

REPORT TITLE

REVENUE BUDGET AND LEVY 2010/11

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO**DATE**

AUTHORITY MEETING

10 FEBRUARY 2010

1. SUMMARY OF REPORT

This report indicates that following a fourth review of the 2009/10 budget the Authority is currently estimated to have a revenue surplus of £9.726m at 31 March 2010. A further assessment of the budget and resource requirements for the year ahead indicates that the 2010/11 net budget requirement is £65.626m, which after use of forecast revenue balances of £9.726m, will require funding of £55,900m by constituent councils. It is proposed that £12.388m will be funded through the non-household charging arrangement, this represents an increase of £0.242m (2%) over the original estimated cost in 2009/10. Finally, it is proposed that the remaining costs of the Authority will be funded through a levy of £43.512m, i.e. a reduction of £0.135m (0.3%).

The proposed levy is broadly in line with the updated advice presented to the Authority on 9 December 2009 and reflects the need to accommodate a higher than anticipated increase in the December Retail Price Index, higher levels of residual waste delivered to the Authority in recent months, the costs of the procurement process and a reduction in the amount of non-household waste being delivered to the Authority.

This report proposes to return the benefit of forecast balances at 31 March 2010 to constituent councils by using the surplus balances to assist with the funding of the 2010/11 budget. However, Members should bear in mind that if balances are fully utilised in 2010/11 constituent councils face the prospect of a more significant levy increase in 2011/12. Borough Directors of Finance have indicated that they are content to manage the potential 2011/12 levy increase within their borough budgets.

In view of the notifications received from a number of constituent councils confirming their support for the default provisions set out in the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006, the 2010/11 levy will be apportioned in accordance with these regulations. As a consequence the 'household waste' element of the levy will be apportioned wholly on a tonnage basis whilst the 'other costs' and much smaller element of the levy will be apportioned on a council tax basis.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Consider the 2009/10 revised budget and 2010/11 proposed budget.
- (ii) Agree the 2010/11 non-household residual waste charge at £81.11 per tonne and £46.61 in the case of non-household dry recyclable wastes.
- (iii) Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2010/11 budget.
- (iv) Note the medium term budget forecasts for 2011/12, 2012/13 and 2013/14.
- (v) Determine the levy for 2010/11.
- (vi) Note that the levy will be apportioned in accordance with default provisions of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006.
- (vii) Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for non-household waste.
- (viii) Approve the Prudential Indicators and agree the basis for calculating the Minimum Revenue Provision as set out in section 8.

Signed by the Financial Adviser:

Date:

3. Introduction and Background

- 3.1 At its meeting on 9 December 2009 Members were provided with an up to date assessment of the Authority's financial position, including an assessment of the budget and resource requirements for 2010/11.
- 3.2 Allowing for the use of forecast balances at 31 March 2010 of £8.852m, the budget forecast report indicated the possibility of a levy reduction in 2010/11, however, in view of potential budget pressures reported on the day of the meeting, the Authority was advised that it would be prudent at that time to assume a standstill in the 2010/11 levy. This would nevertheless represent a significant improvement on the levy prospects previously reported to the Authority. 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 Member Budget Scrutiny Panel would meet in January to discuss the budget setting for the next financial year. This took place on 21 January 2010. Officers have also consulted with the Directors of Finance (DOFs) of the NLWA constituent boroughs.
- 3.3 The Budget Scrutiny Panel considered the key assumptions which underpinned the 2010/11 budget forecast and paid particular attention to the additional budget pressures that had emerged since the December meeting and which had the potential to increase the levy above a standstill. The latter included a higher than anticipated increase in the December Retail Price Index (the benchmark for the price review clauses in the Authority's main contracts), the higher levels of residual waste delivered to the Authority in recent months and the costs of the procurement process. Members were supportive of the key assumptions underpinning the proposed budget and although recognising the additional pressures that had emerged since the December meeting were hopeful that once the remaining budget review process was complete that a standstill levy could still be achieved. The Panel also acknowledged that as the Authority has only a once-a-year opportunity to raise resources through the levy, that it was important for the Authority to agree a budget that was sufficiently robust and flexible to meet both its day-to-day statutory operational obligations and to enable the momentum of the procurement process to be maintained in the year ahead. Members also acknowledged that as it was the practice for the Authority to take into account any improvement in the Authority's in-year financial position at the next budget and levy setting meeting that they were content with this approach.
- 3.4 Since the last meeting Borough DOFs have been kept informed of budget developments both in writing and at a meeting on 31 January 2010. In keeping with the practice of previous years DOFs have confirmed that they would prefer the Authority to maximise the use of projected balances at 31 March 2010 to assist with the funding of the 2010/11 budget and that they would manage the potential 2011/12 levy increase within their borough budgets. DOFs were content that the Authority would be in a position to recommend a slightly better than standstill levy to Members at today's meeting.

- 3.5 This report provides an up-to-date assessment of the 2009/10 budget and presents for consideration a draft budget for 2010/11.
- 3.6 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;
 - (ii) determine the levy.
- 3.7 Details of the approved budget and levy for 2010/11 must be notified to constituent councils for inclusion in their Council Tax charge before 15 February 2010.

4. **Review of the 2009/10 Revenue Budget**

- 4.1 At its meeting on 11 February 2009 the Authority agreed an original budget of £60.221m to be financed by estimated balances of £4.428m, charges to boroughs for non-household waste of £12.146m and a levy of £43.647m.
- 4.2 In subsequent reviews, Members have been advised of:
- The higher level of balances brought forward from 2008/09 (- £2.383m),
 - A slippage of income from 2008/09 (- £0.612m),
 - A projected reduction in borough recyclable wastes sent to the Authority for treatment and lower gate fees (- £1.721m),
 - A reduction in the costs of transport, disposal and landfill tax due to reduced tonnages and the likely reduction in the LondonWaste Ltd landfill tax claim (- £1,607m),
 - A reduction in the LondonWaste Ltd Compensation Review Claim (- £0.804m),
 - Slippage in the Capital Programme – revenue saving (- £2.798m),
 - Hornsey Street additional operating costs – reductions arising from settlement of the 2004 claim by LondonWaste Ltd (- £0.616m),
 - Additional procurement process and acquisition process costs (+ £1.602m)
 - Reduction in non-household waste income due to a reduction in the waste stream (+ £0.738m).
 - Miscellaneous other changes (- £0.651m).
- 4.3 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 2010 by £0.874m to £9.726m. This review will form the basis of the 2009/10 revised budget. Details of the most significant changes and issues identified by the fourth review are discussed below.

