

NORTH LONDON WASTE AUTHORITY

REPORT TITLE	
2009/10 SECOND BUDGET REVIEW	
REPORT OF	
FINANCIAL ADVISER	
FOR SUBMISSION TO	DATE
AUTHORITY MEETING	25 SEPTEMBER 2009
1. SUMMARY OF REPORT	
<p>This report is the second in the current year of a series of regular reports on the Authority's finances. It concludes that the Authority is currently forecast to have a revenue surplus of £3.349m at 31 March 2010, i.e. an increase of £0.494m compared with the first budget review. The report, however, draws attention to issues that could impact on this position. The report also looks briefly at some of the issues and potential budget pressures that could add to the Authority's budget and resource requirements for 2010/11. A further review of the 2009/10 budget, together with an up-to-date assessment of the budget and resource requirements for 2010/11, will be reported to the Authority in December.</p>	
2. RECOMMENDATIONS	
<p>The Authority is requested to:-</p> <ul style="list-style-type: none"> (i) Note the second review of the 2009/10 revenue budget. (ii) Note the potential budget pressures that could impact on the Authority's 2010/11 budget and resource requirements. (iii) Note that a third review of the 2009/10 budget will be reported to the Authority meeting in December together with an up-to-date assessment of the budget and resource requirements for 2010/11. 	
Signed by the Financial Adviser:
Date:

3. **Introduction**

- 3.1 At the Authority meeting in June I advised Members that the Authority was forecast to have a revenue surplus of £2.855m at 31 March 2010. As a result of the second review forecast revenue balances at the year-end are now estimated to increase by a further £0.494m to £3.349m. This report provides details of the main changes and other issues that have arisen since the last meeting.

4. **Second Budget Review**

4.1 **Transport, Disposal and Landfill Tax: (- £0.665m)**

- 4.1.1 During the period April to July 2009 there has been a net reduction of 3.55% in the level of residual waste entering the waste stream over the same period in 2008/09. On this basis, the 2009/10 residual waste stream is estimated to reduce by 25,182 tonnes to 683,621 tonnes (708,803 tonnes in 2008/09).
- 4.1.2 Details of the percentage movement in 2009/10 residual tonnage levels for each borough compared with 2008/09 tonnages may be summarised as follows:-

Table 1	Current Forecast (April to July)
Barnet	- 5.18%
Camden	- 4.19%
Enfield	- 2.12%
Hackney	- 2.41%
Haringey	- 5.49%
Islington	- 4.98%
Waltham Forest	- 0.01%
Overall Position	- 3.55%

The figures in table 1 indicate that there has been a significant reduction in the amount of residual waste entering the waste stream in the early months of the year. This compares with a reduction of 3.26% experienced at same stage in 2008/09. There are a number of potential reasons for this, not least the continuing effect of the current economic climate and/or an improvement in borough recycling levels. The position is by no means clear. However, as this information is essential for understanding changes in the waste stream and how this could impact on the Authority's 2010/11 budget requirements, constituent boroughs have been requested to provide the Authority with an up-to-date assessment of their current and medium-term composting and recycling forecasts. This will be reported to the Authority meeting in December.

4.1.3 The 2009/10 original transport and disposal budget was based upon a residual waste stream of 700,203 tonnes. Whilst this allowed for a 1% growth of 9,138 tonnes in the total waste stream this was more than offset by a reduction of 23,333 tonnes to reflect the boroughs' planned increase in recycling and composting activity during 2009/10. Assuming, however, that the current forecast of 683,621 tonnes remains valid for the remainder of the year this could result in a reduction of 16,582 tonnes against budget. However, as the majority of this reduction relates to tonnages that are passing through the Hendon Rail Transfer Station, the fixed costs of using this facility (there is a minimum tonnage requirement) means that the Authority's saving will be limited to a landfill tax saving on these tonnages. The overall saving is estimated to be £0.665m.

4.1.4 The Authority's waste contracts are linked to changes in the Retail Price Index (RPI). Although the 2009/10 budget allows for an increase of 1% at the relevant review dates for these contracts (mainly December and January) the movement in the RPI for the year to August 2009 is currently running at minus 1.3%. Given the current economic climate and uncertainty about the timing of a return to positive inflation levels no allowance has been made for a possible saving at this time. This will be kept under review as part of the budget process such that once the December RPI index is known in January 2010 this will be factored into 2009/10 revised budget and 2010/11 draft budget to be considered at the budget and levy setting meeting in February.

4.2 **Composting and Dry Recyclable Bulking Arrangements: (-£0.598m)**

4.2.1 The 2009/10 approved budget allows for the Authority's constituent boroughs to deliver 72,435 tonnes of green and kitchen waste and 62,895 tonnes of dry recyclable wastes to the Authority for treatment. Whilst tonnages coming to the Authority for composting are broadly in line with the original budget assumptions this is not so in respect of dry recyclable wastes. At the last meeting Members were advised that Enfield had been reviewing its recycling arrangements for the treatment of dry recyclable wastes and had decided at that time not to deliver dry recyclable waste to the Authority in the period April to July 2009 pending the outcome of its tendering process. Enfield has since advised that it will no longer be sending its dry recyclable waste to the Authority and therefore this will result in a further saving of c. £0.581m in 2009/10 (£0.876m in total).

