

**REPORT TITLE**

REVENUE BUDGET AND LEVY 2009/10

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO****DATE**

AUTHORITY MEETING

11 FEBRUARY 2009

**1. SUMMARY OF REPORT**

This report indicates that following a fourth review of the 2008/09 budget the Authority is currently estimated to have a revenue surplus of £4.428m at 31 March 2009. A further assessment of the budget and resource requirements for the year ahead indicates that the 2009/10 net budget requirement is £60.221m, which after use of forecast revenue balances of £4.428m, will require funding of £55,793m by constituent councils. It is proposed that £12.146m will be funded through the non-household charging arrangement, this represents an increase of £1.266m (11.64%) over the original estimated cost in 2008/09. Finally, it is proposed that the remaining costs of the Authority will be funded through a levy of £43.647m, i.e. an increase of £5.818m (15.38%) over the 2008/09 levy.

This report proposes to return the benefit of forecast balances at 31 March 2009 to constituent councils by using the surplus balances to assist with the funding of the 2009/10 budget. However, Members should bear in mind that if balances are fully utilised in 2009/10 constituent councils face the prospect of a more significant levy increase in 2010/11.

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 2009/10 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 2008/09 revised budget and 2009/10 proposed budget.
- (ii) Agree the 2009/10 non-household waste charge at £72.20 per tonne.
- (iii) Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2009/10 budget.
- (iv) Note the medium term budget forecast for 2010/11, 2011/12 and 2012/13 .
- (v) Determine the levy for 2009/10.
- (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 as set out at section 8.

Signed by the Financial Adviser: .....

Date: .....

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

- 3.1 At its meeting on 10 December 2008 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 2009/10.
- 3.2 Allowing for the use of forecast balances at 31 March 2009 of £3.292m, it was estimated that the total net cost to constituent councils in 2009/10 could be in the order of £58.656m, an increase of £9.947m (20.42%) over the total cost to boroughs in 2008/09 (£48.709m). The projected increase included an increase in the levy of £8.244m (21.79%) and an increase of £1.703m (15.65%) in non-household charges. The third review also drew attention to the budget issues that would need to be addressed at this meeting. With this in mind, the Chair indicated that an all-party Member Budget Scrutiny Group would meet in January to discuss the budget setting for the next financial year. This meeting took place on 23 January 2009. Officers have also consulted with the Directors of Finance of the NLWA constituent councils.
- 3.3 The Budget Scrutiny Committee considered in detail the assumptions which underpinned the 2009/10 budget forecast that had been presented to Members at the December meeting of the Authority. I believe that it would be fair to say that Members were satisfied with the explanations given and with the scope and scale of the revisions that would be reflected in the proposed 2009/10 budget to be reported to today's budget and levy setting meeting. Given also that the Authority has a once-a-year opportunity to raise resources through the levy the Committee also acknowledged the need for the Authority agree a budget that was sufficiently robust and flexible to meet both its day-to-to day statutory operational obligations and to enable the momentum of the procurement process, particularly in relation to the sites acquisition programme, to be maintained over the year ahead.
- 3.4 A meeting was held with borough Directors of Finance or their representatives on 30 January 2009. Colleagues were aware of the outcome of the budget scrutiny process, and were advised of further improvements that would be reflected in the 2009/10 proposed budget. As a consequence I believe it would be fair to say that borough Finance Directors were satisfied with the review process and of the reductions that have been made to next year's proposed budget.
- 3.5 This report provides an up to date assessment of the 2008/09 budget and presents for consideration a draft budget for 2009/10.
- 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 2009/10 must be notified to constituent councils for inclusion in their Council Tax charge before 15 February 2009.

#### 4. **Review of the 2008/09 Revenue Budget**

4.1 At its meeting on 6 February 2008 the Authority agreed an original budget of £51.873m to be financed by estimated balances of £3.164m, charges to boroughs for non-household waste of £10.880m and a levy of £37.829m.

4.2 In subsequent reviews, Members have been advised of:

- The higher level of balances brought forward from 2007/08 (- £1.287m),
- Slippage of income from 2007/08 (- £0.350m),
- An increase in interest income, due to an improved cash flow and a higher than allowed budget provision for interest which should be paid in connection with the North Circular CPO compensation payment (- £0.471m),
- The likelihood of a reduction in transport, disposal and landfill tax due to a reduction in the waste stream (- £1.122m),
- An increase in the cost of the LondonWaste Ltd compensation review claim (+ £0.337m),
- A reduction in both the landlord and operators costs at the Hornsey Street Waste Transfer Station (- £0.202m),
- A reduction in the cost of providing a recycling service to boroughs (- £0.484m),
- A reduction in non-household waste income due to a reduction in the waste stream (+ £0.156m),
- Additional costs which may arise from an increase in the Hendon Rent, including arrears (+ £1.015m),
- A net increase in the cost of support service costs (including agency, waste strategy and contracts team, procurement, governance and other external support (+ £0.286m),
- The write-back to revenue of an excess creditor provision in respect of the Authority's 2007/08 recycling credit payments and an expected reduction in the operating costs of Hornsey Street (- £0.580m),
- A change in emphasis in the site acquisition programme resulting in a capital financing revenue saving (- £0.552m),
- Other miscellaneous changes (- £0.038m).

