)                               | (1,121)                            |
| Charges to Boroughs (Chargeable Household Waste) | (1,738)                                | (2,005)                                | (267)                              |
| Proposed Levy - Base Element                     | (39,440)                               | (44,375)                               | (4,935)                            |
| Propose Levy - HWRC Element                      | (2,389)                                | (2,077)                                | 312                                |
| Total Proposed Levy*                             | (41,829)                               | (46,452)*                              | (4,623)                            |
| <b>Total Proposed Funding</b>                    | <b>(67,390)</b>                        | <b>(67,055)</b>                        | <b>335</b>                         |
| <b>Retained Balances</b>                         | <b>0</b>                               | <b>(5,000)</b>                         | <b>(5,000)</b>                     |

5.10 The proposed 2014/15 levy of £46.452m represents an increase of £4.623m (11.05%).

## **6. 2014/15 Budget Assumptions**

6.1 The following factors have been taken into account:-

### **6.2. Inflation**

6.2.1 The majority of the Authority's contractual costs have an annual price review in December linked to changes in the Retail Price Index (RPI). The annual increase for December 2013 is 2.7% and the 2014/15 budget allows for this plus a further 2.9% in December 2014 (the latter is based on the HM Treasury summary of independent inflation forecasts for the UK economy published in January 2014). Whilst the latter applies primarily to the LondonWaste Ltd contract the Authority's other residual and recycling contracts are also subject to annual price reviews in line with changes in RPI. As a consequence, other categories of expenditure have been increased within a range of zero to 2.9% depending on the nature of the expenditure and timing of the contract price review date.

### **6.3 Employee Resource Budget**

6.3.1 Compared with 2013/14 the employee resource budget has reduced from 30 to 26.6 posts. This represents a budget saving of £0.294m. The budget also includes a provision for maternity cover. An allowance of 1% has been made for a pay award and a 1% increase in employers' pension costs.

### **6.4 Transport and disposal – Residual Tonnages**

6.4.1 As noted in the examination of the tonnage forecasts for 2013/14 earlier in this report, there are signs that the downward trend in overall waste tonnages experienced in recent years reversed in the third quarter of 2013/14. An element of this additional waste will be recyclable and Boroughs have advised the Authority of their plans to increase the amount of waste that they recycle and compost over the coming year. Accordingly the forecast 2014/15 residual tonnage reflects an increased recyclable tonnage of 16,983 tonnes. However, given the current uncertainties in waste stream volumes, there is a need to adopt a degree of caution when forecasting future tonnage levels. Additionally, forecasts need to take account of a possible rise in household numbers and the difficulties of persuading people to recycle more when they are facing a range of economic pressures. As a consequence the proposed budget also allows for a potential growth in the residual waste stream of 15,883 tonnes (2%). The overall effect of these changes is to reduce the 2014/15 estimated residual waste stream by 1,100 tonnes to 585,484 tonnes (compared with the 2013/14 projected outturn).

### **6.5 Landfill Tax**

6.5.1 The standard rate of landfill tax is scheduled to rise from £72 to £80 per tonne on 1 April 2014. 2014/15 is the final year of the annual £8 per tonne escalator announced in the Government's 2010 Emergency Budget. The Government has thus far given no indication of its intentions for 2015/16 onwards.

### **6.6 Composting and Materials Recovery Facility (MRF) Services**

6.6.1 The proposed budget reflects the intention of boroughs (other than Enfield) to deliver further additional amounts of green and kitchen waste to the Authority for treatment in 2014/15, i.e. a total of 55,829 tonnes (an increase of 5,591 tonnes over the projected

outturn tonnage for 2013/14). The cost of providing this service in 2014/15 is estimated to be £2.967m (£2.848m projected for 2013/14).

- 6.6.2 Boroughs (other than Enfield) have also indicated that they will need MRF treatment capacity for 118,979 tonnes of material in 2014/15 (an increase of 21,289 tonnes over the projected outturn tonnage for 2013/14). The overall cost of the dry recyclable MRF services in 2014/15 is estimated to be £6.126m (£5.051m projected for 2013/14).

|                | Composting Services |                   |                    | MRF Services      |                   |                    |
|----------------|---------------------|-------------------|--------------------|-------------------|-------------------|--------------------|
|                | 2013/14<br>Tonnes   | 2014/15<br>Tonnes | Variance<br>Tonnes | 2013/14<br>Tonnes | 2014/15<br>Tonnes | Variance<br>Tonnes |
| Barnet         | 21,745              | 24,873            | 3,128              | 12,864            | 28,225            | 15,361             |
| Camden         | 4,320               | 4,520             | 200                | 17,000            | 19,000            | 2,000              |
| Enfield        | 0                   | 0                 | 0                  | 0                 | 0                 | 0                  |
| Hackney        | 4,475               | 4,860             | 385                | 14,553            | 15,195            | 642                |
| Haringey       | 6,320               | 7,400             | 1,080              | 20,000            | 20,500            | 500                |
| Islington      | 4,078               | 4,226             | 148                | 14,273            | 14,559            | 286                |
| Waltham Forest | 9,300               | 9,950             | 650                | 19,000            | 21,500            | 2,500              |
| <b>Total</b>   | <b>50,238</b>       | <b>55,829</b>     | <b>5,591</b>       | <b>97,690</b>     | <b>118,979</b>    | <b>21,289</b>      |

#### 6.7 Commingled Income Payment Scheme (CIPS)/Income from the Sale of Recyclates

- 6.7.1 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. The 2014/15 draft budget assumes that prices will be a little lower than current values. 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 2014/15. The budget assumes a payment of £25 per tonne.

- 6.7.2 The following table provides an indication of the potential income that participating boroughs may receive from the CIPS:

|                | 2014/15<br>Commingled<br>Dry<br>Recyclable<br>Tonnes | 2014/15<br>Estimated<br>CIPS<br>Payment<br>£'000 |
|----------------|--|--|
| Barnet         | 28,225   | 706  |
| Camden         | 19,000   | 475  |
| Enfield *      | 0  | 0  |
| Hackney        | 15,195   | 380  |
| Haringey       | 20,500   | 512  |
| Islington      | 14,559   | 364  |
| Waltham Forest | 21,500   | 537  |
| <b>Total</b>   | <b>118,979</b>                                       | <b>2,974</b>                                     |

\* Enfield does not currently deliver dry recyclable waste to the Authority for treatment.

