

**NORTH LONDON WASTE AUTHORITY**

<b>REPORT TITLE</b>	
2008/09 THIRD BUDGET REVIEW AND 2009/10 BUDGET FORECAST	
<b>REPORT OF</b>	
FINANCIAL ADVISER	
<b>FOR SUBMISSION TO</b>	<b>DATE</b>
AUTHORITY MEETING	10 DECEMBER 2008
<b>1. SUMMARY OF REPORT</b>	
<p>This report is the third in the current year of a series of regular reports on the Authority's finances. It concludes that the Authority is currently forecast to have a revenue surplus of £3.292m 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 currently estimated to be £61.948m, which after use of forecast revenue balances of £3.292m, will require funding of £58.656m by constituent councils. It is estimated that £12.583m will be funded through the non-household charging arrangement, this represents an increase of £1.703m (15.65%) over the original estimated cost in 2008/09. Finally, it is estimated that the remaining costs of the Authority will be funded through a levy of £46.073m, i.e. an increase of £8.244m (21.79%) over the 2008/09 levy.</p> <p>There remain a number of issues that need to be clarified which could influence the final shape of the 2009/10 budget and levy. Further advice will be provided to Members at the budget meeting in February.</p>	
<b>2. RECOMMENDATIONS</b>	
<p>The Authority is requested to note:-</p> <ul style="list-style-type: none"><li>(i) The third review of the 2008/09 revenue budget.</li><li>(ii) The current assessment of the budget and resource requirements for 2009/10.</li><li>(iii) The arrangements that have been made to establish the levy apportionment arrangements for 2009/10.</li><li>(vi) The issues that will need to be addressed at the budget and levy meeting on 11 February 2009.</li></ul>	
Signed by the Financial Adviser : .....	
Date: .....	

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

3.1 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.

3.2 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. (- £0.350m)
- The likelihood of a reduction in transport, disposal and landfill tax due to a reduction in the waste stream (- £0.884m),
- A reduction in Landlord's costs of operating the Hornsey Street Waste Transfer Station (- £0.073m),
- A reduction in the cost of providing a recycling service to boroughs. (- £0.505m).
- Reduction in non-household waste income due to a reduction in the waste stream (+ £0.149m).
- A possible increase in the Hendon Rent. (+ £0.250m)
- The write-back to revenue of an excess creditor provision in respect of the Authority's 2007/08 recycling credit payments. (- £0.280m)

3.3 A detailed review of the budget has identified a number of further changes, the net effect of which is estimated to reduce the level of surplus revenue balances likely to be available at 31 March 2009 by £0.038m to £3.292m. Details of the most significant changes identified by the third review are shown below.

#### 3.4 **Transport and Disposal: (+ £0.264m)**

3.4.1 In September Members were advised that based upon tonnage data available for the period April to July 2008 there had been a net reduction of 3.26% in the level of waste entering the residual waste stream over the same period in 2007/08. Assuming this forecast remained valid for the remainder of the year it was forecast that the total residual waste tonnages entering the Authority's waste stream in 2008/09 could reduce to 722,391 tonnes (746,728 tonnes in 2007/08).

3.4.2 Tonnage data now available for the period up to and including September 2008 indicates a net reduction of 4.4% in the residual waste stream, i.e. a further reduction of 0.68%. Although this is good news at this stage of the budget cycle it would not be prudent to assume that the waste stream would continue to reduce or indeed stabilise at the current levels. This is considered in more detail at 3.4.4 below.

