

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2007/08 REVENUE AND CAPITAL BUDGETS FINAL OUTTURN AND 2008/09 FIRST BUDGET REVIEW

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

25th JUNE 2008

1. SUMMARY OF REPORT

This report provides details of actual expenditure and income for 2007/08 and briefly comments on the current financial position and outlook for future years. Based upon current information the Authority is forecast to have a revenue surplus of £1.637m at 31 March 2009, however in view of the Hendon rent review notice which has been served on the Authority Members should note that this figure may reduce. A review of the outlook for the period 2009/10 to 2011/12 reaffirms the likelihood that waste management costs will continue to rise significantly over this period. A further review of the financial position will be reported to the Authority meeting in September.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Note the 2007/08 final outturn (subject to audit).
- (ii) Note the over and under payments by boroughs in respect of non-household waste in 2007/08 and the arrangements for repayment to and collection from boroughs.
- (iii) Approve the 2007/08 draft Statement of Accounts (Appendix A).
- (iv) Note the first review of the 2008/09 budget and potential budget pressures.
- (v) Note that a second review of the 2008/09 budget will be submitted to the Authority in September.
- (vi) Note the current outlook for 2009/10, 2010/11 and 2011/12 and that a more detailed financial assessment of the medium term budget and resource requirements will be reported to the Authority in September.

Signed by the Finance Adviser:

Date:

3. **Introduction**

3.1 At its meeting on the 6 February 2008 the Authority was provided with an up-to-date assessment of its financial position. This included the fourth review of the 2007/08 budget. The latter formed the basis of the 2007/08 approved revised budget and provided guidance on the level of surplus resources available to assist with funding of the 2008/09 budget.

3.2 The accounts for 2007/08 are now closed and therefore the main purpose of this report is to provide details of the 2007/08 final outturn (subject to audit) and to seek approval of the 2007/08 draft Statement of Accounts. The opportunity is also taken to provide details of the 2008/09 first budget review and to briefly comment on the outlook for future years.

4. **2007/08 Final Outturn**

4.1 At its meeting on 7 February 2007 the Authority agreed an original budget of £48.593m to be financed by estimated revenue balances of £4.808m, charges to boroughs for non-household waste of £8.884m and a levy of £34.901m.

4.2 In subsequent reviews Members have been advised of:

- The higher level of balances brought forward from 2006/07 (- £0.312m),
- Slippage of income from 2006/07 (- £0.350m),
- The likelihood of a reduction in transport, disposal and landfill tax due to a reduction in the waste stream (- £1.533m),
- A reduction in both the Landlord and operator costs at the Hornsey Street Waste Transfer Station (- £1.134m),
- A successful appeal against the 2005 Rating Revaluation (- £0.163m),
- An increase in the use of the Authority's recycling and composting services (+ £0.272m)
- A reduction in the cost of recycling credits and other recycling initiatives (- £0.370m),
- Reduction in non-household waste income due to a reduction in the waste stream (+ £0.850m).
- The write-back to revenue of previous year's contributions to the Earmarked Reserve for recycling and termination of future contributions (- £0.386m).
- A write-back to revenue of an excess creditor provision allowed for recycling credits in the 2006/07 accounts (- £0.300m),
- Increased income from investment of cash balances (- £0.196m),
- A reduction in the value of payments in respect of the BMW diversion reward scheme (- £0.430m),
- An increase in the costs of the procurement process (+ £0.539m).
- Other miscellaneous changes (- £0.146m).

- 4.3 As a consequence the Authority was advised that it would be reasonable to assume that forecast revenue balances of £3.164m at 31 March 2008 could be taken into account when considering its budget and levy requirements for 2008/09.
- 4.4 The actual revenue surplus for the year ended 31 March 2008 is £4.451m, i.e. an increase of £1.287m compared with the February 2008 forecast.
- 4.5 In addition, the Authority holds an earmarked reserve of £1m for the funding of future recycling initiatives.
- 4.6 The Authority also holds a Landfill Allowance Trading Scheme (LATS) reserve which at the 31 March 2008 is valued at £1.158m representing a provisional surplus (subject to verification by DEFRA) of 231,603 allowances. This is a notional book value and has no real monetary value until, and if, the allowances are sold.
- 4.7 Comparison of the revised budget and final outturn is shown in Table 1 followed by a commentary on the most significant changes and issues arising.