6.7.3 Clearly, if the Authority is in receipt of higher than forecast income from its MRF service contractors in 2014/15 than is forecast (this applies to 2013/14 also), the Authority will make greater than forecast CIPS payments (the Authority has regard to this income when deciding the level its contributions towards relevant constituent borough additional costs of collection).

## 6.8 Household Waste Recycling Centres

6.8.1 The proposed budget has been prepared in the light of the Authority's experience of managing the seven sites that transferred in 2012/13. Compared with the December 2013 report, forecast in-year operating costs remain unchanged at £2.521m.

6.8.2 With regard to capital financing costs, Haringey officers have confirmed that the new facility being developed at Western Road (replacing the Hornsey High Street site which will close) will become operational on or after 1 April 2014. This clarification enables the Authority to delay the year in which it will start to incur an element of financing costs until 2015/16. Overall capital financing costs in 2014/15 are now forecast to be £0.118m compared with £0.273m included in the December budget forecast. Note that this merely defers some costs and does not affect the total financing costs over the life-span of the facility.

6.8.3 The revenue costs arising from the capital investment made in acquiring the Western Road site and developing the facility will be recovered from boroughs through the levy using the amended apportionment arrangements agreed by the boroughs.

6.8.4 The amounts charged to the relevant boroughs through the 2014/15 levy will also allow for the additional balances that arose from the closure of the 2012/13 accounts and forecast additional balances from 2013/14.

| <b>Table 11</b> | <b>2014/15<br/>Estimated<br/>Operating Costs</b> | <b>Capital<br/>Charges re.<br/>Western<br/>Road</b> | <b>Total<br/>Estimated<br/>Operating<br/>Costs (Incl.<br/>Capital<br/>Charges)<br/>2014/15</b> |
|-----------------|--|---|--|
|                 | <b>£</b>   | <b>£</b>  | <b>£</b>   |
| Barnet          | 0  | 725   | 725  |
| Camden          | 354,517  | 45  | 354,562  |
| Enfield         | 0  | 453   | 453  |
| Hackney         | 0  | 226   | 226  |
| Haringey        | 612,015  | 115,813   | 727,828  |
| Islington       | 609,978  | 951   | 610,929  |
| W. Forest       | 944,437  | 91  | 944,528  |
| <b>Total</b>    | <b>2,520,947</b>                                 | <b>118,304</b>                                      | <b>2,639,251</b>   |

6.8.5 The forecast HWRC levy for 2014/15 is shown in the following table:

| <b>Table 12</b> | <b>Forecast HWRC Balances at 1 April 2014</b> | <b>Total Estimated Operating Costs 2014/15</b> | <b>Net HWRC Balances and 2014/15 Levy</b> |
|-----------------|---|--|---|
|                 | <b>£</b>                                      | <b>£</b>                                       | <b>£</b>                                  |
| Barnet          | 0   | 725  | 725                                       |
| Camden          | (226,289)                                     | 354,562  | 128,273                                   |
| Enfield         | 0   | 453  | 453                                       |
| Hackney         | 0   | 226  | 226                                       |
| Haringey        | 80,251  | 727,828  | 808,079                                   |
| Islington       | 3,292   | 610,929  | 614,221                                   |
| W. Forest       | (419,161)                                     | 944,528  | 525,367                                   |
| <b>Total</b>    | <b>(561,907)</b>                              | <b>2,639,251</b>                               | <b>2,077,344</b>                          |

To ensure that each borough bears only the costs of the HWRCs within its boundary, balances arising from the 2013/14 and the 2014/15 final accounts process will be ring-fenced to that borough. The minor exception to this general principle is the apportionment of the capital financing costs of the Western Road facility which will be apportioned on a visitor survey basis.

## 6.9 Transfer Stations and Other Sites

6.9.1 The 2014/15 budget allows for the estimated costs of operating the Hendon and Hornsey Street waste transfer stations. An allowance has been made for cost of maintaining other sites.

## 6.10 Procurement Process

6.10.1 The procurement process budget has been reduced to zero in 2014/15.

6.10.2 In 2013/14 the Authority approved a procurement process budget of £3.031m. This comprised the cost of the in-house team of £1.179m and a sum of £1.852m for the cost of support by external advisers. The in-house team comprised a core team of employees supported by a number of seconded personnel from consultancy firms. Following the decision to terminate the procurement, core team employee numbers have reduced by 2 and the seconded personnel have left the Authority's employment. The remaining members of the core team at a cost of £0.597m (including day-to-day operating costs) have been reassigned to work on the Authority's new long-term waste service plans and now appear elsewhere in the budget. The use of external advisers on the procurement process has also ceased.

## 6.11 Corporate and Other Support Services

6.11.1 Included in this budget are the members of staff who have transferred from the former procurement project at a cost of £0.406m (including day-to-day operating costs). Staff would have been members of the procurement implementation team and allowed for in the 2014/15 budget forecast (£0.850m) reported to the Authority in February 2013. The budget

also allows for an increase of £0.070m in the cost of communication activity in the coming year.

#### **6.12 Operations Team**

6.12.1 In addition to staffing and associated operating costs, the draft budget includes provisions of £200,000 for a waste composition survey and £45,000 for an HWRC visitor survey.

#### **6.13 Technical and Planning Team**

6.13.1 Staff members have either transferred to this team from the former procurement project and are now working on the Authority's new long-term waste service plans or have transferred from the Waste Strategy and Contracts Team. There is no additional cost to the Authority.

#### **6.14 Sites and Planning Process Costs**

6.14.1 The draft budget includes £1m to fund the development of its new residual waste strategy.

#### **6.15 Waste Reduction Programme – New Initiatives**

6.15.1 As agreed at the December Authority meeting this budget allows for a continuation of this initiative at current levels.

#### **6.16 Joint Communications Initiative**

6.16.1 This budget allows for a continuation of the initiative to deliver joint communications work across the Authority area with a view to securing greater consistency and coverage, better value for money and cost efficiencies.

#### **6.17 Recycling Initiatives**

6.17.1 The proposed budget allows for the continued payment of recycling and re-use credits to registered organisations (for details of 2014/15 registered organisations please see report elsewhere on this meeting's agenda) and support for the 'real nappies' initiative.