4.4 Transport, Disposal and Landfill: (+ £0.382m)

- 4.4.1 In December Members were advised that based upon tonnage data available for the period April to October 2009 there had been a net reduction of 4.42% in the level of residual waste entering the Authority's waste stream over the same period in 2008/09. With borough recycling activity lower than originally forecast the downward movement in the residual waste stream appeared once again to be linked to the current economic downturn. Other London waste disposal authorities had experienced similar reductions. From a budgeting point of view, however, the third budget review adopted a prudent approach (pending a further review at this meeting) and allowed for a possible 1% rise in the residual waste stream for the second half of the year. As a consequence the third budget review assumed a full year residual tonnage forecast of 682,641 tonnes, i.e. a reduction of 17,562 tonnes compared with the original budget assumptions (and a reduction of 26,162 tonnes compared with 2008/09).
- 4.4.2 Data now available for the period up to December 2009 indicates a net reduction of 3.65% in the residual waste stream, i.e. an adverse change of 0.77% compared with the December forecast. Given the scale of the adverse change in November and December which has affected all but one borough (see Table 1 below) there remains a need to adopt a degree of caution in projecting the tonnage outturn for the year, particularly at this critical stage of the budget process. The fourth review therefore allows for a further 1% growth in the waste stream over the remainder of the year. The net effect of these changes compared with the December forecast, is to increase the residual tonnage forecasts for the year by 4,768 tonnes. On this basis the residual waste stream for the year is now estimated to reduce by 12,794 tonnes to 687,409 tonnes compared with the original budget assumption of 700,203 tonnes, and by 21,394 tonnes compared with the residual tonnage outturn for 2008/09 (708,803 tonnes).
- 4.4.3 Over the past year annual changes in the the Retail Price Index (RPI) have reduced from plus 0.9% in December 2008 to minus 1.4% in September 2009 before receding to minus 0.3% in November and climbing to plus 2.4% in December 2009. The December RPI figure is particularly relevant for the Authority as the majority of its contract payments have a December annual price review clause. Although the third budget review assumed a 0.5% increase in December 2009 it has been necessary for the fourth budget review to allow for an additional increase of 1.9% across all budgets where the December 2009 price review date is relevant.
- 4.4.4 The overall net effect of these changes is estimated to increase transport, disposal and landfill tax costs by £0.382m in 2009/10.
- 4.4.5 Details of the percentage movement in 2009/10 residual tonnage levels for each borough compared with the 2008/09 tonnages may be summarised as follows: -

| Table 1 | September Forecast (Second Review) <i>(April to July)</i> | December Forecast (Third Review Adjusted) <i>(April to October)</i> | Current Forecast (Fourth Review) <i>(April to December)</i> | Variance between (Third & Fourth Reviews) |
|------------------|---|---|---|--|
| Barnet | - 5.18% | - 5.98% | - 4.56% | + 1.42% |
| Camden | - 4.19% | - 5.57% | - 4.23% | + 1.34% |
| Enfield | - 2.12% | - 4.29% | - 4.86% | - 0.57% |
| Hackney | - 2.41% | - 3.51% | - 2.81% | + 0.70% |
| Haringey | - 5.49% | - 5.36% | - 4.47% | + 0.89% |
| Islington | - 4.98% | - 5.96% | - 5.09% | + 0.87% |
| Waltham Forest | - 0.01% | + 0.40% | + 1.05% | + 0.65% |
| Overall position | - 3.55% | - 4.42% | - 3.65% | + 0.77% |

4.5 **Hendon Rail Transfer Station: (- £0.096m)**

4.5.1 Terms for the new lease at this facility have now been agreed with the result that a further budget saving of £0.96m can now be taken into account in the fourth review. There will be an ongoing benefit into 2010/11.

4.6 **Commingled Income Payment Scheme/Income from the sale of Recyclates**

4.6.1 A report elsewhere on this agenda recommends the approval of a Commingled Income Payment Scheme to boroughs that deliver their commingled dry recyclables to the Authority for treatment. It is proposed that the cost of the scheme will be funded from the income that the Authority receives from the sale of these recyclates. The Authority became entitled to this new source of income on 1st October 2009 and because of its uncertain nature, it has not been allowed for in the budget forecasts previously reported to the Authority. As a consequence, if the scheme is approved, the impact on today's budget will be neutral. The income and cost of the scheme included in the fourth budget review and the 2010/11 draft budget are based upon the projected level of income anticipated at the time of contract award. Although early indications are that the income from this source may be greater, the proposed scheme provides that income and the cost of the scheme will always be equal and therefore as previously indicated will have a neutral budget impact.

4.7 **Agency Services: (- £0.124m)**

4.7.1 Grouped under this heading are the costs of the lead borough support arrangements (other than those provided by the Waste Strategy and Contracts Team), the core costs of operating the Authority and the cost of engaging external

consultants to support the work of the Authority Advisers. These costs have been reviewed and a further saving of £0.124m is currently projected (largely due to a lower than expected use of external advisers).

4.8 Governance and Development of the Authority's Vision: (+ £0.131m)

4.8.1 Members will be aware that this budget was established to help fund the development of the Authority's internal support arrangements so that the Authority is better positioned to meet the challenges of providing new waste treatment facilities and future services to its constituent councils. The third review allowed for a possible saving, however, in view of the work now under way to examine the implications of transferring Haringey staff to the employ of Camden and the possible transfer to a new IT provider, it is felt appropriate at this time to reinstate the budget provision pending the determination of any associated costs.

4.9 Procurement Related Costs: (- £0.279m)

4.9.1 Members will find that Tables 3 and 4 below have extracted the costs associated with acquiring LondonWaste Ltd and other sites so that the descriptions more appropriately reflect the costs of each process, i.e. procurement process and acquisition process costs are now shown separately. As before, planning applications costs continue to be shown separately.