Table 1

	2007/08 Original Budget £'000	2007/08 Revised Budget £'000	2007/08 Final Outturn £'000	Variance between Rev & Outturn £'000
Expenditure				
Main Waste Disposal Contract	26,774	26,280	26,094	(186)
- Clinical Waste	269	270	(10)	
- Fridges and Freezers	218	125	125	
- In-Vessel Composting Facility	1,697	1,839	1,581	(258)
- Dry Recyclable Bulking Arrangement	1,256	1,386	1,378	(8)
Civic Amenity Waste	1,659	1,635	1,656	21
Landfill Tax	7,073	6,533	6,537	4
Hazardous Waste – TV and Computer Screens	82	68	69	1
Hendon Rail Transfer Station	447	357	355	(2)
Hornsey Street Transfer Station	2,982	1,778	1,723	(55)
Recycling Credits	3,477	3,189	3,266	77
Other Recycling Initiatives	129	77	69	(8)
BMW Diversion Incentive Scheme	642	212	206	(6)
Agency Services	514	516	450	(66)
Waste Strategy and Contracts Group	896	743	657	(86)
Waste Contract – Procurement Costs (Consultants)	700	1,340	1,062	(278)
Annual Compensation	33	33	30	(3)
Provision for Litigation Costs	50	50	0	(50)
Contribution to Earmarked Reserve	66	(320)	(320)	
LATS – Use of 2007/08 Allowances	5,875	5,229	993	(4,236)
LATS – Revaluation of Banked Allowances	0	0	1,291	1,291
LATS – Transfer to Reserve	808	719	(630)	(1,349)
Excess Creditors (Previous Years)	<u>0</u>	<u>(300)</u>	<u>(311)</u>	<u>(11)</u>
	55,647	51,759	46,541	(5,218)
Less Income				
Rents	(83)	(86)	(84)	2
Interest on Balances	(788)	(1,334)	(1,226)	108
LATS Grant 2007/08	(6,683)	(5,948)	(1,654)	4,294
Dividends (LWL)	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u> </u>
	(7,554)	(7,368)	(2,964)	4,404
Net Expenditure	48,093	44,391	43,577	(814)
Contingency	<u>500</u>	<u>500</u>	<u>0</u>	<u>(500)</u>
Total Net Expenditure 2007/08	<u>48,593</u>	<u>44,891</u>	<u>43,577</u>	<u>(1,314)</u>
Financed By :-				
Revenue Balances b/fwd	(4,808)	(5,120)	(5,120)	
Charges to Boroughs (Non-household waste) 2007/08 Levy	(8,884)	(8,034)	(8,007)	27
	(34,901)	(34,901)	(34,901)	
Balances c/fwd as at 31 March 2008:				
General Balances	(0)	(3,164)*	(4,451)	(1,287)
Earmarked Reserve (Recycling)	(1,320)	(1,000)	(1,000)	
LATS Reserve	(1,788)		(1,158)	

* This figure has been used to assist with the funding of the 2008/09 budget.

4.8 Details of the most significant variances that have occurred since the budget meeting in February are set out below.

4.9 **Transport and Disposal : (- £0.174m)**

4.9.1 In February, Members were advised that based upon tonnage data available for the period up to December 2007, the figures indicated a net reduction of 4.08% in the residual waste stream compared with the level of residual waste entering the waste stream over the same period in 2006/07, i.e. a small improvement of - 0.2% compared with the previous forecast. Given, however, that the tonnage figures for three boroughs had increased by up to 1.6% during November and December it was considered prudent at that time (the meeting would be taking decisions on the budget and resource requirements for 2008/09) to adopt a degree of caution in projecting the tonnage outturn for the year. The fourth review therefore allowed for an increase of 1% growth in the waste stream for the remainder of the year. On this basis the residual waste stream for the year was estimated to reduce by 24,055 tonnes to 747,645 tonnes compared with the original budget assumption (771,700 tonnes), and by 29,383 tonnes compared with the residual tonnage outturn for 2006/07 (777,028 tonnes).