3.4.3 Details of the percentage movement in the 2008/09 residual waste tonnage levels for each borough compared with 2007/08 tonnages may be summarised as follows:-

Table 1	September Forecast (April to July)	December Forecast (April to September)	Variance (Between September & December Forecast)
Barnet	- 1.72%	- 3.28%	- 1.56%
Camden	- 1.19%	- 2.44%	- 1.25%
Enfield	- 0.69%	- 2.30%	- 1.61%
Hackney*	- 5.82%	- 6.88%	- 1.06%
Haringey	- 3.66%	- 4.07%	- 0.41%
Islington	- 7.77%	- 8.82%	- 1.05%
Waltham Forest	- 3.04%	- 3.94%	- 0.90%
Overall Position	- 3.26%	- 4.40%	- 0.68%

\* Although the Hackney position appears particularly favourable, 4.6% (4,973 tonnes) of the reduction can be attributed to the elimination of out-of-borough non-household waste which had been delivered in error to the NLWA for disposal in the early months of 2007/08.

3.4.4 Table 1 indicates that all boroughs experienced a continued reduction in the amount of residual waste that they sent to the Authority for disposal in the period July to September 2008. Although this can be attributed partially to an increase in recycling performance by the boroughs and a reduction in non-household waste delivered by some boroughs, this does not account fully for the waste stream reductions experienced in the first six months of 2008/09. Speculatively, it is feasible that the reduced waste stream is linked to the current economic downturn. Contact with the other joint waste disposal authorities in London indicates that they are also experiencing unexpected reductions in the amount of residual waste that is being sent to them for disposal. Whilst the third budget review takes a prudent line and allows for a possible small increase of 1% during the remainder of the year, the Authority will be better placed at its February meeting, when residual tonnage data for the period to December 2008 will be available to help inform the decisions that will need to be made on the 2008/09 revised budget and 2009/10 draft budget. As a consequence the third budget review assumes a full year residual tonnage forecast of 718,467 tonnes, i.e. a reduction of 28,261 tonnes compared with 2007/08.

3.4.5 The Authority's waste contracts are linked to changes in the Retail Price Index (RPI) with the LondonWaste Ltd main contract due for a price review in December 2008. Although the 2008/09 budget allowed for an increase of 3.5% at the relevant review date for these contracts, RPI is currently increasing at an annual rate of 4.2% per annum (October index) and therefore this increase has been allowed for in the current review. Members will, however, be aware that there is currently a great deal of discussion in the media about the prospects for future inflation levels in the short-term and that there could be some downward movement over the coming months. The December year-on-year inflation levels should be known by the time of the February budget and levy meeting and therefore there should be an opportunity to make any inflation adjustments at that time.

3.4.6 Also included under this budget heading is the cost to the Authority of the Compensation Review clause contained in the main contract with LondonWaste Ltd. This requires the Authority to contribute towards the reduction in the Company's electricity income as a result of the cessation of the Non Fossil Fuel Obligation in December 1998 (this had been excluded from the original contract price). LondonWaste Ltd's Compensation Review claim for 2008/09 is now expected to be higher than assumed in the original budget and is estimated to add c. £0.337m to the Authority's costs in 2008/09.

3.4.7 The net effect of these changes is to increase the costs to the Authority by an estimated £0.264m in 2008/09.

**3.5 In-Vessel Composting Facility and Dry Recyclable Bulking Arrangement: (+ £0.021m)**

3.5.1 Although usage of the Authority's services remains lower than originally provided for in the 2008/09 original budget, the boroughs have recently slightly increased their forecast of the tonnages that they expect to deliver to the Authority for treatment over the course of the year. As a consequence, compared with the second review in September the overall cost of providing these services is estimated to increase by £0.021m.

**3.6 Landfill Tax (- £0.165m)**

3.6.1 The LondonWaste Ltd 2008/09 landfill tax claim is currently forecast to reduce as a result of the reduction in the Authority's waste stream and an increase, compared with the original budget assumptions, of the amount of waste that could be incinerated at the Edmonton Energy-from-Waste facility during the year. The net effect of these changes is to further reduce the Authority's estimated landfill tax liability in 2008/09 by £0.165m.

**3.7 Hendon Rail Transfer Station (+ £0.014m)**

3.7.1 Allowance is made for a potential increase in the rent at this facility. However, as settlement now seems unlikely to be reached without going to arbitration the final outcome may not be known for some months.