4.9.2 Officers have considered the merit of capitalising costs where this may be possible, particularly in relation to the LondonWaste Ltd acquisition, but given the downside of incurring additional costs in the long-term, and which may in any event have to be written-off and funded from revenue, and the limited added benefit to asset value, the consensus of officers is to continue to fund these costs from revenue. This approach does not, however, rule out the possibility of capitalisation should it subsequently be considered helpful to the Authority's overall financial position. This approach is also supported by borough DOFs and the Budget Scrutiny Panel.

4.9.3 There has been some slippage in the planning process work, and this accounts for the majority of the saving identified under this heading.

4.10 Revenue Funding of Capital Programme: (- £0.863m)

4.10.1 The original budget provided revenue support to fund the 2009/10 capital investment programme. Members will be aware of the developments which have resulted in a revised investment and payment profile which should result in a further saving of £0.863m in 2009/10.

4.11 Charges to Boroughs for Non-Household Waste (+ £0.208m)

4.11.1 In view of the changes both in the volume and make-up of the waste stream, non-household tonnages for the year are currently estimated to reduce by 12,472 tonnes for the year. Charges are currently estimated to reduce from £72.20 to

£71.91 per tonne, i.e. a reduction of £0.29. The overall effect of these changes is to reduce the estimated income from non-household charges by £0.946m for the year. Compared, however, with the third review this represents a further reduction in income of £0.208m. The potential financial effect on boroughs varies.

4.11.2 Assuming boroughs continue to deliver waste at current levels the potential impact on individual boroughs is estimated to be as follows:-

| Table 2 | 2009/10 Original Estimate | 2009/10 Current Forecast | Estimated Variance |
|----------------|--------------------------------------|-------------------------------------|-------------------------------|
| | £ | £ | £ |
| Barnet | 1,631,720 | 1,480,627 | - 151,093 |
| Camden | 3,460,907 | 3,167,348 | - 293,559 |
| Enfield | 1,075,202 | 1,007,387 | - 67,815 |
| Hackney | 2,062,104 | 1,909,858 | - 152,246 |
| Haringey | 1,131,013 | 1,108,636 | - 22,377 |
| Islington | 1,952,649 | 1,807,314 | - 145,335 |
| Waltham Forest | 832,466 | 719,244 | - 113,222 |
| Total | 12,146,061 | 11,200,414 | - 945,647 |

4.11.3 The figures currently indicate that all boroughs could be entitled to a refund.

4.11.4 Constituent councils may wish to bear in mind the potential impact of the above changes in the context of their own budget process. The final charges will be calculated as part of the 2009/10 final accounts process and reported to the Authority in June 2010. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

4.12 Contingency: (- £0.250m)

4.12.1 Although individual budget heads have been reviewed in the light of the latest available information there is a risk that additional costs could arise, particularly as a result of a significant adverse change in the waste stream. This could arise, either by way of a sudden or gradual reversal of recent trends (as evidenced in November and December), or by a failure of the boroughs to meet the recycling levels that have been notified to and used by the Authority in calculating the residual waste stream. In previous years the latter was less of a problem for the Authority as any under achievement in borough recycling activity meant that a saving in the recycling credit budget could be used instead to fund the ongoing cost of disposal. However, following cessation of the payment of recycling credits to boroughs following full implementation of the new default levy apportionment arrangements in 2008/09 (cessation of transitional arrangements), the risk of an overspend by the Authority increases and reinforces the need to maintain an adequate contingency provision at all times. Also, the costs of the procurement process by its very nature is likely to be difficult to restrict where there is a genuine need to incur costs. Nevertheless, after taking into account the robustness of

detailed budget heads it would not be unreasonable at this stage of the year to reduce the provision by £0.250m.

4.13 Overview of the 2009/10 Revised Budget

4.13.1 Allowing for the above factors, the proposed 2009/10 revised budget for the Authority is £51.932m. This represents a net reduction of £1.082m when compared with the third budget review in December. However, allowing also for a further reduction in non-household charges of £0.208m, the net revenue surplus at 31 March 2010 is therefore estimated to increase by £0.874m to £9.726m.

4.13.2 Details of the variations, which have led to a further increase in forecast revenue balances at 31 March 2009, may be summarised as follows:-

| | £'000 |
|--|--------------|
| Transport, disposal and landfill tax | 382 |
| Hendon Rail Transfer Station | (96) |
| Income from the sale of Recyclates | (426) |
| Commingled Income Payment Scheme | 426 |
| Agency Services | (124) |
| Governance and Other Support | 131 |
| Waste Contract – Planning Application Costs | (264) |
| Revenue funding of Capital Programme | (863) |
| Non-household Charges | 208 |
| Contingency | (250) |
| Miscellaneous (net) | 2 |
| | ----- |
| Increase in Forecast Revenue Balances | (874) |
| | ----- |