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 2009 by £1.136m to £4.428m. This review will form the basis of the 2008/09 revised budget. Details of the most significant changes and issues identified by the fourth review are discussed below.

4.4 **Transport, Disposal and Landfill: (- £0.414m)**

- 4.4.1 In December Members were advised that based upon tonnage data available for the period April to September 2008 there had been a net reduction of 4.4% in the level of residual waste entering the Authority's waste stream over the same period in 2007/08. This represented a significant and unexpected reduction. With borough recycling activity lower than forecast and no evidence of any major new waste reduction initiatives in the north London boroughs the speculative view in December was that the reduced waste stream was 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 718,467 tonnes, i.e. a reduction of 17,515 tonnes compared with the original budget assumptions (and a reduction of 28,261 tonnes compared with 2007/08).
- 4.4.2 Data now available for the period up to December 2008 indicates a net reduction of 4.64% in the residual waste stream; a small favourable change (- 0.24%) compared with the December forecast. Although after nine months residual tonnage data the waste stream appears to be stabilising, three boroughs experienced some adverse movement in their waste streams in period October to December; as a consequence 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 1% growth in the waste stream over the remainder of the year. The net effect of these changes compared with the December forecast, however, is to reduce the residual tonnage forecasts for the year by a further 4,069 tonnes. On this basis the residual waste stream for the year is now estimated to reduce by 21,584 tonnes to 714,398 tonnes compared with the original budget assumption of 735,982 tonnes, and by 32,330 tonnes compared with the residual tonnage outturn for 2007/08 (746,728 tonnes).
- 4.4.3 Over the past year annual changes in the the Retail Price Index (RPI) climbed to 5% in July before receding to 4.2% in October, 3% in November and 0.9% in December. The December RPI figure is particularly relevant for the Authority as the majority of its high value contracts have a December annual price review clause. As a consequence, compared with an original budget assumption of 3.5%, the provisional increase in the Retail Price Index for the year to December 2008 of 0.9%, will result in a reduction of 2.6%, but 3.3% lower than that reported and allowed for in the budget review reported to the December meeting (4.2%).
- 4.4.4 The overall effect of these changes is estimated to reduce the costs to the Authority by a further £0.414m in 2008/09.
- 4.4.5 Details of the percentage movement in 2008/09 residual tonnage levels for each borough compared with the 2007/08 tonnages may be summarised as follows: -

Table 1	<b>September Forecast</b>	<b>December Forecast</b>	<b>Current Forecast</b>	<b>Variance between</b>
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	(2nd Review)	(3rd Review)	(4th Review)	3rd & 4th Reviews
	(April to July)	(April to September)	(April to December)	
Barnet	- 1.72%	- 3.28%	- 3.94%	- 0.66%
Camden	- 1.19%	- 2.44%	- 3.55%	- 1.11%
Enfield	- 0.69%	- 2.30%	- 2.22%	+ 0.08%
Hackney	- 5.82%	- 6.88%	- 7.59%	- 0.71%
Haringey	- 3.66%	- 4.07%	- 4.10%	- 0.03%
Islington	- 7.77%	- 8.82%	- 8.68%	+ 0.14%
Waltham Forest	- 3.04%	- 3.94%	- 3.03%	+ 0.91%
Overall position	- 3.26%	- 4.40%	- 4.64%	- 0.24%

#### 4.5 **Dry Recyclable Bulking Arrangement: (- £0.217m)**

4.5.1 Notwithstanding the collapse in the sale value of processed recyclates, the Waste Strategy and Contracts Team were able to negotiate a short-term reduction in the gate fee with some of the Authority's third party recyclers for the second half of 2008/09. This should result in a saving of £0.217m

#### 4.6 **Hendon Rail Transfer Station: (- £0.563m)**

4.6.1 In December I advised that allowance had been made for a possible increase in the rent at this facility which if agreed would be back-dated to March 2003. Members will find that a report elsewhere on this agenda recommends the settlement of the Hendon rent which has been reached after a long period of negotiation with the landlord. Without wishing to preempt the decision of Members the fourth review has been prepared on the basis that approval will be given to the new rent level thereby enabling estimated surplus balances at 31 3 09 to be increased by £0.563m.

#### 4.7 **BMW Diversion Incentive Reward Scheme**

4.7.1 The Authority's bio-degradable diversion reward scheme was introduced on 1 April 2006. This rewards boroughs for the amount of additional bio-degradable waste that they have diverted from the waste stream for the appropriate scheme year compared with their base position in 2004/05. For every additional tonne of household waste diverted boroughs receive a payment equivalent to 50% of the LATS allowance value for that year. Members will recall that the September meeting gave approval to the 2007/08 borough claims. These were lower than previously estimated and therefore allowing for a continuation of the 2007/08 level of activity together with an allowance for increased activity in 2008/09 the overall cost is estimated to be in the order of £0.161m, i.e. a reduction of £0.070m. This forecast assumes that LATS will have a value of £5 in 2008/09 and therefore that the BMW diversion payment will be worth £2.50 per tonne of bio-degradable waste diverted from the waste stream (compared with the 2004/05 base year). This is by no means certain as it would appear that there are very few waste disposal authorities with the need to buy

additional allowances from the market to make good any shortfall in their LATS allocation. It is therefore possible that allowances will have no value in 2008/09 and as a consequence there would be no BMW diversion payments in 2008/09.