**3.8 Hornsey Street Waste Transfer Station: (- £0.129m)**

3.8.1 The 2008/09 budget allows for both the Authority's share of landlord's costs at the new facility (which also houses LB Islington's transport depot, waste collection services and reuse and recycling centre) and LondonWaste Ltd's additional operational costs of the waste transfer station (compared with the cost of operating the former waste transfer station at Ashburton Grove). Whilst landlords costs (LB Islington) remain unchanged (compared with the second review), and although a formal claim by LondonWaste Ltd is unlikely to be submitted until sometime after the year-end, it has been possible, following further clarification of claims submitted in respect of previous years to allow for a reduction in LondonWaste Ltd's 2008/09 estimated additional operational costs.

### 3.9 **Recycling Credits: (- £0.028m)**

3.9.1 The third review allows for an up-to-date forecast of borough and third party recycling and re-use activities.

### 3.10 **BMW Diversion Incentive Scheme: (- £0.070m)**

3.10.1 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.

### 3.11 **Agency Services (+ £0.144m)**

3.11.1 Grouped under this heading are the costs of the Lead borough Support arrangements (other than those provided by the Waste Strategy and Contracts Team), the core costs of operating the Authority and the cost of engaging external consultants to support the work of the Authority Advisers. The increase allowed for as part the third review arises in the main from the need to engage wide-ranging additional support to assist the Authority's Advisers in dealing with the operation of the Authority. The original budget has now been fully committed and therefore there is a need to allow an additional provision, to cover: the purchase of an 'extranet' for the publication of reports and security of sensitive information, the costs of engaging external consultants to assist with the settlement of contract claims, other ad hoc advice, and a provision for possible costs that may arise under the Municipal Mutual Insurance winding-up scheme.

### 3.12 **Governance and Other Support (+0.075m)**

3.12.1 Members will be aware from a report elsewhere on this agenda of the recommendation to improve the governance and support arrangements to the Authority to help take the Authority through the challenge of the forthcoming procurement process and beyond. The third review includes a provision to enable the costs of recruitment and early appointments to be made to ensure that the Authority is able to strengthen its internal support arrangements in parallel with the outcome of decisions next spring on the Authority's

application for funding support under the Government's Private Finance Initiative for waste.

**3.13. Waste Strategy and Contracts Team: (- £0.067m)**

3.13.1 This reduction mainly arises from slippage in the recruitment of two posts and a reduction in the cost of undertaking the Team's waste reduction activities.

**3.14 Procurement Costs: (+ £0.084m)**

3.14.1 Compared with an original budget of £2.783m the current review is forecasting an outturn cost of £2.867m. This represents a potential overspend of £0.084m and assumes full use of the £0.500m contingency that formed part of the original budget. Members will be aware, however, of the significant scale and complexity of the project that has evolved significantly over the past year. The projected overspend should be seen in the context of the 2007/08 underspend (£0.278m) and slippage of some activities into 2008/09.

**3.15 Waste Composition Survey (+ £0.050m)**

3.15.1 Elsewhere on this agenda Members will find reference to the case for undertaking an up-to-date waste composition survey to help inform the procurement process and ensure that the Authority procures the most suitable waste treatment facilities. The survey would be undertaken over the course of 12 months at an estimated cost £0.250m with a possible spend of £0.050m in 2008/09 and £0.200m in 2009/10.

**3.16 Revenue Funding – Capital Investment (- £0.552m)**

3.16.1 The original budget provided revenue support to fund the first year of a £12m capital programme for land acquisition for its short-term recycling facility needs. Members will be aware that the original intentions have been superseded and as a consequence there should be a saving of £0.552m in 2008/09.

**3.17 Excess Creditor Provision (Previous Years): (- £0.300m)**

3.17.1 Members will be aware from paragraph 3.8 above that an allowance has been made for the reduction in LondonWaste Ltd's additional costs of operating the Hornsey Street Waste Transfer Station. Further savings are expected in respect of the 2005/06, 2006/07 and 2007/08 claims and therefore it is estimated that provisions amounting to £0.300m made for these claims in earlier years can now be written back to revenue in 2008/09.