4.13.3 Table 3 below provides a summary of the current financial position:-

Table 3

| | 2009/10 Original Budget | 2009/10 Third Review | 2009/10 Fourth Review | Variance between 3rd & 4th Reviews |
|---|-------------------------------|----------------------------|-----------------------------|---|
| Expenditure | £'000 | £'000 | £'000 | £'000 |
| Main Waste Disposal Contract (ex CA Waste) | 26,434 | 25,458 | 25,678 | 220 |
| Composting Services | 3,837 | 3,439 | 3,490 | 51 |
| Dry Recyclable Waste Services | 3,528 | 2,205 | 2,205 | 0 |
| Civic Amenity Waste | 1,603 | 1,593 | 1,564 | (29) |
| Landfill Tax | 9,932 | 8,325 | 8,465 | 140 |
| Hendon Transfer Station | 790 | 693 | 597 | (96) |
| Hornsey Street Transfer Station | 2,771 | 2,545 | 2,585 | 40 |
| Recycling Credits | 200 | 152 | 162 | 10 |
| Other Recycling Initiatives | 140 | 145 | 145 | 0 |
| BMW Diversion Incentive Scheme | 526 | 393 | 392 | (1) |
| Commingled Income Payment Scheme | 0 | 0 | 426 | 426 |
| Agency Services | 705 | 701 | 577 | (124) |
| Governance and Other Support | 500 | 369 | 500 | 131 |
| Waste Strategy and Contracts Team | 1,031 | 1,019 | 990 | (29) |
| Waste Composition Survey | 200 | 171 | 171 | 0 |
| Waste Contract – Procurement Process Costs | 2,970 | 3,693 | 3,678 | (15) |
| Waste Contract – Acquisition Costs | 0 | 968 | 968 | 0 |
| Waste Contract – Planning Application Costs | 900 | 840 | 576 | (264) |
| Annual Compensation | 32 | 31 | 31 | 0 |
| Provision for possible Litigation Costs | 50 | 50 | 50 | 0 |
| Revenue Funding – Capital Investment | 3,663 | 865 | 2 | (863) |
| LATS – Use of Allowances | 4,308 | 4,308 | 4,308 | 0 |
| Excess Creditor Provision (Previous Years) | 0 | (538) | (538) | |
| | 64,120 | 57,425 | 57,022 | (403) |
| Less | | | | |
| Income | | | | |
| Rents | (86) | (86) | (89) | (3) |
| Income from sale of Recyclates | (0) | (0) | (426) | (426) |
| Interest on Balances | (255) | (767) | (767) | (0) |
| LATS – Grant | (4,308) | (4,308) | (4,308) | (0) |
| Estimated Dividend Stream | (0) | (0) | (0) | (0) |
| | (4,649) | (5,161) | (5,590) | (429) |
| Net Expenditure | 59,471 | 52,264 | 51,432 | (832) |
| Contingency | 750 | 750 | 500 | (250) |
| Total Net Expenditure 2009/10 | 60,221 | 53,014 | 51,932 | (1,082) |
| | ===== | ===== | ===== | ===== |
| Financed By :- | | | | |
| Balances b/fwd | (4,428) | (6,811) | (6,811) | 0 |
| Charges to Boroughs (Non-household waste) | (12,146) | (11,408) | (11,200) | 208 |
| 2009/2010 Levy | (43,647) | (43,647) | (43,647) | 0 |
| Total Resources Available | (60,221) | (61,866) | (61,658) | 208 |
| | ===== | ===== | ===== | ===== |
| Estimated Revenue Balances as at 31 March 2010 | 0 | (8,852) | (9,726) | (874) |

5. 2010/11 Proposed Budget

5.1.1 Further to my assessment of the 2010/11 budget and resource requirements in December I have undertaken a further review of the assumptions that supported this forecast. The results of this review are reflected in table 4 below:-

| Table 4 | 2009/10 Original Budget | 2010/11 Proposed Budget | Year-on Year Change |
|--|--|--|------------------------------------|
| Expenditure | £'000 | £'000 | £'000 |
| Main Waste Disposal Contract (ex CA Waste) | 26,434 | 26,166 | (268) |
| Civic Amenity Waste | 1,603 | 1,588 | (15) |
| Landfill Tax | 9,932 | 10,950 | 1,018 |
| Composting Services | 3,837 | 4,117 | 280 |
| Dry Recyclable Waste Services | 3,528 | 2,164 | (1,364) |
| Hendon Transfer Station | 790 | 491 | (299) |
| Hornsey Street Transfer Station | 2,771 | 2,699 | (72) |
| Other Sites | 0 | 250 | 250 |
| Recycling Credits | 200 | 204 | 4 |
| Other Recycling Initiatives | 140 | 143 | 3 |
| BMW Diversion Incentive Scheme | 526 | 494 | (32) |
| Commingled Income Payment Scheme | 0 | 758 | 758 |
| Agency Services | 705 | 726 | 21 |
| Governance and Other Support | 500 | 530 | 30 |
| Waste Strategy and Contracts Team | 1,031 | 1,107 | 76 |
| Waste Composition Survey | 200 | 0 | 0 |
| Waste Contract – Procurement Process Costs | 2,970 | 3,594 | 624 |
| Waste Contract – Acquisition Costs | 0 | 82 | 82 |
| Waste Contract – Planning Application Costs | 900 | 618 | (282) |
| Annual Compensation | 32 | 32 | 0 |
| Provision for possible Litigation Costs | 50 | 50 | 0 |
| Revenue Funding – Capital Investment | 3,663 | 8,621 | 4,958 |
| Revenue Contributions to Capital Outlay | 0 | 5,000 | 5,000 |
| LATS – Use of Allowances | <u>4,308</u> | <u>3,828</u> | <u>(480)</u> |
| | 64,120 | 74,212 | 10,092 |
| Less | | | |
| Income | | | |
| Rents | (86) | (91) | (5) |
| Income from the sale of Recyclates | (0) | (758) | (758) |
| Interest on Balances | (255) | (200) | 55 |
| LATS – Grant | (4,308) | (3,828) | 480 |
| Estimated Dividend Stream | <u>(0)</u> | <u>(5,000)</u> | <u>(5,000)</u> |
| | (4,649) | (9,877) | (5,228) |
| Net Expenditure | 59,471 | 64,335 | 4,864 |
| Contingency | <u>750</u> | <u>1,291</u> | <u>541</u> |
| 2010/11 Proposed Budget | 60,221 | 65,626 | 5,405 |
| | ===== | ===== | ===== |
| Financed By :- | | | |
| Balances b/fwd | (4,428) | (9,726) | (5,298) |
| Charges to Boroughs (Non-household waste) | (12,146) | (12,388) | (242) |
| Estimated Levy | <u>(43,647)</u> | <u>(43,512)</u> | <u>135</u> |
| Total Estimated Resource Requirement | (60,221) | (65,626) | (5,405) |
| | ===== | ===== | ===== |

5.1.2 The figures in table 4 show that the net budget requirement for 2010/11 of £65,626m has increased by £5.405m compared with the 2009/10 original budget. Allowing for the use of forecast revenue balances of £9.726m at 31 March 2010 the net cost to constituent councils in 2010/11 is estimated to be £55.900m; comprising charges for non-household waste of £12.388m and a levy of £43.512m in respect of household waste and the core costs of operating the Authority. This represents an increase of £0.107m (0.2%) over the cost to boroughs in 2009/10 (£55.793m). The non-household and levy elements of cost to the boroughs may be summarised as follows:

| | 2009/10 | 2010/11 | Variance |
|-----------------------|----------|----------|--------------------|
| Non-household charges | £12.146m | £12.388m | + £0.242m (+ 2.0%) |
| Levy | £43.647m | £43.512m | - £0.135m (- 0.3%) |
| Total | £55.793m | £55.900m | + £0.107m (+ 0.2%) |

5.1.3 Members should also note that because of the differential in the year-on-year change in the amount of the waste stream delivered to the Authority by each constituent council (either for disposal or recycling) that this will impact upon each council's share of the levy and non-household charge in 2010/11, such that the actual percentage change for each council will be different from the average year-on-year increase for 2010/11 indicated above. Details of each borough's estimated charge for non-household waste can be found at paragraph 5.15.4, whilst each borough's share of the proposed levy, using the default levy apportionment arrangements can be found at paragraph 6.8.