#### 4.8 Charges to Boroughs for Non-Household Waste (+ £0.048m)

4.8.1 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 2,703 tonnes for the year. Charges are currently estimated to reduce from £62.53 to £62.32 per tonne, i.e. a reduction of £0.21. The overall effect of these changes is to reduce the estimated income from non-household charges by £0.204m for the year. Compared, however, with the third review this represents a further reduction in income of £0.048m. The potential financial effect on boroughs varies.

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

Table 2	2008/09 Original Estimate £	2008/09 Current Forecast £	Estimated Variance £
Barnet	1,354,900	1,427,440	+ 72,540
Camden	3,020,262	2,992,731	- 27,531
Enfield	831,649	886,938 + 55,289	
Hackney	1,836,193	1,775,497	- 60,696
Haringey	1,055,006	1,100,322	+ 45,316
Islington	1,914,731	1,762,347	- 152,384
Waltham Forest	868,167	730,640	- 137,527
<b>Total</b>	<b>10,880,908</b>	<b>10,675,915</b>	<b>- 204,993</b>

4.8.3 The figures currently indicate that four boroughs could be entitled to a refund and that three boroughs may have to make an additional payment.

4.8.4 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 2008/09 final accounts process and reported to the Authority in June 2009. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

#### 4.9 Contingency

4.9.1 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 the experience in the year to date, 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. Allowing also for potential other unforeseen costs for which there is no specific budgetary provision it would not be prudent to reduce the contingency in the 2008/09 revised budget.

#### 4.10 Overview of the 2008/09 Revised Budget

4.10.1 Allowing for the above factors, the proposed 2008/09 revised budget for the Authority is £48.528m. This represents a net reduction of £1.184m when compared with the third budget review in December. Allowing also for a further reduction in non-household charges of £0.048m, the revenue surplus at 31 March 2009 is therefore estimated to increase to £4.428m.

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

	<b>£'000</b>
Transport, disposal and landfill tax	(414)
Dry Recyclable Recycling Arrangements	(217)
Hendon Rail Transfer Station	(563)
Non-household Charges	48
Miscellaneous (net)	10
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<b>Increase in Forecast Revenue Balances</b>	<b>(1,136)</b>
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4.10.3 Table 3 below provides a summary of the current financial position:-

Table 3	2008/09 Original Budget	2008/09 Third Review	2008/09 Fourth Review	Variance between 3rd & 4th
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<b>Expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>Reviews £'000</b>
Main Waste Disposal Contract (Ex. CA Waste)	26,912	26,838	26,596	(242)
- Clinical Waste	283	280	273	(7)
- Composting Arrangements	3,481	3,125	3,127	2
- Dry Recyclable Bulking Arrangement	2,961	2,833	2,616	(217)
Civic Amenity Waste	1,659	1,610	1,604	(6)
Landfill Tax				8,309
	7,650	7,491	(159)	
Hendon Rail Transfer Station	408	672	874	202
Hornsey Street Transfer Station	2,716	2,514	2,514	0
Recycling Credits	151	179	181	2
Other Recycling Initiatives	119	113	113	0
BMW Diversion Incentive Scheme	231	161	161	0
Agency Services	551	695	697	2
Governance and Other Support	0	75	75	0
Waste Strategy and Contracts Team	912	845	845	0
Waste Contract – Procurement Costs	2,783	2,867	2,867	0
Waste Composition Survey	0	50	50	0
Annual Compensation	34	30	30	0
Provision for Litigation Costs etc	50	50	50	0
Revenue Funding – Capital Programme	552	0	0	0
LATS – Use of Allowances	5,146	1,430	1,430	0
LATS – Transfer to Reserve (Surplus Allowances)	1,033	288	288	0
Excess Creditor Provision (Previous Years)	<u>0</u>	<u>(580)</u>	<u>(580)</u>	<u>0</u>
	58,291	51,725	51,302	(423)
<b>Less</b>				
<b>Income</b>				
Rents	(89)	(89)	(85)	4
Interest on Balances	(650)	(1,471)	(1,471)	(0)
LATS – Grant	(6,179)	(1,718)	(1,718)	(0)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(6,918)	(3,278)	(3,274)	4
Net Expenditure	51,373	48,447	48,028	(419)
Contingency	500	500	500	
<b>Total Net Expenditure 2008/09</b>	<b><u>51,873</u></b>	<b><u>48,947</u></b>	<b><u>48,528</u></b>	<b><u>(419)</u></b>
Financed By :-				
Balances b/fwd	(3,164)	(4,451)	(4,451)	
Charges to Boroughs (Non-household waste)	(10,880)	(10,724)	(10,676)	48
2008/09 Levy	<u>(37,829)</u>	<u>(37,829)</u>	<u>(37,829)</u>	
<b>Total Resources Available</b>	<b><u>(51,873)</u></b>	<b><u>(53,004)</u></b>	<b><u>(52,956)</u></b>	<b><u>(371)</u></b>
<b>Estimated Revenue Balances to be retained</b>	<b>(0)</b>	<b>765</b>	<b>0</b>	<b>(765)</b>
<b>Estimated Revenue Balances</b>				
<b>as at 31 March 2009 (Surplus)</b>	<b>(0)</b>	<b>(3,292)</b>	<b>(4,428)</b>	<b>(1,136)</b>
5. <b><u>2009/10 Proposed Budget</u></b>				