4.9.3 In the final outturn the tonnage figures indicate that the residual waste stream did continue to grow in a number of areas but that in overall terms there was a small reduction compared with the fourth budget review assumptions. The actual residual waste stream for the year was 746,742 tonnes, i.e. a reduction of 30,286 tonnes (3.9%) compared with 2006/07 actual tonnages, and a reduction of 903 tonnes compared with the 4th budget review. Allowing for the boroughs' latest estimate of their outturn recycling and composting figures for 2007/08 the underlying waste stream now appears to have reduced by 0.4% in 2007/08. As a result the cost of transport and disposal has reduced by £0.063m.

4.9.4 Details of the actual percentage movement in 2007/08 tonnage levels for each borough compared with 2006/07 tonnages may be summarised as follows:-

	2007/08 February Forecast	2007/08 Actual update	Variance
Barnet	- 2.15%	- 1.26%	+ 0.89%
Camden	- 2.98%	- 3.49%	- 0.51%
Enfield	- 4.06%	- 3.26%	+ 0.80%
Hackney	- 6.53%	- 6.41%	+ 0.12%
Haringey	- 2.96%	- 2.31%	+ 0.65%
Islington	- 5.72%	- 6.73%	- 1.01%
Waltham Forest	- 4.77%	- 4.71%	+ 0.06%
Overall position	- 4.08%	- 3.90%	+ 0.18%

4.9.5 All boroughs, apart from Camden and Islington experienced an increase in their residual waste streams during the closing months of the year.

4.9.6 This budget head also includes the cost of the Compensation Review clause included in the contract with LondonWaste Ltd. This contract clause is intended to partially compensate LondonWaste Ltd for the reduction in electricity income in any trading year compared with that assumed in the original tender price. Compared with a budgeted assumption of £3.051m the LondonWaste Ltd claim is now expected, because of an improvement in current electricity prices, to be in the region of £2.940m, i.e. a budget saving of £0.111m.

4.9.7 The overall saving on the transport and disposal budget is therefore £0.174m.

4.10 **Landfill Tax : (+ £0.004m)**

4.10.1 The reduction in the waste stream referred to above should result in a reduction in the Authority's landfill tax liability by £0.021m. The Authority is also expected to benefit from the improvement in incineration levels achieved at the Edmonton energy from waste facility in the closing weeks of 2007 and this should further reduce the Authority's liability by £0.085m. Unfortunately, this improvement has been accompanied by an increase in the amount of bottom ash sent to landfill. Although the latter could add c. £0.159m to the Authority's landfill tax liability the Authority should also benefit from a lower than budgeted amount of flue gas treatment residues sent to landfill which should in turn help to lower the LondonWaste Ltd claim by £0.049m. The overall effect of these changes is to increase the Authority's landfill tax liability by £0.004m compared with the fourth budget review.

4.11 **In-Vessel Composting (IVC) Facility and Dry Recyclable Bulking Arrangement: (- £0.265m)**

4.11.1 Lower than budgetted use of the composting and dry recyclable bulking arrangement has resulted in a saving of £0.265m.

4.12 **Hendon Rail Transfer Station : Rent Review**

4.12.1 The Authority holds a lease for use of the Hendon Rail Transfer Station (in Barnet) which is subject to a rent review at six-yearly intervals. The lease is due to expire in March 2009. The last rent review was due in March 2003 and although the Landlord hitherto has not advised of an intention to seek a rent increase (there was no rent increase in 1997) the Authority has adopted a prudent approach by allowing a reasonable provision for a possible rent increase in each financial year since 2003. In March 2008 Bond Pearce, acting as agents for the Authority's landlord - Freightliner Heavy Haul Limited - served notice on the Authority of its intention to increase the rent at Hendon rail transfer with effect from March 2003 to £670,000 per annum. This compares with an actual rent invoiced and paid over this period of £214,633.04 per annum. This is the first indication of an increase and comes at the time when the