**3.18 Interest on Balances (- £0.121m)**

3.18.1 The third review allows for an improved cashflow during the year to date, however, interest received following the 1.5% reduction in the Bank of England Base Rate during November and the prospect of further rate reductions is likely to mean that the income from this source will reduce significantly over the remainder of the year. The third review allows for this reduction.

### 3.19 Charges to Boroughs for Non-Household Waste (- £ 0.007m)

3.19.1 In view of the changes both in the volume and make-up of the waste stream non-household tonnages are currently estimated to reduce by 2,530 tonnes for the year. Charges are currently estimated to increase from £62.53 to £62.54 per tonne, i.e. a net increase of £0.01. The revised figure allows for an estimated increase of £0.04p per tonne in the base gate price as offset by a £0.03 reduction in the LATS premium. The overall effect of these changes is to reduce the estimated income from non-household charges by £0.156m for the year but a reduction of only £0.007m when compared with the second review. The potential financial effect on boroughs varies.

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

	<b>2008/09 Original Estimate £</b>	<b>2008/09 Current Forecast £</b>	<b>Estimated Variance £</b>
Barnet	1,354,900	1,375,755	+ 20,855
Camden	3,020,262	3,002,921	- 17,341
Enfield	831,649	862,489	+ 30,840
Hackney	1,836,193	1,784,266	- 51,927
Haringey	1,055,006	1,092,386	+ 37,380
Islington	1,914,731	1,834,736	- 79,995
Waltham Forest	868,167	771,869	- 96,298
	<b>10,880,908</b>	<b>10,724,422</b>	<b>- 156,486</b>

3.19.3 The figures currently indicate that four boroughs could be entitled to a refund and that three boroughs may have to make an additional payment. The final figures will be determined as part of the 2008/09 final accounts process.

### 3.20 Contingency/Retention of Balances (+ £0.765m)

3.20.1 The original budget allowed for a contingency of £0.500m, however, in view of uncertainty in the scale and rate of change in the waste stream, interest rates, the costs of finalising contract claims and rent levels it is recommended that the original contingency is retained and that estimated balances of £0.765m are also retained to allow for these potential costs. Further advice will be provided at the budget and levy meeting in February.

### 3.21 Overview

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

Table 3

	2008/09 Original Budget	2008/09 Second Review	2008/09 Third Review	Variance between 2nd & 3rd Reviews
	£'000	£'000	£'000	£'000
<b>Expenditure</b>				
Main Waste Disposal Contract (ex CA Waste)	26,912	26,600	26,838	238
- Clinical Waste	283	284	280	(4)
- In-Vessel Composting Facility	3,481	3,029	3,125	96
- Dry Recyclable Bulking Arrangement	2,961	2,908	2,833	(75)
Civic Amenity Waste	1,659	1,580	1,610	30
Landfill Tax	8,309	7,815	7,650	(165)
Hendon Transfer Station	408	658	672	14
Hornsey Street Transfer Station	2,716	2,643	2,514	(129)
Recycling Credits	151	151	179	28
Other Recycling Initiatives	119	119	113	(6)
BMW Diversion Incentive Scheme	231	231	161	(70)
Agency Services	551	551	695	144
Governance and Other Support	0	0	75	75
Waste Strategy and Contracts Team	912	912	845	(67)
Waste Composition Survey	0	0	50	50
Waste Contract – Procurement costs	2,783	2,783	2,867	84
Annual Compensation	34	34	30	(4)
Provision for possible Litigation Costs	50	50	50	0
Revenue Funding – Capital Programme	552	552	0	(552)
LATS – Use of Allowances	5,146	1,454	1,454	0
LATS – Transfer to Reserve (Surplus Allowances)	1,033	200	200	0
Excess Creditor Provision (Previous Years)	<u>0</u>	<u>(280)</u>	<u>(580)</u>	<u>(300)</u>
	58,291	52,274	51,661	(613)
<b>Less</b>				
<b>Income</b>				
Rents	(89)	(89)	(89)	0
Interest on Balances	(650)	(1,350)	(1,471)	(121)
LATS – Grant	(6,179)	(1,654)	(1,654)	(0)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(6,918)	(3,093)	(3,214)	(121)
Net Expenditure	51,373	49,181	48,447	(734)
Contingency	<u>500</u>	<u>500</u>	<u>500</u>	<u>0</u>
<b>Total Net Expenditure 2008/09</b>	<b>51,873</b>	<b>49,681</b>	<b>48,947</b>	<b>734</b>
	=====	=====	=====	=====
Financed By :-				
Balances b/fwd	(3,164)	(4,451)	(4,451)	0
Charges to Boroughs (Non-household waste)	(10,880) *	(10,731)	(10,724)	7
2008/2009 Levy	(37,829) *	(37,829)	(37,829)	0
<b>Total Resources Available</b>	<b>(51,873)</b>	<b>(53,011)</b>	<b>(53,004)</b>	<b>7</b>
	=====	=====	=====	=====
<b>Estimated balances to be retained</b>			<b>(765)</b>	<b>(765)</b>
<b>Estimated Revenue Balances as at 31 March 2009 (Surplus)</b>	<b>(3,330)</b>	<b>(3,292)</b>		<b>0</b>