5.1 Further to my assessment of the 2009/10 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:-

<b>Table 4</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Year-on</b>
<b>Expenditure</b>	<b>Original</b>	<b>Proposed</b>	<b>Year</b>
	<b>Budget</b>	<b>Budget</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Main Waste Disposal Contract (Ex CA Waste)	26,912	26,155	(757)
- Clinical Waste	283	279	(4)
- Composting Arrangements	3,481	3,837	356
- Dry Recyclable Bulking Arrangement	2,961	3,528	567
Civic Amenity Waste	1,659	1,603	(56)
Landfill Tax	8,309	9,932	1,623
Hendon Rail Transfer Station	408	790	382
Hornsey Street Transfer Station	2,716	2,771	55
Recycling Credits	151	200	49
Other Recycling Initiatives	119	140	21
BMW Diversion Incentive Scheme	231	526	295
Agency Services	551	705	154
Governance and Other Support	0	500	500
Waste Strategy and Contracts Team	912	1,031	119
Waste Composition Survey	0	200	200
Waste Contract – Procurement Costs	2,783	2,970	187
Other Procurement Related Costs	0	900	900
Annual Compensation	34	32	(2)
Provision for possible Litigation Costs	50	50	0
Revenue Fundind – Capital Investment	552	3,663	3,111
LATS – Use of Allowance	5,146	4,308	(838)
LATS – Transfer to Reserve (Surplus Allownces)	<u>1,033</u>	<u>0</u>	<u>1,033</u>
	58,291	64,120	5,905
<b>Less</b>			
<b>Income</b>			
Rents	(89)	(86)	3
Interest on Balances	(650)	(255)	395
LATS – Grant	(6,179)	(4,308)	1,871
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(6,918)	(4,649)	2,269
Net Expenditure	51,373	59,471	8,174
Contingency	500	750	250
<b>2009/10 Proposed Budget</b>	<b><u>51,873</u></b>	<b><u>60,221</u></b>	<b><u>8,348</u></b>
	=====	=====	=====
<b>To be financed by :-</b>			
<b>Estimated Balances b/fwd</b>	<b>(3,164)</b>	<b>(4,428)</b>	<b>(1,264)</b>
<b>Charges to Boroughs (Non-household waste)</b>	<b>(10,880)</b>	<b>(12,146)</b>	<b>(1,266)</b>
<b>Proposed Levy</b>	<b>(37,829)</b>	<b>(43,647)</b>	<b>(5,818)</b>
<b>Total Resource Requirement</b>	<b>(51,873)</b>	<b>(60,221)</b>	<b>(8,348)</b>

5.1.1 The figures in table 4 show that the net budget requirement for 2009/10 of £60.221m has increased by £8.348m compared with the 2008/09 original budget. Allowing for the use of

forecast revenue balances of £4.428m at 31 March 2009 the net cost to constituent councils in 2009/10 is estimated to be £55.793m; comprising charges for non-household waste of £12.146m and a levy of £43.647m in respect of household waste and the core costs of operating the Authority. This represents an increase of £7.084m (14.54%) over the cost to boroughs in 2008/09 (£48.709m). The non-household and levy elements of cost to the boroughs may be summarised as follows:

	2008/09	2009/10	Variance
Non-household charges	£10.880m	£12.146m	+ £1.266m (+ 11.64%)
Levy	£37.829m	£43.647m	+ £5.818m (+ 15.38%)
Total	£48.709m	£55.793m	+ £7.084m (+ 14.54%)

5.1.2 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 2009/10, such that the actual percentage change for each council will be different from the average year-on-year increase for 2009/10 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 estimated levy, using the default levy apportionment arrangements can be found at paragraph 6.7.

5.1.3 Further information on the 2009/10 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). As a consequence the Authority has benefited from the recent reduction in RPI for the year to December 2008, i.e. an annual increase of 0.9%. As a consequence the 2009/10 budget allows for the continuation of this level for 2009 plus a further 1% in December 2009. Other expenditure votes have been increased within a range of zero to 2% depending on the nature of the expenditure, e.g. pay awards 2% and zero in the case of some composting contracts (achieved as a result of negotiations by the Waste Strategy and contracts Team).