Authority is seeking to renew the existing lease. The Authority has formally objected to the proposed rent increase and has engaged external legal and valuation advisers to assist with the Authority's counter claim. Whilst the scale of the increase must be considered questionable, the increase, including the arrears, could add £2.128m to the Authority's costs in 2007/08 and a further £0.405m in 2008/09. From an accounting point of view the Authority must decide how best to treat the proposed rent increase in closing its 2007/08 accounts. Given the background, and in particular that the Authority has previously allowed a reasonable provision for a possible increase in its accounts for the past five years, it is my recommendation at this time to treat the potential payment of arrears as a contingent liability in the Authority's formal Statement of Accounts for 2007/08. This has the effect of formally recording that there is a potential call on the Authority's financial resources and that surplus revenue balances held by the Authority could reduce. In the case of the potential additional cost in 2008/09 it is proposed to treat this as a potential budget pressure in the 2008/09 first budget review.

4.13 **Hornsey Street Transfer Station : (- £0.055m)**

4.13.1 The final accounts allow for a reduction in 2007/08 landlord's costs (London Borough of Islington) of £0.036m and an estimated saving of £0.019m in LondonWaste Ltd's operational costs, i.e. a total reduction of £0.055m.

4.14 **Landfill Allowance Trading Scheme (LATS) – Transfer to Reserves : (- £0.630m)**

4.14.1 The LATS scheme came into effect on 1st April 2005; a powerful new driver for reducing the level of biodegradable municipal waste that can be sent to landfill. The Government intends to impose a penalty payment of £150 per tonne for all biodegradable waste sent to landfill that is not covered by an allowance. The Authority has previously been advised that it should enjoy a favourable trading position in the period until 2009/10 (the Government's first target year). At the 31 March 2007 the Authority had banked 99,446 surplus allowances with a notional book value of £1.788m based upon a DEFRA/CIPFA determined value of £17.98 per allowance. The Authority has previously been advised that there is a surplus of allowances in the LATS market and that as a consequence there has been little need for other waste disposal authority's to buy additional allowances in the market. This is reflected in the 2007/08 DEFRA/CIPFA allowance valuation which has been set at £5 on the basis of only one trade during the 2007/08 trading year, i.e. a reduction of £12.98 per allowance. As a consequence, it is necessary to revalue the Authority's banked allowances at 31 March 2007 from £1.788m to £0.497m, i.e. a reduction of £1.291m. This is reflected in the Authority's 2007/08 accounts.

4.14.2 For 2007/08 the Authority received a LATS allocation of 330,847 allowances. At year-end the Authority is currently estimated to have used 198,690 allowances (subject to verification by DEFRA) resulting in a surplus of 132,157 allowances with a notional book value of £0.661m. Allowing for both the increase in the number of surplus allowances and a value of £5 per allowance, the amount to be transferred to the LATS reserve for the 2007/08 LATS scheme year is a negative figure of £0.630m.

4.14.3 The notional value of all surplus allowances (231,603) held by the Authority at 31st March 2008 is currently estimated to be £1,158m. It should be borne in mind that this is a notional value and that any actual value will not crystallise until the allowances are sold.

4.15 **Recycling Credits : (+ £0.077m)**

4.15.1 Borough recycling credit claims for 2007/08 have yet to be submitted to the Waste Strategy and Contracts Team, which must then be audited by them. However, provisional figures provided by the boroughs indicate that total recycling credit claims for 2007/08 are likely to be in the order of 134,600 tonnes. This is based upon a total recycling and composting activity of 191,500 tonnes less 56,900 tonnes of borough separated waste, which has been either composted or bulked for recycling through the arrangements that the Authority has with LondonWaste Ltd. The 2007/08 final accounts have therefore been closed on this basis and represent a net increase of about 3,000 tonnes compared with the data provided by boroughs in January 2008. Assuming borough recycling credit claims are in line with this latest forecast there is an overspend of £0.077m in 2007/08.