5.1.4 Further information on the 2010/11 proposed budget is set out in section 5.2 below:

5.2. Inflation

5.2.1 The majority of the Authority's contracts have an annual price review in December which is linked to changes in the Retail Price Index (RPI). The annual increase for December 2009 was 2.4% and therefore the 2010/11 budget allows for the continuation of this level for 2010 plus a further 2% in December 2010. Other categories of expenditure have been increased within a range of zero to 2% depending on the nature of the expenditure, e.g, pay awards 1% and zero in the case of some recycling contracts.

5.3 Transport and disposal

On the basis of information provided by boroughs the 2010/11 residual tonnage forecast allows for a reduction of 16,982 tonnes to reflect the boroughs' planned increase in recycling and composting over the coming year. This reduction, however, is offset by the need to allow for a prudent assessment of the likely growth in the total waste stream (before recycling is taken into account) of 2%

(17,732 tonnes). The 2010/11 transport and disposal budget has been based therefore upon a residual waste stream of 688,159 tonnes, i.e. a net increase of 750 tonnes over the 2009/10 projected outturn.

5.4 Landfill Tax

5.4.1 The standard rate of landfill tax is expected to rise from £40 to £48 per tonne on 1 April 2010.

5.5 Composting and Dry Recyclable Waste Services

5.5.1 The draft budget reflects the intention of the NLWA constituent boroughs to deliver further additional amounts of green and kitchen waste to the Authority for treatment in 2010/11, i.e. a total of 74,959 tonnes (an increase of 10,129 tonnes over the projected tonnage for 2009/10). The cost of providing this service in 2010/11 is estimated to be £4.117m.

5.5.2 The constituent boroughs have also indicated that they will need treatment capacity for 46,432 tonnes of dry recyclable material in 2010/11. The overall cost of the dry recyclable bulking arrangement in 2010/11 is therefore estimated to be £2.164m.

| Table 5 | Composting Arrangement | | | Dry Recyclable Bulking | | |
|-------------------|------------------------|-------------------|--------------------|------------------------|-------------------|--------------------|
| | 2009/10 Tonnes | 2010/11 Tonnes | Variance Tonnes | 2009/10 Tonnes | 2010/11 Tonnes | Variance Tonnes |
| Barnet | 24,000 | 30,100 | 6,100 | 0 | 0 | 0 |
| Camden | 5,237 | 6,636 | 1,399 | 10,152 | 5,198 | (4,954) |
| Enfield | 10,350 | 10,350 | 0 | 0 | 0 | 0 |
| Hackney | 5,050 | 5,715 | 665 | 3,500 | 3,700 | 200 |
| Haringey | 4,900 | 5,250 | 350 | 13,600 | 15,282 | 1,682 |
| Islington | 4,043 | 4,408 | 365 | 13,534 | 14,752 | 1,218 |
| Waltham Forest | 11,250 | 12,500 | 1,250 | 6,000 | 7,500 | 1,500 |
| Total | 64,830 | 74,959 | 10,129 | 46,786 | 46,432 | (354) |

5.6 Commingled Income Payment Scheme/Income from the sale of Recyclates

5.6.1 The draft budget allows for a continuation of this scheme in 2010/11. As in case of 2009/10 the value of payments made under the scheme is limited to the value of income received from the sale of recyclates. There is no net cost to the Authority.

5.7 **Hornsey Street Waste Transfer Station**

5.7.1 The 2010/11 proposed budget allows for the full year cost of operating this facility based upon information previously provided by both the London Borough of Islington (landlord costs) and LondonWaste Ltd (operational costs).

5.8 **Recycling Credits/Other Recycling Initiatives**

5.8.1 The Authority has a statutory obligation to pay third party recycling and re-use credits. A report elsewhere on this agenda recommends registration of a number of community groups/not for profit organisations for which a total provision of £0.204m has been made in the draft budget.

5.8.2 The 2010/11 draft budget for other recycling initiatives includes a provision of £0.143m to enable the Authority to provide financial support in the following areas:

| | |
|---|---------|
| Real Nappy Campaign/support | £0.092m |
| Community and Private Sector Stakeholder Engagement | £0.015m |
| Community Projects Fund | £0.036m |
| Total | £0.143m |

5.9 **BMW Diversion Incentive Scheme**

5.9.1 The budget forecast continues to allow for the operation of a scheme in 2010/11 but in view of uncertain LATS values and the potential impact on the Authority's budget, the draft budget continues to assume a cap of £6 per tonne in the value of payments made (50% of the estimated value of LATS values). This, however, is by no means certain and could be less. Boroughs will therefore need to take a cautious approach when finalising their home authority budgets for both 2009/10 and 2010/11 (see also para 5.16 below).

5.10 **Waste Strategy and Contracts Team**

5.10.1 The draft budget allows for a full complement of staff and a programme of works, including a provision of £0.100m to fund the cost of waste prevention initiatives planned by the team and reported elsewhere on today's agenda.

5.11 **Implementation of the North London Joint Waste Strategy (NLJWS)**

5.11.1 The costs of the procurement process, including site acquisition and planning application costs have been reviewed and the budget updated to reflect the likely level of activity and costs over the coming year.

5.11.2 The draft budget allows for a full year revenue cost of acquiring sites through prudential borrowing at an estimated cost of £8.621m and is based upon capital expenditure of £126m in the period 2009/11. It includes the cost of acquiring

LondonWaste Ltd, the purchase of other sites for the Authority's new waste treatment facilities and a provision for the purchase of additional household waste recycling sites as envisaged in the Authority's Outline Business Case for PFI funding.