## 5.3 Transport and disposal

5.3.1 On the basis of information provided by boroughs the 2009/10 residual tonnage forecast allows for a reduction of 23,333 tonnes to reflect the borough's planned increase in recycling and composting over the coming year. This reduction, however, is partially 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 1% (9,138 tonnes). The 2009/10 transport and disposal budget has been based therefore upon a residual waste stream of 700,203 tonnes, i.e. a net reduction of 14,195 tonnes over the 2008/09 projected outturn.

5.3.2 Compared with the December forecast tonnage and price reductions have resulted in a saving of c. £1.011m.

**5.4 In-Vessel Composting Facilities and Dry Recyclable Bulking Arrangement**

5.4.1 The draft budget reflects the intention of the NLWA constituent boroughs to transfer further additional amounts of green and kitchen waste to the Authority for treatment in 2009/10, i.e. a total of 72,435 tonnes (an increase of 14,298 tonnes over the projected tonnage for 2008/09 and 1,100 tonnes higher than reported in December). This means that the in-vessel composting facility at Edmonton will be fully utilised and therefore it has been necessary for the Authority to arrange for additional merchant capacity to treat this waste. Compared with the budget assumptions allowed for in December it has been possible to negotiate lower than assumed gate fees for handling some of the additional waste and this is reflected in the proposed budget. Allowing, therefore, for the increased tonnage and lower gate fees the overall cost of the green and kitchen waste treatment service in 2009/10 is estimated to be £3.837m, i.e. a net reduction of £0.104m compared with the December forecast.

5.4.2 The draft budget also allows for growth in the amount of dry recyclable waste sent to the Authority for treatment. The constituent boroughs have indicated that they will need treatment capacity for 69,793 tonnes of dry recyclable material in 2008/09 (an increase of 9,250 tonnes over the projected tonnage requirement for 2008/09 and 1,615 tonnes lower than reported in December). Since the December meeting officers have also been able to negotiate the greater use of one of its lower cost recyclers thereby reducing its reliance on the use of other higher cost service providers. The overall cost of the dry recyclable bulking arrangement in 2009/10 is therefore estimated to be £3.528m, i.e. a reduction of £0.341m compared with the December forecast.

5.4.3 Members should note that although increased use of the Authority’s recycling arrangements will add £0.923m (1.8%) to the Authority’s 2009/10 draft budget this a cost that in some cases would otherwise have been borne directly by boroughs, i.e. to the extent that boroughs have transferred their recycling tonnages to the NLWA for treatment there should be a budget saving to offset the increased cost of the NLWA levy. Table 5 below provides details of the changes that boroughs intend to make in the coming year:

<b>Table 5</b>	<b>Composting Arrangement</b>			<b>Dry Recyclable Bulking</b>		
	<b>2008/09 Tonnes</b>	<b>2009/10 Tonnes</b>	<b>Variance Tonnes</b>	<b>2008/09 Tonnes</b>	<b>2009/10 Tonnes</b>	<b>Variance Tonnes</b>

Barnet	21,000	24,000	3,000	0	0	0
Camden	107	5,293	5,186	10,227	10,808	581
Enfield	9,121	11,718	2,597	16,500	17,496	727
Hackney	4,989	5,324	335	2,297	3,844	1,547
Haringey	5,300	6,300	1,000	14,500	17,645	3,145
Islington	4,170	5,800	1,630	15,000	17,000	2,000
Waltham Forest	13,450	14,000	550	1,750	3,000	1,250
<b>Total</b>	<b>58,137</b>	<b>72,435</b>	<b>14,298</b>	<b>60,543</b>	<b>69,793</b>	<b>9,250</b>

## 5.5 Landfill Tax

5.5.1 The standard rate of landfill tax is expected to rise from £32 to £40 per tonne on 1 April 2009. Despite a reduction in the amount of residual waste that the Authority expects to send for final disposal in 2009/10 the landfill tax escalator announced by the Chancellor of the Exchequer in his 2008 Budget report will mean that the Authority will still have to pay an estimated additional £1.623m in landfill charges, i.e. an increase in the 2009/10 draft budget of 3.1%.

## 5.6 Hornsey Street Waste Transfer Station

5.6.1 The 2009/10 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).

## 5.7 Recycling Credits/Other Recycling Initiatives

5.7.1 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 and to two private sector profit-making organisations for which a total provision of £0.200m has been made, a reduction of £0.83m compared with the December forecast.

5.7.2 The 2009/10 draft budget for other recycling initiatives includes a provision of £0.140m to enable the Authority to provide financial support in the following areas:

Real Nappy Campaign/support	£0.090m
Continuation of a contribution to the NLRP (North London Recycling Forum)	£0.015m
Provision for other recycling initiatives	£0.035m
<b>Total</b>	<b>£0.140m</b>

## 5.8 BMW Diversion Incentive Scheme

5.8.1 The budget forecast continues to allow for the operation of a scheme in 2009/10 but in view of the low LATS values referred to earlier in this report the payment for 2009/10 may be no higher than £6 (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 2008/09 and 2009/10 (see also para 5.16 below).