4.16 **Other Recycling Initiatives : (- £0.008m)**

4.16.1 Lower than expected activity, primarily in relation to the nappy support scheme, has resulted in a small saving of £0.008m.

4.17 **Agency Services : (- £0.066m)**

4.17.1 Expenditure on most services provided under this category has been broadly in line with the budget assumptions except in the case of external technical and corporate financial support to the Authority where there has been an underspend of £0.070m, part of which is accounted for by slippage of £0.037m into 2008/09 of the Strategic Environmental Assessment of the North London Joint Waste Strategy. Other changes include greater use of legal services, an increase in communications and publicity activity and a lower than budgeted cost of financial services, resulting in a net cost of £0.004m and an overall saving of £0.066m.

4.18 **Waste Strategy and Contracts Team : (- £0.086m)**

4.18.1 A saving has arisen largely due to staff vacancies and the identification of costs that should be be correctly charged against the procurement budget.

4.19 **Waste Contract – Procurement Costs : (- £.278m)**

4.19.1 Whilst there there has been some slippage in the recruitment to the Authority's in-house procurement team, and this has necessitated the need to make greater use of external consultants in the short term, it also the case that there has been some slippage

in the procurement timetable, as a consequence there is a net saving of £0.278m in 2007/08.

4.20 Provision for Possible Litigation Costs : (- £0.050m)

4.20.1 In addition to the cost of legal support services contained within the Agency Services budget a separate budget provision is held to meet the potential costs of litigation with third parties. This provision was not called upon in 2007/08.

4.21 Contingency : (- £0.500m)

4.21.1 Although individual budget heads were reviewed in the light of the latest available information, it was considered prudent for the 2007/08 revised budget to retain a contingency of £0.500m to accommodate possible unforeseen additional costs in the closing months of the year. Given the proposed accounting treatment of the Hendon rent review referred to at paragraph 4.12 above there has been no call on this provision.

4.22 Excess Creditor Provision (previous years) : (-£0.011m)

4.22.1 Following a review of the creditor provisions made in respect of previous financial years an additional sum of £0.011m has been determined as surplus to requirements and can therefore be written back to revenue in 2007/08.

4.23 Interest on Balances : (+ £0.108m)

4.23.1 The revised budget assumed that interest relating to the outstanding compensation payment due to be paid by the Highways Agency for land acquired under CPO powers at the frontage to the Edmonton Plant would be paid in 2007/08. The income from this source, estimated to be at least £0.350m, will now slip into 2008/09.

4.23.2 A general improvement in the Authority's cash flow over the course of the year however has reduced the income shortfall for the year by £0.242m to £0.108m.

4.24 Dividend Income (LondonWaste Ltd)

4.24.1 At the Annual General Meeting of LondonWaste Ltd on 23 May 2008 the Directors did not recommend a dividend payment to shareholders. This is in line with the Authority's budget assumptions.

4.25 Charges to Boroughs for Non-Household Waste : (+ £0.027m)

4.25.1 At the budget meeting in February Members were provided an up-to-date assessment of the estimated cost to boroughs of non-household waste in 2007/08 (in accordance with the Authority's charging arrangements for this category of waste under section 52 (9) of the Environmental Protection Act 1990).

- 4.25.2 The meeting was also reminded that the final charges will be calculated as part of the 2007/08 final accounts process and that this would be reported to the Authority in June 2008. Any under or over payment by boroughs would be collected from or repaid to boroughs at that time.
- 4.25.3 Although compared with the 2007/08 revised budget the income due to the Authority has reduced by £0.027m, a net repayment of £0.877m is now due to be repaid to boroughs. This is because under the Authority's charging arrangements for non-household waste, boroughs are required to make payments on account throughout the year on the basis of the original approved estimate for the year in question, i.e. £8.884m in 2007/08. Based upon 2007/08 outturn tonnages all boroughs will receive a refund except for Hackney.
- 4.25.4 Compared with the original budget assumptions there has been a tonnage reduction of 5,461 tonnes and a net price reduction of £3.76 per tonne. The price reduction comprises two elements, a reduction in the LATS premium charge of £3.83 (which is linked to the DEFRA/CIPFA determination of the value of the 2007/08 allowances at year end), as offset by a higher waste disposal cost of £0.07 (due to higher than budgetted inflation).
- 4.25.5 Details of the original, revised and actual costs of non-household waste are shown in table 2 below.