4.2.2 New contract arrangements for the Authority's dry recyclable service from October 2009 should result in a direct cost saving of at least £0.017m during the remainder of the year. Whilst this has been allowed for in the second budget review no allowance has been made at this time for the potential income from the sale of recyclates. This will depend, in due course, on the actual income obtained by the contractor each quarter. As a guide, and assuming prices for the sale of recyclates prevailing at the time of tender evaluation hold good this could provide an income, and therefore a saving, of c. £0.380m in the second half of 2009/10.

4.3 **Interest on Balances:(+ £0.100m)**

4.3.1 The Authority's budget was set at a time when major economic changes were taking place in the economy at large. Whilst the budget assumed a significant reduction in the rate of

interest that could be obtained from the investment of the Authority's cash balances the current low level of interest that can be obtained in the money markets has warranted a reduction of £0.100m in the income from this source in the second budget review.

4.4 **Procurement Costs**

4.4.1 Members will be aware that the 2009/10 original budget included a number of procurement related categories of expenditure. These will be reviewed in the light of the outcome of the Authority's PFI funding application and sites acquisition programme.

4.5 **Summary**

4.5.1 Table 2 provides a summary of the 2009/10 financial position:-

Table 2	2009/10 Original Budget	2009/10 First Review	2009/10 Second Review	Variance between 1st & 2nd Review
	£'000	£'000	£'000	£'000
Expenditure				
Main Waste Disposal Contract (Ex CA Waste)	26,155	26,155	26,102	(53)
- Clinical Waste	279	279	255	(24)
- Composting Arrangements	3,837	3,837	3,837	
- Dry Recyclable Bulking Arrangements	3,528	3,233	2,635	(598)
Civic Amenity Waste	1,603	1,603	1,603	
Landfill Tax	9,932	9,932	9,344	(588)
Hendon Transfer Station	790	874	874	
Hornsey Street Transfer Station	2,771	2,771	2,771	
Recycling Credits (third parties)	200	156	156	
Other Recycling Initiatives	140	149	149	
BMW Diversion Incentive Scheme	526	526	526	
Agency Services	705	762	762	
Governance and Other Support	500	500	500	
Waste Strategy and Contracts Group	1,031	1,031	1,031	
Waste Composition Survey	200	250	250	
Waste Contract – Procurement Costs	2,970	3,249	3,249	
Other Procurement Related Costs	900	900	900	
Annual Compensation	32	32	32	
Provision for Possible Litigation Costs	50	50	50	
Revenue Funding – Capital Investment	3,663	3,663	3,663	
LATS – Use of Allowances	4,308	4,308	4,308	
Excess Creditors (Previous Years)	0	0	(1)	(1)
	64,120	64,260	62,996	(1,264)
Less				
Income				
Rents	(86)	(86)	(86)	
Interest on Balances	(255)	(867)	(767)	100
LATS Grant	(4,308)	(4,308)	(4,308)	
Estimated Dividend Stream	0	0	0	
	(4,649)	(5,261)	(5,161)	100
Net Expenditure	59,471	58,999	57,835	(1,164)
Contingency	750	750	750	
Total Net Expenditure 2009/10	60,221	59,749	58,585	(1,164)
Financed By :-				
Balances b/fwd	(4,428)	(6,811)	(6,811)	
Charges to Boroughs (Non-household waste)	(12,146)	(12,146)	(11,476)	670
2009/10 Levy	(43,647)	(43,647)	(43,647)	
Total Resources Available	(60,221)	(62,604)	(61,934)	670
Estimated Revenue Balances as at 31 March 2010 (Surplus)	0	(2,855)	(3,349)	(494)