5.12 Governance and Other Support

5.12.1 The 2010/11 draft budget allows for the full year cost of improvements made in 2009/10.

5.13 Dividend Income (LondonWaste Ltd)/Revenue Contributions to Capital Outlay

5.13.1 The Authority expects to receive a dividend of £5m in 2010/11 which will be used to help fund capital expenditure in 2010/11.

5.14 Interest on Balances

5.14.1 The budget allows for an income that is expected from the temporary investment of monies held by the Authority. With the Bank of England Base Rate 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. Officers will however, seek to ensure best use of any cash balances held by the Authority and maximise income where possible.

5.15 Non-household Charges

5.15.1 A new charging arrangement for non-household waste was introduced on 1 April 2008. At its base the scheme provides for the determination of non-household waste collected through the boroughs' trade waste collection systems. Boroughs have submitted formal declarations setting out the types of receptacle used to collect non-household refuse, the frequency, and by using an agreed volume:weight ratio (that is in some cases borough specific) have arrived at a total tonnage for each borough. The Waste Strategy and Contracts Team has validated these declarations. Each borough's non-household construction waste and gully wastes (not all boroughs have this category of waste) delivered to the Authority are charged for in addition to the above. The total value of validated tonnages (as at 1 January 2010) is 147,418 tonnes and the amount of construction and gully waste is 5,315 tonnes, i.e. a total tonnage of 152,733 tonnes:

Table 6

| | Validated Declared Tonnes | Construction & Gully waste Tonnes | Total Tonnes |
|----------------|--|--|-------------------------|
| Barnet | 17,150 | 3,014 | 20,164 |
| Camden | 42,737 | 215 | 42,952 |
| Enfield | 14,387 | 0 | 14,387 |
| Hackney | 25,201 | 21 | 25,222 |
| Haringey | 15,957 | 921 | 16,878 |
| Islington | 22,856 | 884 | 23,740 |
| Waltham Forest | 9,130 | 260 | 9,390 |
| Total | 147,418 | 5,315 | 152,733 |

5.15.3 Based upon estimated non-household tonnages of 152,733 tonnes and a forecast cost per tonne of £81.11 (comprising a base cost of £78.03 and a LATS premium of £3.08), the total cost to boroughs in 2010/11 is currently estimated to be £12.388m.

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

| Table 7 | 2010/11 Estimated Tonnes | 2010/11 Estimated Cost £ |
|----------------|---|---|
| Barnet | 20,164 | 1,635,502 |
| Camden | 42,952 | 3,483,837 |
| Enfield | 14,387 | 1,166,930 |
| Hackney | 25,222 | 2,045,756 |
| Haringey | 16,878 | 1,368,975 |
| Islington | 23,740 | 1,925,551 |
| Waltham Forest | 9,390 | 761,623 |
| Total | 152,733 | 12,388,174 |

5.15.5 A number of boroughs have indicated that they considering the merit of offering a recycling service to their trade waste customers in which case the alternative charge for delivering dry recyclable wastes to the Authority is currently estimated to be £46.61. These tonnages would also be eligible for inclusion in the Commingled Income Payment Scheme.

5.16. Landfill Allowance Trading Scheme (LATS)

5.16.1 Although the Authority expects to be in a favourable trading position in 2010/11 there is currently considerable uncertainty about the potential value of allowances. The Authority is not budgetting to receive an income from this potential source but does use LATS values to determine both a LATS premium charge for inclusion in the Authority's non-household charges to boroughs and the BMW diversion reward payment scheme. In 2009/10 the Authority decided to cap the value of allowances at £12 per allowance as a means of offsetting the potential effect of higher than budgetted LATS values. This is because if LATS values subsequently increased it would not be possible for constituent boroughs to recover the increased cost of the LATS premium in retrospect as trade waste charges are usually fixed at the start of the year for the year ahead. Similarly, a higher LATS value and therefore a higher BMW diversion reward payment would add to the Authority's costs for which there is no budget provision. The draft budget therefore assumes that a £12 cap will continue to apply for 2010/11.

5.17 Efficiency Savings and Other Cost Reductions

5.17.1 Members will be aware that given the demand-led nature of the service provided by the Authority to the constituent councils and the long-term contracts that it has for the majority of these services, that the scope to make savings is limited. The Authority's controllable budget currently accounts for 12% of the 2010/11 proposed budget and includes the core costs of operating the Authority, officer support arrangements and the costs of the procurement process.

5.17.2 Despite these limitations officers take every opportunity to reduce costs or to improve value for money where possible. In the 2009/10 the Authority took the decision to market test the cost of operating its dry recyclable bulking service and as a result secured a significant improvement in gate fees and a share of the income from sale of recyclates delivered to recyclers under the arrangement. Subject to Authority approval at today's meeting this will fund the Commingled Income Payment Scheme. Similarly, the favourable results of the Civic Amenity Waste transport contract are reported elsewhere on today's agenda.

5.18 Contingency

5.18.1 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 issues concerning the level of the waste stream in the year ahead or the proportion of it delivered to the Authority by constituent councils.

5.18.2 In coming to a view on this, Members should bear in mind that it is currently envisaged that forecast balances at 31 March 2010 will be fully utilised during the course of 2010/11, and that by law, the Authority is not able to make a substitute levy. Additionally, following divestment of the Authority's operations in accordance

with the Environmental Protection Act 1990, the Authority now has very little scope to make compensating savings for costs which may arise in meeting its waste disposal obligations. Similarly, although the Authority has responsibility for the disposal of the waste arising from its constituent councils, it has no direct control over the volumes of waste entering the waste stream. Members will recall from my comments at paragraph 4.12 above that this could arise by either a higher than expected growth in the waste stream or a failure by the NLWA constituent boroughs to meet their previously advised recycling targets. The latter is particularly relevant now that the Authority no longer operates a recycling credit scheme, which in the past has provided a degree of protection against this risk. All these factors place greater emphasis on the need to have robust budgets and adequate contingencies to deal with such eventualities.