Table 2	(1)	(2)	(3)	(4)
	2007/08 Original Estimate	2007/08 Revised Estimate	2007/08 Actual Cost	(Payment due to/from Boroughs (Column 3 - 1)
Cost per tonne	£56.97	£53.21	£53.21	
	£	£	£	£
Barnet	1,113,137	983,214	987,311	(125,826)
Camden	1,940,740	1,724,057	1,715,703	(225,037)
Enfield	729,785	664,859	665,178	(64,607)
Hackney	1,330,420	1,350,257	1,350,417	19,997
Haringey	1,202,466	1,064,892	1,071,171	(131,295)
Islington	1,468,288	1,293,056	1,274,965	(193,323)
Waltham Forest	1,099,977	954,641	943,094	(156,883)
	8,884,813	8,034,976	8,007,839	(876,974)

4.26 **Conclusion**

4.26.1 Whilst the accounts show that the Authority has a revenue surplus of £4.451m at 31 March 2008, i.e. an additional revenue surplus of £1.287m compared with the February forecast, it is important for Members to note that the Authority also holds a contingent liability of up to £2.128m in respect of a possible rent review at the Hendon Rail Transfer Station.

5. **Capital Budget 2007/8**

5.1 There were no capital transactions in 2007/08.

5.2 At 31 March 2008 the Authority holds usable capital receipts of £0.621m.

6. **Accounts and Audit Regulations 1996**

6.1 This report has provided details of the final outturn of the Authority's expenditure and income for 2007/08. In addition the Accounts and Audit Regulations 1996 also require the Authority to formally approve the supporting annual statement of accounts for audit.

6.2 The responsible officer, which in the case of the NLWA is the Financial Adviser, is required to sign and date the statement of accounts; and the 2007/08 accounts must be approved by the Authority by 30 June.

6.3 The draft statement is attached at Appendix A to this report. Once the Statement has been approved, it will be formally presented for audit, with a view to publication of the final audited statement of accounts by 30 September 2008. Deloitte & Touche, the Authority's external auditor, is scheduled to report on the key findings of its audit to the Authority at its September meeting. Once published, the final Statement will be circulated to all Members of the Authority. Members will be informed of any material changes arising from the audit.

6.4 Members will be aware of the accounting treatment that has been applied to the Hendon rent review in the Authority's 2007/08 Statement of Accounts and of the steps that have been taken to challenge the increase. Depending upon progress in resolving this matter over the coming months it may be necessary to update the Statement when it comes back to the Authority for final approval in September.

7. **First Review of the 2008/09 Revenue Budget**

7.1 At its meeting on 6 February 2008 the Authority agreed the 2008/09 budget at £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.

7.2 **General**

7.2.1 At this early stage in the year, tonnage data collected about the waste stream for April and May does not warrant a change to the budget assumptions for the cost of transport and disposal in 2008/09. This applies equally to other areas of the budget which are influenced by changes in tonnage data. A greater appreciation of any trends that may be developing should become apparent when data is available for the period up to and including August, a review of which will be reported to the September meeting of the Authority.

7.2.2 The majority of the Authority's contractual arrangements are subject to price reviews which take effect in December. The 2008/09 budget assumed an increase of 3% from the relevant review date and therefore if the rate of increase in the Retail Price Index continues at current relatively high levels (4.2% for the month of April) this budget assumption could be tested. If the cost cannot be contained within the existing budget there would be a part year effect in 2008/09 but the main impact would be to add to the budget and resource requirements for 2009/10. This will be the subject of further consideration in subsequent reviews.

7.2.3 Reference has been made in paragraph 4.12 above to the potential financial implications of the Hendon Rail Transfer Station rent review. The potential additional cost in 2008/09 is £0.405m and this is included as a potential budget pressure in the 2008/09 first budget review.