## **5.9 Waste Strategy and Contracts Team**

5.9.1 The draft budget allows for a full complement of staff and a programme of works. Additionally, and as reported in December the budget also allows for an additional member of staff to deal with the considerable growth in the work of the contract monitoring team at an estimated cost of £0.042m. This budget also includes a budget provision of £0.102m to fund the cost of waste prevention initiatives planned by the team and reported elsewhere on today's agenda.

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

5.10.1 There are no changes to the figures reported in December for the cost of implementing the NLJWS. As a consequence the 2009/10 base cost for the in-house team procurement team and use of external consultants is estimated to be £2.970m and is broadly in line with assumptions made as part of the medium term projection reported to the Authority in February 2008.

5.10.2 The scale of the challenge and its cost means that it is difficult to be wholly accurate on both the level of the budget and timing of the cash flow requirements. This is particularly true in relation to estimating both the capital and revenue costs of acquiring sites in the coming year. The draft budget allows for a full year cost of acquiring sites through prudential borrowing at an estimated cost of £3.663m and is based upon a capital investment of £83m. The latter was determined by reference to the site areas needed for the facilities set out in the Authority's Outline Business Case submission for funding through the Private Finance Initiative together with an assumption about land values. As previously indicated in December, the aim at this stage of the budget process is to ensure that the draft budget is sufficiently robust to enable all potential permutations to be funded in the coming year. Members are referred to the private and confidential part of the agenda for an up-to-date commentary on the sites acquisition programme. As a consequence I believe that a budget of £3.663m is the minimum level of revenue funding support that the Authority can safely make in 2009/10.

5.10.3 In addition to the base cost of undertaking the procurement process over the coming year it will also be necessary to provide for the costs of obtaining planning permission. These costs can be significant and could involve costs of up to £1m over two years. Although there may be scope to capitalise some of these costs in the future, the wide-ranging issues and the timing of the Authority's sites acquisition programme as set out elsewhere on this agenda, mean that it would be premature at this time to assume that it would be a safe to make this assumption. As a consequence it is considered prudent for the 2009/10 draft budget to include a revenue budget of £0.900m for these costs. This is in line with the December 2009/10 budget forecast. Officers will nevertheless seek to capitalise expenditure should the opportunity arise.

## **5.11 Governance and Other Support**

5.11.1 Members will recall from the December meeting of the Authority that approval was given to the appointment of a Managing Director to take the lead in improving the governance and support arrangements to the Authority with a view to successfully steering the Authority through the challenge of the forthcoming procurement process and beyond. Members will also recall that the Gateway review and other comments made by officers in the December report highlighted the need to review more widely the support arrangements to the Authority. Accordingly, the Authority acknowledged the need for the 2009/10 budget to include a further sum of £0.250m (£0.500m in total) to provide the new Managing Director with the flexibility, should this prove necessary, to accommodate any further changes to the current support arrangements. Given the strong likelihood that further changes will be required the 2009/10 draft budget continues to include a provision of £0.500m. Steps are being taken to secure an early/possible temporary appointment during the remainder of 2008/09 and therefore a budget provision of £0.075m continues to be provided as part of the 2008/09 fourth budget review.

## **5.12 Waste Composition Survey**

5.12.1 Following agreement to a waste composition survey at the December meeting an amount of £0.050m has been included in the 2008/09 fourth budget review and £0.200m in the 2009/10 draft budget, i.e in line with the December budget assumptions.

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

5.13.1 No income is expected from this source.

## **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 but at a significantly reduced rate compared with 2008/09 to reflect the unprecedented reductions in the Bank of England Base Rate which occurred in November and December 2008 and to a further extent in January 2009.

## **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 borough's trade waste collection system. Boroughs have submitted formal declarations signed by a chief officer 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 2009) is 159,107 tonnes and the amount of construction and gully waste is 9,121 tonnes, i.e. a total tonnage of 168,228 tonnes:

**Table 6**

	<b>Validated Declared Tonnes</b>	<b>Construction &amp; Gully waste Tonnes</b>	<b>Total Tonnes</b>
Barnet	18,568	4,032	22,600
Camden	47,751	184	47,935
Enfield	14,879	13	14,892
Hackney	28,557	4	28,561
Haringey	13,468	2,197	15,665
Islington	25,688	1,357	27,045
Waltham Forest	10,196	1,334	11,530
<b>Total</b>	<b>159,107</b>	<b>9,121</b>	<b>168,228</b>

5.15.3 Based upon estimated non-household tonnages of 168,228 tonnes and a forecast cost per tonne of £72.20 (comprising a base cost of £69.23 and a LATS premium of £2.97), the total cost to boroughs in 2009/10 is currently estimated to be £12.146m.