5.18.3 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 its reserves (see para 9 below). In view of the foregoing, and allowing also for the retention of a contingency of £0.5m in 2009/10, my advice is that the 2010/11 contingency should be agreed at 2% of net expenditure, i.e. in line with the December budget forecast.

6. **Apportionment of the Levy**

6.1 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. These regulations provide for the household element of the levy to be apportioned on a tonnage basis with transitional arrangements for 2006/07 and 2007/08.

6.2 For 2009/10, and with expiry of the transitional arrangements, the levy was apportioned on a household waste and council tax basis in accordance with the default levy regulations.

6.3 In order to be clear on the levy apportionment arrangements that will apply for 2010/11 constituent councils were asked to advise the Authority if they were minded to seek agreement on a levy apportionment basis other than by the current statutory default arrangements. In view of the notifications received from a number of constituent councils confirming their support for the new default provisions set out in the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006, it is now clear that the 2010/11 levy will be apportioned in accordance with the default arrangements.

6.5 The levy apportionment arrangements require constituent councils to formally notify the Authority of both their council tax base for 2010/11 and also their household waste tonnages for 2008/09 by 31 January 2010. The latter is a new requirement and as this information originates from the Authority, constituent councils have been asked to confirm the household tonnage data held by the Authority. All constituent councils have now advised the Authority of their council tax base, and

have confirmed their 2008/09 household tonnage figures. The proposed apportionment of the 2010/11 levy will therefore be based upon the data contained in Table 8.

- 6.6 Table 8 below provides details of both constituent council 2010/11 council tax base figures and their 2008/09 household tonnages:

| Table 8 | 2010/11 Council Tax Base | 2008/09 Household Tonnages |
|----------------|---|---|
| Barnet | 137,446.00 | 115,348 |
| Camden | 95,200.00 | 63,874 |
| Enfield | 109,653.00 | 106,104 |
| Hackney | 73,548.00 | 76,238 |
| Haringey | 85,256.00 | 96,303 |
| Islington | 86,158.25 | 70,224 |
| Waltham Forest | 75,464.00 | 86,910 |
| Total | 662,725.25 | 615,001 |

- 6.7 Allowing for the level of revenue balances projected to be available at 31 March 2010 and the Authority's 2010/11 draft budget requirements, Table 9 below indicates the relative share of the levy that will be borne by each constituent council based upon the default levy apportionment arrangements (full details of the apportionment can be found at Appendix A).

- 6.8 Details of the proposed levy for 2010/11 are summarised in table 9 below:

| Table 9 | 2009/10 Actual Levy £'000 | 2010/11 Proposed Levy £'000 | Variance £'000 |
|----------------|--|--|---------------------------|
| Barnet | 8,738 | 8,329 | - 409 (4.68%) |
| Camden | 5,665 | 4,855 | - 810 (4.30%) |
| Enfield | 6,133 | 7,447 | + 1,314 (21.43%) |
| Hackney | 5,679 | 5,284 | - 395 (6.96%) |
| Haringey | 6,543 | 6,578 | + 35 (0.53%) |
| Islington | 5,621 | 5,102 | - 519 (9.23%) |
| Waltham Forest | 5,268 | 5,917 | + 649 (12.32%) |
| Total | 43,647 | 43,512 | - 135 (0.03%) |

7. Medium Term Budget Forecast for 2011/12 and for 2012/13 and 2013/14

- 7.1 Assuming full utilisation of revenue balances by 31 March 2010 and further year-on-year increases in the waste stream of 1% per annum (as adjusted for further stepped increases in recycling), and boroughs making greater use of the Authority's composting and dry recycling contracts, the percentage increase in the levy is estimated to be 25.6% in 2011/12, an increase of 7.4% in 2012/13 and a reduction of 9% in 2013/14. The increase for 2011/12 reflects the fact that balances of £9.726m at 31st March 2010 will be used to part fund the 2010/11 budget (equivalent to an increase of 22.4%). The estimated reduction in 2013/14 currently assumes that LondonWaste will be sold to the new waste service provider at financial close. Future years forecasts do not, at this stage, assume the availability of any in-year balances to offset the levy increase (or further reduce the levy in 2013/14). Officers will, however, continue to exercise tight control over expenditure with any underspend then being available in the following year to mitigate levy increases. Further information on the medium term budgets can be found at Appendix B.
- 7.2 The following table provides an early indication of the potential change in the levy contributions for each borough in 2011/12.

| Table 10 | 2010/11 Proposed Levy £'000 | 2011/12 Budget Forecast Levy £'000 | Variance £'000 |
|-----------------|--|---|---------------------------|
| Barnet | 8,329 | 10,680 | + 2,351 (28.23%) |
| Camden | 4,855 | 6,444 | + 1,589 (32.73%) |
| Enfield | 7,447 | 8,031 | + 584 (7.84%) |
| Hackney | 5,284 | 6,781 | + 1,497 (30.03%) |
| Haringey | 6,578 | 8,352 | + 1,774 (26.97%) |
| Islington | 5,102 | 6,345 | + 1,243 (24.36%) |
| Waltham Forest | 5,917 | 8,013 | + 2,096 (35.42%) |
| Total | 43,512 | 54,646 | +11,134 (25.60%) |

It should be noted that the levy apportionment in Table 10 is based upon 2009/10 forecast household waste tonnages and 2010/11 council tax base figures and are therefore subject to change.

- 7.3 These forecasts are based upon known and proposed changes to the landfill tax rates during this period (the standard rate of tax is expected to rise annually by £8 per tonne until 2013/14).
- 7.4 Although the medium term budgets allow for the costs of the procurement process and the revenue support for funding a capital programme (site acquisition) of £151m over this period, no specific allowance has been made for any further costs

of delivering the North London Joint Waste Strategy (NLJWS). This is because for most of the medium term budget period the Authority will be focussing on the procurement process itself. At this time it is considered unlikely that there will be any other significant procurement implementation costs during this period. One possible exception to this is work in connection with the development and transfer of the Household Waste Recycling Centres to the Authority; however, this will be subject to detailed consideration by the NLJWS partners before proceeding. The Authority has submitted an outline business to the DEFRA for possible financial support under the Private Finance Initiative and a response is expected in the Spring. Once the outcome of the application is known and work on the Inter Authority Agreement is progressed this should help the Authority to firm-up on the likely scale and timing of the increases that will flow from the procurement process.