7.3 **Miscellaneous Expenditure slipped from 2007/08 to 2008/09**

7.3.1 Reference has been made above to the slippage into 2008/09 of work in respect of the Strategic Environmental Assessment of the North London Joint Waste Strategy (paragraph 4.15 - £0.037m). It should be possible to contain this cost within the approved 2008/09 budget and therefore no provision has been made for an increase in cost.

7.4 **Waste Strategy and Contracts Team : (- £0.055m)**

7.4.1 The Team has recently filled one vacant post and is in the process of recruiting for two further vacant posts. As the budget was based upon a full complement of staff there should be a saving at least £0.055m in 2008/09.

7.5 **Interest on Balances : (- £0.700m)**

7.5.1 Income from this source is expected to rise for two reasons. Firstly, given that at the end of the 2007/08 financial year the Authority held a higher than assumed level of cash balances - and this will continue into 2008/09 - it is reasonable to expect an additional income of at least £0.100m arising in 2008/09. Secondly, and as indicated at paragraph 4.23 above, the Authority is due to receive an outstanding compensation payment from the Highways Agency in respect of the land acquired at the frontage of the Edmonton Plant (North Circular). In addition to the compensation payment the

Authority will also receive an interest payment from the date of entry in November 1993 to the date of settlement. Although for budget purposes an allowance of £0.350m has been previously assumed, the figure has not been reviewed for some time and as a consequence a revised figure of £0.600m would now be more appropriate. Additional interest income of £0.700m, therefore, has been allowed for in the first review.

7.6 **LATS**

7.6.1 The value of the LATS grant of allowances, the allowances used by the Authority, and the estimated transfer to the earmarked LATS reserve have been updated to reflect the latest valuation issued by DEFRA. The effect of these changes on the Authority's budget is neutral although separate income and expenditure entries appear.

7.7 **Overview**

7.7.1 After allowing for the foregoing changes and the higher level of balances brought forward from 2007/08 Table 3 provides a summary of the current financial position:-

Table 3	2008/09	2008/09	
Expenditure	Original Budget	First Review	Variance
	£'000	£'000	£'000
Main Waste Disposal Contract (Ex CA Waste)	26,912	26,912	
- Clinical Waste	283	283	
- In-Vessel Composting Facility	3,481	3,481	
- Dry Recyclable Bulking Arrangement	2,961	2,961	
Civic Amenity Waste	1,659	1,659	
Landfill Tax	8,309	8,309	
Hendon Transfer Station	408	813	405
Hornsey Street Transfer Station	2,716	2,716	
Recycling Credits	151	151	
Other Recycling Initiatives	119	119	
BMW Diversion Incentive Scheme	231	231	
Agency Services	551	551	
Waste Strategy and Contracts Group	912	857	(55)
Waste Contract – procurement Costs	2,783	2,783	
Annual Compensation	34	34	
Provision for Possible Litigation Costs	50	50	
Revenue Funding – Capital Investment	552	552	
LATS – use of Allowances 2008/09	5,146	1,454	(3,692)
LATS – Transfer to Reserve (Surplus Allowances)	<u>1,033</u>	<u>200</u>	<u>(833)</u>
	58,291	54,116	(4,175)
Less income:			
Rents	(89)	(89)	
Interest on Balances	(650)	(1,350)	(700)
LATS Grant 2008/09	(6,179)	(1,654)	4,525
Estimated Dividend Stream (LWL)	<u>0</u>	<u>0</u>	<u>0</u>
	(6,918)	(3,093)	3,825
Net Expenditure	51,373	51,023	(350)
Contingency	<u>500</u>	<u>500</u>	<u>0</u>
Total Net Expenditure 2008/09	<u>51,873</u>	<u>51,523</u>	<u>(350)</u>
Financed By :-			
Balances B/fwd	(3,164)	(4,451)	(1,287)
Charges to Boroughs (Non-household waste)	(10,880)	(10,880)	
2008/09 Levy	<u>(37,829)</u>	<u>(37,829)</u>	<u>0</u>
Total Resources Available 2008/09	<u>51,873</u>	<u>53,160</u>	<u>(1,287)</u>
Estimated Revenue Balances			
as at 31 March 2009 (Surplus)	0	(1,637)	(1,637)