#### **6.18 Revenue Funding – Capital Programme**

6.18.1 The draft budget allows for the revenue cost of acquiring and developing sites through prudential borrowing at an estimated cost of £8.242m and is based on capital expenditure of £133m in the period 2009/15. This includes the acquisition of LondonWaste Ltd, Pinkham Way, and allows for the purchase of further sites which may be required to assist with the Authority's waste operations and development of the HWRC service.

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

6.19.1 Dividends are dependent on the Company's financial performance. The amount of payment will not become certain until the closing months of 2014 and therefore the 2014/15 draft budget allows for an estimated income of £2.5m. The Authority is required to take this approach as its controllable budgets would not be sufficient to make up a shortfall if LondonWaste's planned performance was not achieved and a lower dividend was paid.



## 6.20 Interest on Balances

6.20.1 This budget allows for income from the temporary investment of monies held by the Authority. With the Bank of England Base Rate having been at historically low levels for some considerable time and no certainty when rates will begin to rise, the income from this source is relatively low. The 2014/15 proposed budget reflects the intention to repay a PWLB loan in 2014/15 and has the effect of reducing the amount of interest the Authority can expect to receive in 2014/15 compared with 2013/14.

## 6.21 Non-household Charges

6.21.1 Based upon estimated non-household tonnages of 92,267 tonnes and a forecast charge per tonne of £115.00, the total cost to boroughs in 2014/15 for non-household residual waste is estimated to be £10.611m.

6.21.2 In addition to residual waste tonnages, two boroughs (Haringey – 380 tonnes and Islington – 1,160 tonnes) are planning to deliver recyclable non-household wastes to the Authority for treatment. The charges are £51.49 per tonne for commingled dry wastes, £57.79 for food wastes and £36.09 for green waste. The total income from recyclable non-household waste is estimated to be £0.080m. Dry recyclable tonnages will also be eligible for a CIPS payment.

6.21.3 In February 2013 the Authority agreed to continue the established basis of calculating non-household residual waste charges until the possible introduction of menu pricing in 2016/17, i.e. the current LWL gate fee, uplifted for the December RPI increase plus the prevailing rate of Landfill Tax.

6.21.4 The cost for individual boroughs is estimated to be:-

| <b>Table 13</b> | <b>2014/15<br/>Estimated<br/>Tonnes</b> | <b>2014/15<br/>Estimated<br/>Cost<br/>£</b> |
|-----------------|---|---|
| Barnet          | 12,286                                  | 1,412,890                                   |
| Camden          | 32,575                                  | 3,746,125                                   |
| Enfield         | 8,860                                   | 1,018,900                                   |
| Hackney         | 16,040                                  | 1,844,600                                   |
| Haringey*       | 2,368                                   | 248,185                                     |
| Islington *     | 20,260                                  | 2,256,810                                   |
| Waltham Forest  | 1,418                                   | 163,070                                     |
| <b>Total</b>    | <b>93,807</b>                           | <b>10,690,580</b>                           |

\* Including commingled and food waste tonnages.

6.21.5 The final charges, to reflect both volume and price changes, will be calculated as part of the 2014/15 final accounts process and reported to the Authority in June 2015. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

## 6.22 Chargeable Household Waste

6.22.1 Constituent councils have advised the Authority that they collect 18,580 tonnes of chargeable household waste comprising 16,504 tonnes of residual waste and 2,076 tonnes of recyclable and compostable waste.

6.22.2 The Authority has calculated the charges for the treatment of such waste to be £115.00 per tonne for residual waste, £51.49 for dry-recyclable waste, £57.79 for food waste and £36.09 for food waste. These charges are calculated on the same basis as the non-household charging arrangement.

6.22.3 The cost to individual boroughs in 2014/15 is estimated to be:

| <b>Table 14</b>  | <b>2014/15<br/>Estimated<br/>Tonnes</b> | <b>2014/15<br/>Estimated<br/>Cost (£)</b> |
|------------------|---|---|
| Barnet           | 2,280                                   | 262,200                                   |
| Camden           | 4,328                                   | 497,720                                   |
| Enfield          | 1,431                                   | 164,565                                   |
| Hackney          | 5,635                                   | 596,007                                   |
| Haringey         | 2,776                                   | 274,717                                   |
| Islington        | 2,130                                   | 210,184                                   |
| Waltham Forest * | 0                                       | 0   |
| <b>Total</b>     | <b>18,580</b>                           | <b>2,005,393</b>                          |

\* Waltham Forest has indicated that it no longer collects such waste

6.22.4 As in the case of non-household waste the final charges will be calculated as part of the 2014/15 final accounts process and reported to the Authority in June 2015. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

## 6.23 Efficiency Savings and Other Cost Reductions

6.23.1 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, the scope to make savings is limited. The Authority's expenditure budgets may be summarised as follows:

| <b>Table 15</b>   | <b>£'000</b>  | <b>%</b>     |
|---|---------------|--------------|
| 1. Waste Treatment Services – Tonnage Related             | 51,742        | 71.2         |
| 2. Household Waste Recycling Centres (ex. disposal costs) | 2,458         | 3.4          |
| 3. Corporate and Other Support Services                   | 3,608         | 5.0          |
| 4. Projects and Other Initiatives                         | 3,885         | 5.3          |
| 5. Sites and Planning Costs                               | 1,459         | 2.0          |
| 6. Revenue cost of capital investment                     | 8,242         | 11.3         |
| 7. Contingency  | 1,315         | 1.8          |
| <b>Total Expenditure</b>                                  | <b>72,709</b> | <b>100.0</b> |

The table demonstrates that the majority of the Authority's costs are tonnage driven and therefore largely determined by the amount of waste that the boroughs send to the Authority for treatment. It is perhaps only in the area of Corporate and Other Support Costs and Projects and Other Initiatives that costs are directly controllable by the Authority.

- 6.23.2 Despite these limitations officers take every opportunity to reduce costs or to improve value for money where possible. In the current year, working with LondonWaste Ltd it has secured lower prices for the treatment of its food wastes and a reduction in the cost of operating the Hornsey Street waste transfer station. The Authority has also been proactive in ensuring that its MRF services are effectively managed in order to obtain the most cost effective solution for the treatment of the additional commingled tonnages that are being delivered to the Authority. These benefits are reflected in both the fourth review of the 2013/14 budget and the 2014/15 proposed budget. The Authority continues to exercise good housekeeping by ensuring that day-to-day operational costs are kept to a minimum. The outcomes from these activities have contributed to the revenue balances that are forecast to be available to assist with the funding of the 2014/15 budget.
- 6.23.3 The joint communications initiative working across the Authority area for all constituent boroughs also aims to secure greater consistency and coverage, and better value for money. This extends also to the Authority's waste prevention programme and the management of the Household Waste Recycling Centres which transferred to the Authority during 2012/13.