7.5 It is currently envisaged that the combined effect of recycling, composting and use of the Edmonton energy-from-waste facility should obviate the need for the Authority to buy allowances before 2012/13 at the earliest. Although the Authority should find itself with a favourable trading position during this period the sale value of allowances is far from certain. Accordingly, no provision has been made for this possible benefit in the medium term forecasts. Nevertheless, any sale proceeds arising from sale of surplus allowances will be available to assist with the costs of meeting the NLJWS or as agreed by the Authority.

8. Capital Programme – Prudential Indicators

8.1 The Prudential Code (the Code) of Borrowing came into effect on 1 April 2004.

8.2 The Authority is required to agree indicators for the period to 2012/13. The actual capital expenditure that was incurred in 2008/09 (nil) and the estimates of capital expenditure to be incurred for the current and future years that are recommended for approval are:-

| Capital Expenditure | | | | | |
|----------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| NLWA | Nil | £98m | £28m | £25m | Nil |

8.3 Based upon the proposed capital budget of £151m the following ratio of financing costs to net revenue stream are recommended for approval:-

| Ratio of Financing Costs to Net Revenue Stream | | | | | |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| NLWA | Nil | Nil | 19.81% | 17.78% | 18.88% |

- 8.4 The Capital Financing Requirement measures the underlying need to borrow. The following capital financing requirements are recommended for approval:-

| Capital Financing Requirement | | | | | |
|--------------------------------------|----------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| | 31.03.09 Actual | 31.03.10 Estimate | 31.03.11 Estimate | 31.03.12 Estimate | 31.03.13 Estimate |
| NLWA | Nil | £92.7m | £116.7m | £134m | £128.4m |

- 8.5 The next two Prudential Indicators (PI's) govern the Authority's ability to borrow funds in the money markets, e.g. the Public Works Loans Board, and 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: -

| Authorised Limit for External Debt | | | | | |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| Borrowing | Nil | £125m | £130m | £150m | £150m |
| Other long term liabilities | Nil | Nil | Nil | Nil | Nil |

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

| Operating Boundary for External Debt | | | | | |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| Borrowing | Nil | £125m | £130m | £150m | £150m |
| Other long term liabilities | Nil | Nil | Nil | Nil | Nil |

- 8.7 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 Authority are:

| Impact on the NLWA Levy | | | | | |
|--------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| | Nil | Nil | Nil | Nil | Nil |

- 8.8 The following prudential indicators are relevant for the purpose of setting a treasury management strategy.

| Net Principal re. Fixed Rate Borrowings | | | | | |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| | Nil | £125m | £130m | £150m | £150m |

| Net Principal re. Variable Rate Borrowings | | | | | |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | 2008/09 Actual | 2009/10 Estimate | 2010/11 Estimate | 2011/12 Estimate | 2012/13 Estimate |
| | Nil | £125m | £130m | £150m | £150m |

- 8.9 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 2010/11. It mirrors that adopted by the London Borough of Camden but given the Authority's particular investment needs the limits provide maximum flexibility for short-term borrowing.

| Maturity structure of fixed rate borrowing during 2010/11 | Upper Limit % | Lower Limit % |
|--|----------------------|----------------------|
| Under 12 months | 50 | 0 |
| 12 months and within 24 months | 100 | 0 |
| 24 months and within 5 years | 100 | 0 |
| 5 years and within 10 years | 100 | 0 |
| 10 years and above | 100 | 0 |

- 8.10. The above indicators may need to be reviewed in the light of the Authority's PFI application.
- 8.11 New capital accounting regulations came into force in February 2008 which affect the way local authorities make provision for the repayment of the principal sum of loans they have entered into to support capital spending – the minimum revenue provision (MRP). Previously, authorities were required to make an MRP based on a complex formula set out in regulations issued in 2003, which were subsequently simplified by further regulations in 2007. As the Authority has not had a capital programme for some time this has not been relevant. However, in view of the recent acquisitions it is now necessary for the Authority to formally agree the basis of this calculation. There are various options but as the Authority's debt will not be supported by the Government through the RSG system it will be necessary for the Authority to agree to make provision over the estimated life of the asset for which borrowing is undertaken (in equal annual instalments).

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

9.1 Advice is usually provided at this stage 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

9.2 The level of balances and the robustness of estimates are closely linked. Balances and reserves should be set at a level that take 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.

9.3 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.

9.4 In my view, and taking account of the issues raised above, the Authority's budget estimates are sufficiently robust this year 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.

10. **Conclusion**

10.1 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 2009/10 revised budget and the 2010/11 proposed budget, the overall budgets should be sufficiently robust to meet the Authority's expenditure requirements over this period.

10.2 Compared with the 2009/10 original budget of £60.221m the proposed 2010/11 budget of £65.626m represents an increase of £5.405m (9%).

10.3 The Authority is forecast to have surplus balances of £9.726m at 31 March 2010. The reasons for this position are set out in this report. It is the custom to fully utilise forecast balances at this date to assist with the funding of the subsequent years budget. The impact, however, of fully utilising available revenue balances to assist with the funding of the 2010/11 budget will mean that constituent councils face the prospect of a more significant levy increase in 2011/12. This position has been acknowledged by borough Directors of Finance.

10.4 The decision on the level of the levy is one that only the Authority can make and in reaching its decision, Members should have regard to the advice contained in this report. Members are reminded that forecast revenue balances at 31 March 2010 are expected to be fully utilised in the coming year and therefore they must satisfy themselves that the proposed budget and levy is sufficient to meet the Authority's statutory obligations in the year ahead.

11. **Comments of the Legal Adviser**

11.1 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 11 February 2009, 24 June 2009, 25 September 2009 and 9 December 2009

Budget working papers

Notification letters from constituent councils in respect of their 2010/11 Council Tax Base and 2008/09 actual household tonnages delivered to the NLWA for disposal.

Contact Officer: R A Bench
Finance Officer to the NLWA
Finance Department
Lee Valley Technoprk
c/o Unit 169
Ashley Road
London N17 9LN

Tel: 020 8489 5867

Email: robert.bench@camden.gov.uk