8. **Review of the Outlook for 2009/10, 2010/11 and 2011/12**

- 8.1 At the Authority meeting in February I advised that 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), the termination of the Authority's local recycling credit scheme in 2008/09, 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 was estimated to be 16.4% in 2009/10, an increase of 7.5% in 2010/11 and an increase of 6% in 2011/12. The increase for 2009/10 reflected the fact that balances of £3.164m at 31 March 2008 would be used to help fund the 2008/09 budget. Future years forecasts did not, at that stage, assume the availability of any in year balances to offset the levy increase.
- 8.2 The 2009/10 and 2010/11 forecasts were also based upon known and proposed changes to the landfill tax rates during this period (the standard rate of tax is scheduled to rise annually by £8 per tonne to £48 in 2010/11). In addition, as the Chancellor of the Exchequer has indicated that the rate of tax will continue to rise beyond 2010/11, the 2011/12 forecast therefore also allowed for a further increase of £8 per tonne.
- 8.3 Although these forecasts allowed for the cost of the procurement process and provided for the ongoing revenue support to fund a capital programme of £12m (site acquisition in respect of recycling treatment facilities), no specific allowance was made for the significant additional costs of delivering the strategy during this period. This working assumption was made on the basis that it was felt at that time unlikely that the Authority would reach financial close until 2011 and that as a consequence only minimal costs would arise in 2011/12. This position is under review and should become clearer once the procurement implementation strategy and work on the development of an Outline Business Case for financial support under the Private Finance Initiative is completed and reported to the Authority in the coming months. This work will not only help clarify the likely scale of the project cost but also provide greater certainty on the timing and scale of the revenue impact on borough finances. The other procurement related activity that could add to the medium term revenue costs is the need to acquire sites for the Authority's new residual waste treatment, recycling and/or composting facilities. This could become a reality if it is felt to do so would strongly improve the chances of the Authority securing more competitive tenders for the design, build, finance and operation of these new treatment facilities post December 2014. Again the need for the latter should become clearer in the coming months.
- 8.4 As the the shape of the Authority's future costs will be better informed as a result of the current work on the Outline Business Case is proposed to report back to members with an update at the September meeting on the Authority's medium term budget and resource requirements. In the interim, the medium term budget forecasts as reported to the Authority in February 2008 are restated for ease of reference together with an estimate of the financial impact on individual boroughs over the period to 2011/12. This information can be found at Appendix B but may be summarised as follows:

Table 4	2009/10 £'000	2010/11 £'000	2011/12 £'000
Net Budget	56,683	60,941	64,567
Less Forecast Revenue Balances	Nil	Nil	Nil
Resource Requirement	56,683	60,941	64,567
Funded by:			
Non-household Charges	12,431	13,987	15,548
Levy	44,252	46,954	49,019
Total Cost to Boroughs Constituent Councils	55,683	60,941	64,567
Average % increase over the cost in previous year*	16.4%	7.5%	6.0%

* This is an average figure. The financial impact for each borough will be different and an estimate based upon future estimates of borough tonnages can be found at Appendix B.

9. **Conclusion**

- 9.1 On the basis of current information, and notwithstanding that the Authority has identified a contingent liability of up to £2.128m in respect of the proposed Hendon Rent Review, the 2008/09 budget and resource position should remain sufficiently robust to meet the costs of the Authority's waste disposal obligations in the current year.
- 9.2 For reasons set out in this report waste disposal costs are likely to continue to rise significantly over the coming years. The Authority faces the prospect of a number of budget pressures in future years and therefore a further review of the financial position will be submitted to the Authority in September.

10. **Comments of the Legal Adviser**

- 10.1 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:-

Report to the Authority 6 February 2008 – Revenue Budget and Levy 2008/09
2007/08 Final Account 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
Email robert.bench@camden.gov.uk

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