## 6.24 Contingency

- 6.24.1 Previous sections of this report have advised Members of the robustness of individual budget heads to meet the Authority's statutory waste disposal obligations. Whilst I believe that these budgets are soundly based, the Authority needs to consider how it would fund any additional costs. In particular, if there are concerns about the level of the waste stream delivered to the Authority by constituent councils or its ability to ensure that there are sufficient resources to fund the costs of the new strategic direction.
- 6.24.2 In coming to a view on this, Members should bear in mind that it is currently envisaged that forecast balances at 31 March 2014 could be fully utilised during the course of 2014/15 and that once the levy is set the Authority would not be in a position to secure additional funds from its constituent councils. The Authority is not an operational authority and therefore has very little scope to make compensating savings for costs which may arise in meeting its waste disposal obligations. Although the Authority has responsibility for the disposal of the waste arisings from its constituent councils, it has no direct control over the volumes of waste entering the waste stream. Members will recall from my earlier comments that this could arise by either a higher than expected growth in the waste stream or a failure by the constituent councils to meet their own recycling targets. These factors place greater emphasis on the need to have robust budgets and adequate contingencies to deal with such eventualities.
- 6.24.3 Members will also be aware that the Local Government Act 2003 places a formal duty on the Financial Adviser to report to Members on the adequacy of the Authority's reserves (see paragraph 11 below). In view of the foregoing, my advice is that the 2014/15 contingency should be agreed at 2% of net expenditure, i.e. £1.315m.

## 6.25 Earmarked Reserves

6.25.1 The Authority has retained a reserve of £1m earmarked for funding future recycling initiatives for some years. Officers' intention was to bring forward at an appropriate time a recommendation that the reserve be used to assist with the implementation of recycling aspects of the procurement project. In the light of the decision to cancel the project however and the uncertainty of some cost pressures in 2014/15 this report recommends that the reserve be returned to the revenue account to assist in meeting these pressures.

## 7. Apportionment of the Levy

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 (as appended to the levy and Budget report at the February 2012 Authority meeting) until replaced by arrangements set out in the Inter Authority Agreement.

7.2 From 2012/13 constituent councils have 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 new HWRC element of the levy will be calculated to ensure that councils only incur costs associated with the running of the Household Waste Recycling Centres (HWRCs) that are situated within their borough boundary and which have been transferred to the Authority.

7.3 Since then two further changes have been agreed by constituent boroughs:

7.3.1 As the levy apportionment arrangements stood Barnet's decision to send dry recyclable waste to the Authority from October 2013 would have led to the resulting additional treatment costs in 2014/15 and 2015 /16 falling largely on the other constituent boroughs. To address this, Barnet proposed a levy change which ensures that it pays an equitable share of the increased costs in 2014/15 and 2015/16. This has been agreed by all constituent councils and is factored into the apportionment of the proposed 2014/15 levy.

7.3.2 The previous levy arrangements had provided for the apportionment of costs arising from the Authority's proposed purchase of an HWRC to be developed at Cranford Way as a replacement for the High Street, Hornsey HWRC. However, the replacement HWRC is now being developed at Western Road. To provide an equitable arrangement for apportioning costs incurred by the Authority in the purchase and development of the Western Road HWRC, a further amendment to the levy arrangements for HWRCs has been approved by constituent councils that replicate the previously agreed provisions for Cranford Way. Whilst 97.894% of such costs will be borne by LB Haringey, the remaining 2.106% will be charged to the other six constituent councils. The 2014/15 levy apportionment of these costs reflects this agreement.

7.4. The alternative levy apportionment arrangements require constituent councils to formally notify the Authority of both their council tax base for 2014/15 and also their household waste tonnages for 2012/13 by 31 January 2014. Members will be aware that the Authority already holds details of the 2012/13 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, all constituent councils have confirmed the household tonnage data

held by the Authority for their council. Additionally, all constituent councils have now advised the Authority of their council tax base for 2014/15. The apportionment of the 2014/15 levy will therefore be based upon the data contained in Table 16.

| <b>Table 16</b> | <b>2014/15<br/>Council Tax<br/>Base</b> | <b>2012/13<br/>Household<br/>Waste<br/>Tonnes<br/>(Actual)</b> |
|-----------------|---|--|
| Barnet          | 128,463.00                              | 130,840.68   |
| Camden          | 83,366.95                               | 65,917.48  |
| Enfield         | 88,698.00                               | 68,139.97  |
| Hackney         | 60,764.00                               | 83,802.47  |
| Haringey        | 67,091.00                               | 91,211.71  |
| Islington       | 69,543.25                               | 69,990.30  |
| Waltham Forest  | 65,452.00                               | 94,769.78  |
| <b>Total</b>    | <b>563,378.20</b>                       | <b>604,672.39</b>  |

7.5 Allowing for the proposed use of revenue balances and the Authority's 2014/15 proposed budget requirements, Table 17 below indicates the relative share of the levy that will be borne by each constituent council based upon the alternative levy apportionment arrangements as agreed by the NLWA constituent councils. Full details of the levy apportionment can be found at Appendix A.