5. **Review of the Outlook for 2010/11, 2011/12 and 2012/13**

- 5.1 In June the Authority was reminded of the potential medium-term budget and resource requirements for the period 2010/11, 2011/12 and 2012/13 that had been reported to the Authority in February. Whilst no allowance was made to the budget forecasts, allowance was made for the increase in balances forecast to be available at 31 March 2010 to assist with the funding of the 2010/11 budget. As a result, the updated figures indicated that the average levy increase for constituent councils could rise by up 10.11% in 2010/11 (previously 16.67%), a further 8.71% in 2011/12 (previously 2.6%) and a reduction of 0.4% in 2012/13.
- 5.2 Members will be aware from this report that there are a number of factors that could impact on the shape of next year's budget. Detailed preparation work on the 2010/11 budget is about to commence, however, on the basis of current information it is not unreasonable to assume that for planning purposes the previously advised net budget figure of £64.531m should not be exceeded. Clearly, the outcome of the Authority's sites acquisition programme and OBC submission could test this assumption, however, the Authority should have a much better understanding of any potential cost implications at the Authority's December meeting.
- 5.3 The other key budget issue that may affect the 2010/11 budget, which is not assumed to be allowed for in the figure of £64.531m, relates to the potential introduction of a 'State of Separation' payment scheme. A report on the introduction of this scheme was deferred to this meeting for consideration; however, as there is a need to revisit the operation of the potential scheme (see elsewhere on this agenda) a detailed report will not be available for consideration until the December Authority meeting. Figures prepared in June suggested that full implementation of the proposal could add in the region of £5m to 6m to the budget and levy in 2010/11 but that a phased introduction over three years could reduce the financial impact to between £1.6 and £2m in 2010/11. Ultimately, given the discretionary nature of the scheme, it would be up to the Authority to decide the value of any 'SoS' payments. Although introduction of the scheme in 2010/11 would add to each boroughs share of the levy, boroughs that delivered waste to the Authority in a state of separation would be entitled to receive a 'SoS' payment. In overall terms the increase in the levy would be offset by the income that boroughs receive from the 'SoS' payment, however, it is important to bear in mind that the net financial impact on each borough would depend upon the amount and type of recycle that each borough sends to the Authority for treatment. As a consequence, some boroughs may find that there is a net cost.
- 5.4 Pending the outcome of the detailed budget review to be reported to the December meeting, Table 3 below summarises the medium-term budget forecasts previously reported to the Authority but updated to allow for the forecast balances currently expected to be available at 31 March 2010.

Table 3	2010/11 £'000	2011/12 £'000	2012/13 £'000
Net Budget (Early Forecast)	64,531	67,332	68,579
Less Forecast Revenue Balances	3,349	Nil	Nil
Estimated Resource Requirement	61,182	67,332	68,579
Funded by:			
Non-household Charges	13,615	15,087	16,562
Estimated Levy	47,567	52,245	52,017
	-----	-----	-----
Total Cost to Boroughs	61,182	67,332	68,579
Average % increase over			
the cost in previous year – Non-household	12.1%	10.8%	9.8%
- Levy*	9.0%	9.8%	(0.4%)

* The financial impact for each borough will be different (see table 4).

- 5.5 Although the decision on the apportionment of the levy is a matter for the NLWA constituent boroughs alone it has been the norm for the levy to be apportioned in accordance with the relevant statutory instrument for apportioning the levy (currently the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006) where there is not unanimous agreement by all seven constituent boroughs. The current regulations allow for the 'household' element of the levy to be apportioned on a tonnage basis (83%) whilst the smaller 'other' costs element (17%) is apportioned on a council tax basis. Allowing for the level of revenue balances projected to be available at 31 March 2010 and the Authority's early forecast of its 2010/11 budget requirements, Table 4 below provides an indication of the relative share of the levy that could be borne by each constituent council based upon the default levy apportionment arrangements. 2008/09 actual household waste tonnage data has been used to apportion the 'household' element of the levy. It is important, however, to note that this illustration uses 2009/10 council tax data pending notification, in due course, by constituent councils of their 2010/11 council tax base figures by 31 January 2010.

Table 4	2009/10 Actual Levy £'000	2010/11 Early Forecast Levy £'000	Variance £'000
Barnet	8,738	9,087	+ 349 (+ 4.0%)
Camden	5,665	5,260	- 405 (- 7.1%)
Enfield	6,133	8,156	+ 2,023 (+ 33.0%)
Hackney	5,679	5,777	+ 98 (+ 1.7%)
Haringey	6,543	7,229	+ 686 (+ 10.5%)
Islington	5,621	5,546	- 75 (- 1.3%)
Waltham Forest	5,268	6,512	+ 1,244 (+ 23.6%)
Total	43,647	47,567	+ 3,920 (+ 9.0%)

6. **Conclusion**

6.1 Although the second review indicates that there could be an improvement in forecast balances at 31 March 2010 there are a number of uncertainties and potential budget pressures that could impact on this position. Whilst I am confident that the Authority's overall budget should remain sufficiently robust to meet the cost of its waste disposal obligations in 2009/10, there are a number of potential pressures that could impact on the Authority's 2010/11 budget and resource requirements. These will be examined in more detail in December when Members will be provided with details of the 2009/10 third budget review together with an up-to-date assessment of the 2010/11 budget and resource requirements. For planning purposes, however, the report provides an updated early indication of the potential budget and resource requirements for 2010/11 and in particular illustrates each boroughs share of the levy using the statutory default levy apportionment arrangements.

7. **Comments of the Legal Adviser**

7.1 The Legal Adviser has no comments to add to this report.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report: -
Reports to the Authority 11 February 2009 and 24 June 2009
2009/10 Budgetary Control Working Papers

Contact Officer: R A Bench
NLWA Finance Officer
Finance Department
London Borough of Camden
Town Hall
Argyle Street
London WC1H 8NG

Tel: 020 7974 5945
Fax: 020 7974 1948
Email: robert.bench@camden.gov.uk

rb/nlwa/budrev20910