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

<b>Table 7</b>	<b>2009/10 Estimated Tonnes</b>	<b>2009/10 Estimated Cost £</b>
Barnet	22,600	1,631,720
Camden	47,935	3,460,907
Enfield	14,892	1,075,202
Hackney	28,561	2,062,104
Haringey	15,665	1,131,013
Islington	27,045	1,952,649
Waltham Forest	11,530	832,466
<b>Total</b>	<b>168,228</b>	<b>12,146,061</b>

#### 5.16. Landfill Allowance Trading Scheme (LATS)

5.16.1 Although the Authority expects to be in a favourable trading position in 2009/10 there is currently considerable uncertainty about the potential value of allowances. Like the 2009/10 budget forecast in December, the draft budget also allows for a £12 notional value based upon work recently undertaken for the procurement project. This is by no means certain, e.g. one trade for a small parcel of allowances before Christmas was made at £18 per allowance. Although 2009/10 is a target year and waste disposal authorities are not allowed to carry-forward unused allowances from 2008/09, nor borrow allowances from the future, there is reason to believe that relatively few authorities will have a need to buy additional allowances from the market to make good any shortfall in their LATS allocation. Whilst this could depress values from that assumed in the budget forecast, it will also have the effect of reducing payments made by the Authority under its BMW diversion reward

scheme (a saving) and reduce the value of the LATS premium included in the charge for non-household waste (a cost). Should this arise it is estimated that the overall impact on the Authority's budget should be largely neutral.

5.16.2 The Authority does, however, need to decide how it would deal with higher than assumed LATS allowance values. This is because 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 for the year ahead. Similarly, a higher LATS value and therefore higher BMW diversion reward payments would add to the Authority's costs. As a consequence it is recommended that for 2009/10 only LATS values are capped at £12 per allowance for the purpose of calculating the 2009/10 LATS premium and BMW diversion reward payment. This approach should be kept under review for future years if LATS values vary significantly. This approach was supported by Members of the Budget Scrutiny Committee.

## **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 8% of the 2009/10 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. This is evidenced elsewhere in this report by virtue of the gate fee savings that have been negotiated by the Waste Strategy and Contracts Team for 2009/10 in respect of the Authority's dry waste and composting and recycling arrangements. The Authority is also about to market test for the longer-term provision of these services in the coming year.

5.17.4 Consultants appointed under the procurement process framework agreement in 2007 are also subjected to a mini-tender processes at key stages in order to ensure that the Authority obtains value for money.

## **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 2009 will be fully utilised during the course of 2009/10, 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 4.9 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 2008/09, my advice is that the 2009/10 contingency should be £0.750m, i.e. in line with the December budget forecast. This is the minimum that I consider to be prudent.

## 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 In 2006/07 the transitional default arrangements provided for the 'household' element of the levy to be apportioned 33.3% on a tonnage basis and 66.7% on a council tax basis. For 2007/08 the transitional default arrangements provide for the 'household' element of the levy to be apportioned 66.6% on a tonnage basis and 33.4% on a council tax basis. 2008/09 was the first year of operation without transitional arrangements. There is a smaller 'other' costs element which will continue to be apportioned entirely on a council tax basis.

6.3 In order to be clear on the levy apportionment arrangements that will apply for 2009/10 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 2009/10 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 2009/10 and also their household waste tonnages for 2007/08 by 31 January 2009. 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. At the time of writing, all constituent councils have advised the Authority of their council tax base, and have confirmed their 2007/08 household tonnage figures. The proposed apportionment of the 2009/10 levy will therefore be based upon the data contained in Table 8.

Table 8 below provides details of both constituent council 2009/10 council tax base figures and their 2007/08 household tonnages:

Table 8	<b>2009/10 Council Tax Base</b>	<b>2007/08 Household Tonnages</b>
Barnet	136,605	122,406
Camden	94,100	78,097
Enfield	109,240	82,890
Hackney	71,749	83,405
Haringey	85,060	95,552
Islington	84,262	79,553
Waltham Forest	75,803	75,280
<b>Total</b>	<b>656,819</b>	<b>617,183</b>

6.6 Allowing for the level of revenue balances projected to be available at 31 March 2009 and the Authority's 2009/10 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). It is important to bear in mind that the figures are provisional pending notification/confirmation of the levy apportionment data set out in Table 8. Whilst it is possible that the council tax base data could change it is not envisaged that the 2007/08 household tonnage figures will change.

6.7 Details of the proposed levy for 2009/10 are summarised in table 9 below:

Table 9	<b>2008/09 Actual Levy £'000</b>	<b>2009/10 Provisional Levy £'000</b>	<b>Variance £'000</b>
Barnet	7,423	8,738	+ 1,316 (17.72%)
Camden	4,900	5,665	+ 767 (15.61%)
Enfield	5,337	6,133	+ 800 (14.91%)
Hackney	5,257	5,679	+ 419 ( 8.03%)
Haringey	5,462	6,543	+ 1,078 (19.79%)
Islington	4,794	5,621	+ 827 (17.25%)
Waltham Forest	4,656	5,268	+ 611 (13.14%)

Total	37,829	43,647	+ 5,818 (15.38%)
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## 7. **Medium Term Budget Forecast for 2010/11 and for 2011/12 and 2012/13**