| <b>Table 17</b>   | <b>2013/14 Levy</b>              |                                  |                       | <b>2014/15 Proposed Levy</b>     |                                  |                       | <b>Total Estimated<br/>Levy Change<br/>(Column 6 minus<br/>Column 3)</b> |              |
|-------------------|----------------------------------|----------------------------------|-----------------------|----------------------------------|----------------------------------|-----------------------|--|--------------|
|                   | <b>Base<br/>Levy<br/>Element</b> | <b>HWRC<br/>Levy<br/>Element</b> | <b>Total<br/>Levy</b> | <b>Base<br/>Levy<br/>Element</b> | <b>HWRC<br/>Levy<br/>Element</b> | <b>Total<br/>Levy</b> |  |              |
|                   | (1)                              | (2)                              | (3)                   | (4)                              | (5)                              | (6)                   |  |              |
|                   | £'000                            | £'000                            | £'000                 | £'000                            | £'000                            | £'000                 | £'000  | %            |
| Barnet            | 7,503                            | 0                                | 7,503                 | 9,648                            | 1                                | 9,649                 | 2,146  | 28.60        |
| Camden            | 4,625                            | 352                              | 4,977                 | 4,994                            | 128                              | 5,122                 | 145  | 2.91         |
| Enfield           | 5,161                            | 0                                | 5,161                 | 5,180                            | 0                                | 5,180                 | 19   | 0.37         |
| Hackney           | 5,109                            | 0                                | 5,109                 | 6,027                            | 0                                | 6,027                 | 918  | 17.97        |
| Haringey          | 6,014                            | 438                              | 6,452                 | 6,567                            | 808                              | 7,375                 | 923  | 14.31        |
| Islington         | 4,461                            | 579                              | 5,040                 | 5,167                            | 614                              | 5,781                 | 741  | 14.70        |
| Waltham<br>Forest | 6,567                            | 1,020                            | 7,587                 | 6,792                            | 526                              | 7,318                 | (269)  | (3.55)       |
| <b>Total</b>      | <b>39,440</b>                    | <b>2,389</b>                     | <b>41,829</b>         | <b>44,375</b>                    | <b>2,077</b>                     | <b>46,452</b>         | <b>4,623</b>   | <b>11.05</b> |

7.6 Where constituent councils deliver dry recyclable wastes to the Authority for treatment (currently all boroughs except Enfield) the levy costs shown in Table 17 are partially offset by an income under the Authority's Commingled Income Payment Scheme (see paragraph 6.7.2)

## 8. Medium Term Budget Forecast for 2015/16, 2016/17 and 2017/18

- 8.1 Following the cancellation of the procurement project in September 2013, the Authority will need to renew a number of its waste service contracts in 2014/15, particularly the LWL main disposal contract. Since these contracts and prices have yet to be determined, the 2014/15 budget and forecasts for future years have been prepared on a business as usual basis. Forecasts do, however, allow for inflation, a 1.5% year-on-year growth in the underlying waste stream and borough forecasts of their recycling activity. No allowance has been made for costs which may arise out of decisions yet to be made concerning the Authority's new residual waste strategy. Further information on the medium term forecast budgets can be found at Appendix B.
- 8.2 Based upon the above assumptions and assuming no revenue balances at 31<sup>st</sup> March 2015 the 2015/16 levy is currently estimated to increase by 21.23%. The outlook for 2015/16 has been discussed with Borough Directors of Finance who in turn have indicated that they will allow for this increase in their boroughs' medium term forecasts.
- 8.3 Turning now to the cost to boroughs after 2015/16 it is important to bear in mind that boroughs are currently considering a possible move to menu pricing in 2016/17. Although it is not expected that this move will have an impact on the Authority's costs, there could be a significant change to each borough's share of the levy compared with the current arrangements, in particular the balance of costs funded through the levy and the non-household and household chargeable charging arrangements could change. The Authority's officers will be working with borough officers over the coming months in order to help illustrate the financial impact of a move to menu pricing.
- 8.4 Subject to the constraints set out above, Appendix B indicates that the Authority's net budget requirement is currently forecast to increase from £69.503m in 2015/16 to £71.935m in 2016/17 and to £74.444m in 2017/18, i.e. an increase of 3.5% in 2016/17 and a further 3.49% in 2017/18.
- 8.5 The following table provides an early indication of the potential change in the levy contributions for each borough in 2015/16.

| <b>Table 18</b> | <b>2014/15</b>                     | <b>2015/16</b>                                | <b>Variance</b> |              |
|-----------------|------------------------------------|---|-----------------|--------------|
|                 | <b>Proposed<br/>Levy<br/>£'000</b> | <b>Budget<br/>Forecast<br/>Levy<br/>£'000</b> | <b>£'000</b>    | <b>%</b>     |
| Barnet          | 9,649                              | 11,689  | 2,040           | 21.14        |
| Camden          | 5,122                              | 6,843   | 1,721           | 33.60        |
| Enfield         | 5,180                              | 6,321   | 1,141           | 22.04        |
| Hackney         | 6,027                              | 7,281   | 1,254           | 20.80        |
| Haringey        | 7,375                              | 8,470   | 1,095           | 14.86        |
| Islington       | 5,781                              | 6,643   | 862             | 14.90        |
| Waltham Forest  | 7,318                              | 9,068   | 1,750           | 23.91        |
| <b>Total</b>    | <b>46,452</b>                      | <b>56,315</b>                                 | <b>9,863</b>    | <b>21.23</b> |

It should be noted that the 2015/16 levy apportionment in Table 18 is based on forecast household waste tonnages for each borough. In particular, it allows for the boroughs' own

forecasts of their recycling activity in 2015/16 and the amount of recyclate that they plan to send to the Authority for treatment. The 2015/16 levy apportionment also uses borough 2014/15 council tax base figures. The table therefore provides a guide based upon current information.

## 9. **Prudential Indicators**

9.1 The Authority determines its capital investment needs to meet its service obligations. In doing so it must have regard to *The Prudential Code for Capital Finance in Local Authorities*. The Code is designed to ensure that local authorities have capital investment plans that are affordable, prudential and sustainable. To demonstrate that they have fulfilled these objectives the Code sets out indicators that must be used.

### 9.2 **Indicators for Affordability**

9.2.1 The Authority has previously approved a capital programme of £145m reflecting the acquisition of 50% of the shares of LondonWaste Ltd, land at Pinkham Way and the acquisition of sites for future new waste treatment facilities. This figure has been revised to £151m to include an assessment of future acquisitions and developments required to support the Authority's new strategic direction.

9.2.2 Based on the proposed capital programme of £151m the following ratios of financing costs to net revenue stream are recommended for approval:-

| <b>Ratio of Financing Costs to Net Revenue Stream</b> |                           |                             |                             |                             |                             |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
| NLWA  | 2.30%                     | 2.23%                       | 12.36%                      | 13.02%                      | 13.38%                      |

For the Authority, Net Revenue Stream is the Levy.

9.2.3 The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have been previously taken by the Authority are:

| <b>Impact on the NLWA Levy</b> |                           |                             |                             |                             |                             |
|--------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
|                                | Nil                       | (£1.256m)                   | (£2.171m)                   | (£0.521m)                   | £0.005m                     |

### 9.3 **Indicators for Prudence**

9.3.1 The Capital Financing Requirement measures the underlying need to borrow. The Code provides that over the medium term net external borrowing does not exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current and next two years. This provides assurance that borrowing will be incurred only for capital purposes. I confirm that the Authority met this requirement in 2012/13 and no difficulties are envisaged in subsequent years. The following Capital Financing Requirements are therefore recommended for approval:-

| <b>Capital Financing Requirement</b> |                            |                              |                              |                              |                              |
|--------------------------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
|                                      | <b>31.03.13<br/>Actual</b> | <b>31.03.14<br/>Estimate</b> | <b>31.03.15<br/>Estimate</b> | <b>31.03.16<br/>Estimate</b> | <b>31.03.17<br/>Estimate</b> |
| NLWA                                 | £91m                       | £86m                         | £104m                        | £108m                        | £107m                        |

- 9.3.1 The Code requires that treasury management is carried out in accordance with good practice. The prudential indicator is that a local authority has adopted the *CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*. Members will be aware that the Authority's cash resources are pooled with those of LB Camden and that LB Camden undertakes treasury management activities on the Authority's behalf. Camden has adopted this code and its treasury management policies and procedures conform to the Code's requirements. I am satisfied that through the arrangement that the Authority has with LB Camden that treasury management activities undertaken on behalf of the Authority also meet the requirements of this Code.

#### 9.4 Indicators for capital expenditure, external debt and treasury management

- 9.4.1 There was no capital expenditure in 2012/13 and none is anticipated in 2013/14. The estimates of capital expenditure to be incurred for future years that are recommended for approval are:-

| <b>Capital Expenditure</b> |                           |                             |                             |                             |                             |
|----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|                            | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
| NLWA                       | Nil                       | Nil                         | £23m                        | £11m                        | £6m                         |

- 9.4.2 The next two Prudential Indicators (PI's) govern the Authority's ability to borrow funds in the money markets or from the Public Works Loans Board. They must be set at a level that allows sufficient headroom for the capital programme to be achieved. The following authorised limits for external debt are recommended for approval: -

| <b>Authorised Limit for External Debt</b> |                           |                             |                             |                             |                             |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
| Borrowing                                 | £95m                      | £125m                       | £125m                       | £125m                       | £125m                       |
| Other long term liabilities               | Nil                       | £1m                         | £1m                         | £1m                         | £1m                         |

- 9.4.3 The following operational boundaries for external debt are recommended for approval-

| <b>Operating Boundary for External Debt</b> |                           |                             |                             |                             |                             |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
| Borrowing                                   | £95m                      | £125m                       | £125m                       | £125m                       | £125m                       |
| Other long term liabilities                 | Nil                       | £1m                         | £1m                         | £1m                         | £1m                         |



- 9.4.4 The following prudential indicators are relevant for the purpose of setting a treasury management strategy. The Authority has currently only taken fixed interest loans but the indicators are set at a level that will enable the Authority to react to changing circumstances which may favour the use of variable rate loans.

| <b>Net Principal re. Fixed Rate Borrowings</b> |                           |                             |                             |                             |                             |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
|  | £95m                      | £125m                       | £125m                       | £125m                       | £125m                       |

| <b>Net Principal re. Variable Rate Borrowings</b> |                           |                             |                             |                             |                             |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|   | <b>2012/13<br/>Actual</b> | <b>2013/14<br/>Estimate</b> | <b>2014/15<br/>Estimate</b> | <b>2015/16<br/>Estimate</b> | <b>2016/17<br/>Estimate</b> |
|   | Nil                       | £125m                       | £125m                       | £125m                       | £125m                       |

- 9.4.5 In order to ensure flexibility in the loans that might be taken it is recommended that the following maturity structure of fixed rate borrowing is set for 2014/15. Given the Authority's particular investment needs the limits provide maximum flexibility for short-term borrowing.

| <b>Maturity structure of fixed rate borrowing during 2014/15</b> | <b>Upper Limit<br/>%</b> | <b>Lower Limit<br/>%</b> | <b>Current<br/>%</b> |
|--|--------------------------|--------------------------|----------------------|
| Under 12 months  | 50                       | 0                        | 26                   |
| 12 months and within 24 months                                   | 100                      | 0                        | 26                   |
| 24 months and within 5 years                                     | 100                      | 0                        | 26                   |
| 5 years and within 10 years                                      | 100                      | 0                        | 22                   |
| 10 years and above   | 100                      | 0                        | 0                    |

- 9.5. The above indicators may need to be reviewed in the coming year.

## 10 **Minimum Revenue Provision**

- 10.1 The Authority is required to set aside a sum from revenue each year for the repayment of debt. This is known as the Minimum Revenue Provision (MRP). Regulations require that the sum set aside is prudent and associated guidance provides a number of methodologies that local authorities can adopt. Whichever method an authority chooses, the regulations require the Authority to formally adopt it each year. For 2014/15 the Authority is recommended to adopt a method which makes provision in equal instalments over the estimated life of the asset concerned. This is unchanged from the methodology adopted for 2013/14.

## 11. **Advice on Reserves and Balances and Robustness of the Budget Process**

- 11.1 Advice is usually provided at this time on the level of reserves and balances available to the Authority, and on the robustness of the estimates that have been used to arrive at the proposed budget. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Financial Adviser) to report to the Authority on:

- (i) The adequacy of the proposed reserves
- (ii) The robustness of the budget

- 11.2 The level of balances and the robustness of estimates are closely linked. Balances and reserves should be set at a level that takes account of the financial risks facing the Authority; the greater the level of uncertainty, the more likely balances will be needed. A budget is prepared on the best information available at the time, and inevitably includes some uncertainty.
- 11.3 It is important that in setting the budget Members take account of the uncertainties involved, both in establishing a suitable level of balances and contingencies, and also in setting an overall strategy for the budget. This involves, for example, ensuring that only resources likely to be available in the long term are used to accomplish long-term objectives. The report before Members today also proposes not to fully utilise forecast revenue balances in determining the 2014/15 levy but instead recommends the retention of revenue balances of £5m to help fund possible budget pressures in the coming year.
- 11.4 In my view, and taking account of the issues raised above and the proposed retention of revenue balances, the Authority's budget estimates are sufficiently robust to deal with the current risks and uncertainties facing the Authority. Future budgets will need to be considered on merit and where necessary strengthened in a period of greater instability.