- 7.1 Assuming full utilisation of revenue balances by 31 March 2009 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 in-vessel composting and dry recyclable bulking arrangement, the percentage increase in the cost to constituent councils is estimated to be 16.7% in 2010/11, an increase of 2.6% in 2011/12 and a reduction of 0.4% in 2012/13. The increase for 2010/11 reflects the fact that balances of £4.428m at 31<sup>st</sup> March 2009 will be used to part fund the 2009/10 budget (equivalent to an increase of 7.9%). Future years forecasts do not, at this stage, assume the availability of any in year balances to offset the levy increase. 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 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 2010/11). For the purpose of these forecasts, and given the comments of the Chancellor of the Exchequer in his 2008 budget, it is assumed that an £8 increase will also apply in 2011/12 and 2012/13.
- 7.3 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 £83m, 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 this should help the Authority to firm-up on the likely scale and timing of the increases that will flow from the procurement process.
- 7.4 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 allowance 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 joint waste strategy or as directed 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 2011/12. Although the Authority does not at present have a capital programme it is about to embark on a procurement process that will almost certainly require the use of prudential borrowing to supplement any funding that might be obtained through the Private Finance Initiative. As site acquisition costs do not attract PFI support and there is a need to acquire sites to support the Authority's PFI application, it is proposed that the Authority agrees a sites acquisition programme of £83m. The Authority is therefore requested to approve the following indicators:

<b>Capital Expenditure</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
NLWA	Nil	Nil	£83m	Nil	Nil

8.3 The Authority currently has no outstanding debt. Based upon the proposed capital budget of £83m the following ratio of financing costs to net revenue stream are recommended for approval:-

<b>Ratio of Financing Costs to Net Revenue Stream</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
NLWA	Nil	Nil	0.0839%	0.1219%	0.1166%

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

<b>Capital Financing Requirement</b>					
	<b>31.03.08 Actual</b>	<b>31.03.09 Estimate</b>	<b>31.03.10 Estimate</b>	<b>31.03.11 Estimate</b>	<b>31.03.12 Estimate</b>
NLWA	Nil	Nil	£83m	£83m	£83m

8.5 In order to ensure that over the medium term borrowing will only be for a capital purpose, the Authority will need to ensure that net external borrowing does not, except in the short term, exceed the total of the Capital Financing requirement in the previous year plus estimates of any additional Capital Financing Requirement for the budget year and the next two years. 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. A figure

of £125m is recommended. Although the Authority's draft budget only provides revenue support to cover an investment cost of £83m for a full year, it would be possible for the same revenue provision to fund a higher capital investment for a shorter period, e.g. £125m for eight months. No acquisition could proceed without securing the necessary approvals. Should the circumstances arise, the aim is to ensure that the Authority has the flexibility to act within the law. The following authorised limits for external debt are recommended for approval: -

<b>Authorised Limit for External Debt</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
Borrowing	Nil	Nil	£125m	£125m	£125m
Other long term liabilities	Nil	Nil	Nil	Nil	Nil

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

<b>Operating Boundary for External Debt</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
Borrowing	Nil	Nil	£125m	£125m	£125m
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:

<b>Impact on the NLWA Levy</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
	Nil	Nil	0.0839%	0.1219%	0.1166%

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

<b>Net Principal re. Fixed Rate Borrowings</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
	Nil	Nil	£125m	£125m	£125m

<b>Net Principal re. Variable Rate Borrowings</b>					
	<b>2007/08 Actual</b>	<b>2008/09 Estimate</b>	<b>2009/10 Estimate</b>	<b>2010/11 Estimate</b>	<b>2011/12 Estimate</b>
	Nil	Nil	£125m	£125m	£125m

- 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 2009/10. It mirrors that adopted by the London Borough of Camden except in the case of ‘10 years above’ where in view of the single purpose nature of the NLWA capital programme it is felt any borrowing may warrant a 100% borrowing within this category.

<b>Maturity structure of fixed rate borrowing during 2008/09</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	50	0
12 months and within 24 months	50	0
24 months and within 5 years	50	0
5 years and within 10 years	50	0
10 years and above	100	30

- 8.10. The above indicators may need to be reviewed in the light of the Outline Business Case which is being prepared to support the application for Government funding under the Private Finance Initiative.
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:

The adequacy of the proposed reserves  
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 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.
- 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. However, the process can be improved, and would need to be 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 2008/09 revised budget, the 2009/10 proposed budget, the overall budget should be sufficiently robust to meet the Authority's expenditure requirements over this period.
- 10.2 Compared with the 2008/09 original budget of £51.873m the proposed 2009/10 budget of £60.221m represents an increase of £8.348m (16.09%). Of this £4.898m (58.67%) can be directly linked or associated with the costs of the procurement process, the remaining increase of £3.450m (41.33%) relates to increases in the costs of delivering current waste services to the boroughs.
- 10.3 The Authority is forecast to have surplus balances of £4.428m at 31 March 2009. 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 2009/10 budget will mean that constituent councils face the prospect of a more significant levy increase in 2010/11.
- 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 2009 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 6 February 2008, 25 June 2008, 26 September 2008 and 10 December 2008

Budget working papers

Notification letters from constituent councils in respect of their 2009/10 Council Tax base and 2007/08 actual household tonnages delivered to the NLWA for disposal.

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