## 12. **Conclusion**

- 11.1 In the coming year the Authority is scheduled to renew many of its waste disposal contracts. Since contracts and prices have yet to be determined, the 2014/15 draft budget has been prepared on a business as usual basis. It has been necessary to make some assumptions on the progress of the Authority's new strategic direction. Although there are a number of areas where there is a degree of uncertainty, I am satisfied that the detailed budgets are soundly based. Allowing also for the inclusion of prudent levels of contingency in both the 2013/14 revised budget and the 2014/15 draft budget I am satisfied that the budgets as set out in this report should be sufficiently robust to meet the Authority's expenditure requirements over this period.
- 11.2 The 2014/15 draft budget of £67.055m is £0.335m lower than the 2013/14 original budget. Although the 2014/15 budget allows for the increase in the rate of landfill tax (£8 per tonne), significant increases in recycling activity and inflation, these costs have been largely offset by reductions in the volumes of waste coming to the Authority for treatment, and the cessation of procurement project related costs including a reduced contingency.
- 11.3 The Authority is forecast to have surplus balances of £11.907m at 31 March 2014. The reasons for this position are set out in this report. My report to the December meeting included a recommendation regarding the use of balances and since then, Authority officers have liaised with borough Directors of Finance and the Members' Finance Working Group. Both groups were content with the proposed approach and the 2014/15 proposed budget reflects the December recommendation to retain £5m of balances to be used only with the agreement of Members. Should the £5m not be required it will be available to support the 2015/16 budget but for financial planning purposes the medium term forecast for 2015/16 assumes full utilisation of this sum in 2014/15. There is therefore the prospect of a significant levy increase in 2015/16. This position has been acknowledged and accepted by borough Directors of Finance. Members will be advised of progress against the budget in regular budget review reports to the Authority.

- 11.4 The Authority is in a position to agree the 2014/15 levy at £46.452m (comprising a base levy element of £44.375m and an HWRC element of £2.077m); this represents an increase of £4.623m (11.05%).
- 11.5 The decision on the level of the levy is one that only the Authority can make and in reaching their decision Members should have regard to the advice contained in this report. Members must therefore satisfy themselves that the proposed budget and levy is sufficient to meet the Authority's statutory obligations in the year ahead.

12. **Comments of the Legal Adviser**

- 12.1 The Legal Adviser has been consulted in the preparation of this report and has no comments to add.

**Local Government Act 1972 - Section 100 as amended**

Documents used in the preparation of this report:-

Reports to the Authority dated 12 February 2013, 27 June 2013, 26 September 2013 and 12 December 2013

Notification letters from constituent councils in respect of:

- (i) 2014/15 Council Tax Base,
- (ii) 2012/13 actual household tonnages delivered to the NLWA for disposal, Controlled Waste Regulations 2012

Alternative Levy Apportionment Arrangements agreed by NLWA Constituent Councils – 2012 and 2013.

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## CALCULATION OF 2014/15 PROPOSED LEVY

|  | 2014/15<br>Proposed<br>Budget<br>£'000 | Household<br>Tonnage<br>Element<br>£'000 | Council Tax<br>Element<br>£'000 | HWRC<br>Element<br>£'000 |
|--|--|--|---------------------------------|--------------------------|
| <b>Expenditure</b>                               |  |  |                                 |                          |
| Main Waste Disposal Contract (Ex CA Waste)       | 26,073                                 | 26,073                                   |                                 |                          |
| Civic Amenity Waste                              | 1,382                                  |  | 1,382                           |                          |
| Landfill Tax                                     | 13,809                                 | 11,767                                   | 2,042                           |                          |
| Composting Services                              | 2,967                                  | 2,967                                    |                                 |                          |
| MRF Services                                     | 6,126                                  | 6,126                                    |                                 |                          |
| Transfer Stations and Other Sites                | 1,585                                  | 1,585                                    |                                 |                          |
| Household Waste Recycling Centres                | 2,457                                  |  |                                 | 2,457                    |
| Corporate and Other Support Service Costs        | 2,843                                  | 34                                       | 2,809                           |                          |
| Operations Team                                  | 766                                    | 253                                      | 449                             | 64                       |
| Waste Reduction Programme - New Initiatives      | 316                                    |  | 316                             |                          |
| Technical and Planning Team                      | 259                                    |  | 259                             |                          |
| Joint Communications Initiative                  | 298                                    |  | 298                             |                          |
| Recycling Initiatives                            | 297                                    |  | 297                             |                          |
| Commingle Income Payment Scheme                  | 2,974                                  | 2,974                                    |                                 |                          |
| Site and Planning Process Costs                  | 1,000                                  |  | 1,000                           |                          |
| Revenue Funding - Capital Programme              | 8,242                                  | 7,924                                    | 200                             | 118                      |
|  | <b>71,394</b>                          | <b>59,703</b>                            | <b>9,052</b>                    | <b>2,639</b>             |
| <b>Income</b>                                    |  |  |                                 |                          |
| Rents  | (105)                                  |  | (105)                           |                          |
| Sale of Recyclates - Dry Recyclable Bulking      | (2,974)                                | (2,974)                                  |                                 |                          |
| Interest on Balances                             | (75)                                   |  | (75)                            |                          |
| Estimated Dividend Stream                        | (2,500)                                |  | (2,500)                         |                          |
|  | <b>(5,654)</b>                         | <b>(2,974)</b>                           | <b>(2,680)</b>                  | <b>0</b>                 |
| <b>Net Expenditure</b>                           | <b>65,740</b>                          | <b>56,729</b>                            | <b>6,372</b>                    | <b>2,639</b>             |
| Contingency                                      | 1,315                                  | 1,182                                    | 133                             | 0                        |
| <b>Total Net Expenditure</b>                     | <b>67,055</b>                          | <b>57,911</b>                            | <b>6,505</b>                    | <b>2,639</b>             |
| <b>Financed by:</b>                              |  |  |                                 |                          |
| Revenue Balances b/fwd                           | (6,907)                                | (4,838)                                  | (1,507)                         | (562)                    |
| Return of Earmarked Reserve                      | (1,000)                                | 0  | (1,000)                         |                          |
| Charges to Boroughs (non household waste)        | (10,691)                               | (10,691)                                 |                                 |                          |
| Charges to Boroughs (household chargeable waste) | (2,005)                                | (2,005)                                  |                                 |                          |
| Estimated Levy - Base Levy                       | (44,375)                               | (40,377)                                 | (3,998)                         |                          |
| Estimated Levy - HWRCs                           | (2,077)                                |  |                                 | (2,077)                  |
| <b>Total Resources</b>                           | <b>(67,055)</b>                        | <b>(57,911)</b>                          | <b>(6,505)</b>                  | <b>(2,639)</b>           |

| Levy Apportionment Calculation |  |                                       |                | Household<br>Tonnage<br>Element<br>£ | Council Tax<br>Element<br>£ | HWRC<br>Element<br>£ | Total<br>Proposed<br>2014/15 Levy<br>£ |
|--------------------------------|--|---------------------------------------|----------------|--------------------------------------|-----------------------------|----------------------|--|
| 2014/15<br>COUNCIL<br>TAX BASE | 2012/13<br>ACTUAL<br>HOUSEHOLD<br>TONNAGES | 2014/15<br>FULL YEAR<br>HWRC<br>COSTS |                |                                      |                             |                      |  |
|                                |  |                                       |                | 40,377,000                           | 3,998,000                   | 2,077,344            | 46,452,344                             |
| 128,463.00                     | 130,840.68                                 | 725                                   | BARNET         | 8,736,887                            | 911,634                     | 725                  | 9,649,246                              |
| 83,366.95                      | 65,917.48                                  | 128,273                               | CAMDEN         | 4,401,640                            | 591,612                     | 128,273              | 5,121,525                              |
| 88,698.00                      | 68,139.97                                  | 453                                   | ENFIELD        | 4,550,047                            | 629,443                     | 453                  | 5,179,943                              |
| 60,764.00                      | 83,802.47                                  | 226                                   | HACKNEY        | 5,595,910                            | 431,210                     | 226                  | 6,027,346                              |
| 67,091.00                      | 91,211.71                                  | 808,080                               | HARINGEY       | 6,090,662                            | 476,110                     | 808,079              | 7,374,851                              |
| 69,543.25                      | 69,990.30                                  | 614,221                               | ISLINGTON      | 4,673,602                            | 493,512                     | 614,221              | 5,781,335                              |
| 65,452.00                      | 94,769.78                                  | 525,366                               | WALTHAM FOREST | 6,328,252                            | 464,479                     | 525,367              | 7,318,098                              |
| 563,378.20                     | 604,672.39                                 | 2,077,344                             |                | 40,377,000                           | 3,998,000                   | 2,077,344            | 46,452,344                             |

## MEDIUM TERM BUDGET FORECAST FOR 2015/16 TO 2017/18

|  | 2015/16<br>Budget<br>Forecast<br>£'000 | 2016/17<br>Budget<br>Forecast<br>£'000 | 2017/18<br>Budget<br>Forecast<br>£'000 |
|--|--|--|--|
| <b>Expenditure</b>                               |  |  |  |
| Main Waste Disposal Contract (Ex CA Waste)       | 27,065                                 | 27,994                                 | 28,916                                 |
| Civic Amenity Waste                              | 1,416                                  | 1,452                                  | 1,488                                  |
| Landfill Tax                                     | 14,215                                 | 14,822                                 | 15,470                                 |
| Composting Services                              | 3,115                                  | 3,305                                  | 3,485                                  |
| MRF Services                                     | 6,498                                  | 6,771                                  | 7,062                                  |
| Transfer Stations and Other Sites                | 1,612                                  | 1,640                                  | 1,669                                  |
| Household Waste Recycling Centres                | 2,297                                  | 2,354                                  | 2,413                                  |
| Corporate and Other Support Service Costs        | 2,745                                  | 2,811                                  | 2,779                                  |
| Operations Team                                  | 534                                    | 547                                    | 561                                    |
| Waste Reduction Programme – New Initiatives      | 323                                    | 331                                    | 340                                    |
| Technical and Planning Team                      | 266                                    | 273                                    | 279                                    |
| Joint Communications Initiative                  | 305                                    | 313                                    | 320                                    |
| Recycling Initiatives                            | 306                                    | 315                                    | 324                                    |
| Commingled Income Payment Scheme                 | 3,096                                  | 3,148                                  | 3,204                                  |
| Sites and Planning Process Costs                 | 300                                    | 0                                      | 0                                      |
| Revenue Funding - Capital Programme              | 9,893                                  | 10,418                                 | 10,773                                 |
|  | <u>73,986</u>                          | <u>76,494</u>                          | <u>79,083</u>                          |
| <b>Less</b>                                      |  |  |  |
| <b>Income</b>                                    |  |  |  |
| Rents  | (107)                                  | (110)                                  | (113)                                  |
| Sale of Recyclates                               | (3,096)                                | (3,148)                                | (3,204)                                |
| Interest on Balances                             | (80)                                   | (85)                                   | (90)                                   |
| Estimated Dividend Stream                        | (2,563)                                | (2,627)                                | (2,692)                                |
|  | <u>(5,846)</u>                         | <u>(5,970)</u>                         | <u>(6,099)</u>                         |
| Net Expenditure                                  | 68,140                                 | 70,524                                 | 72,984                                 |
| Contingency                                      | 1,363                                  | 1,411                                  | 1,460                                  |
|  | <u>69,503</u>                          | <u>71,935</u>                          | <u>74,444</u>                          |
| <b>Total Net Expenditure</b>                     | <b>69,503</b>                          | <b>71,935</b>                          | <b>74,444</b>                          |
| Percentage change in net expenditure             | 3.65%                                  | 3.50%                                  | 3.49%                                  |
| <b>Financed by</b>                               |  |  |  |
| Balances b/fwd                                   | 0                                      | To be                                  | To be                                  |
| Charges to Boroughs (Non-household waste)        | (11,131)                               | Replaced                               | Replaced                               |
| Charges to Boroughs (household chargeable waste) | (2,057)                                | By                                     | By                                     |
|  |  | Menu                                   | Menu                                   |
| Estimated Levy – Base Levy                       | (53,680)                               | Pricing                                | Pricing                                |
| Estimated Levy – HWRCs                           | (2,635)                                |  |  |
| Total Levy                                       | <u>(56,315)</u>                        |  |  |
| <b>Total Resource Requirement</b>                | <b>(69,503)</b>                        | <b>(71,935)</b>                        | <b>(74,444)</b>                        |
| Revenue Balances at 31 March                     | 0                                      | 0                                      | 0                                      |
| Percentage Increase in the Levy                  | <b>21.23%</b>                          |  |  |