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#### 4. **2009/10 Budget Forecast**

4.1 At the Authority meeting in February, I provided Members with an early forecast of the budget and resource requirements for 2009/10. This indicated that the net budget requirement for the year ahead was estimated to be in the order of £56.683m excluding costs that could arise from implementation of the Joint Waste Strategy. Given the full use of projected revenue balances to assist with the funding of the 2008/09 budget, and assuming no revenue balances at 31 March 2009, the overall cost to constituent boroughs was forecast to increase by 16.4% in 2009/10. Subsequently, arising from work on the procurement project, the net budget and resource requirement was increased to £59.809m to allow for the additional revenue support needed to fund an enlarged capital investment programme in 2009/10. As a consequence the overall cost to boroughs was estimated to rise by 22.8%. Since then revenue balances at 31 March 2008 improved by £1.287m. In addition the first two reviews of the 2008/09 budget have revealed the likelihood that revenue balances at 31 March 2009 could rise by a further £1.693m to £3.330m. However, in view of uncertainty about a number of potential budget pressures it has not, hitherto, been safe to assume that all of the Authority's projected balances would be available to assist with the 2009/10 budget.

4.2 Following both a detailed review of the 2008/09 budget and the budget requirements for 2009/10, available revenue balances at the 31 March 2009 are currently estimated to be in the region of £3.292m. Although slightly lower than previously forecast the assumptions that underpin the current review means that forecast surplus balances should now be available to assist with the funding of the 2009/10 budget. The 2009/10 budget requirement, however, has increased from £59.809m to £61.948m subject to clarification of the scope to capitalise expenditure in the year ahead. The net effect of these changes, however, is to reduce the forecast increase in the cost to constituent boroughs to 20.42% over the cost in 2008/09, i.e. an increase of £9.947m. The projected increase may be summarised as follows:

	2008/09	2009/10	Variance
Non-household charges	£10.880m	£12.583m	+ £1.703m (15.65%)
Levy	£37.829m	£46.073m	+ £8.244m (21.79%)
Total	£48.709m	£58.656m	+ £9.947m (20.42%)

4.3 Details of each borough's estimated charge for non-household waste can be found at paragraph 5.14.2, whilst each borough's share of the estimated levy, using the default levy apportionment arrangements can be found at paragraph 6.6.

4.4 Further information on the 2009/10 budget forecast assumptions can be found at section 5.

4.5 Table 4 below provides a summary of the 2009/10 budget forecast:-

<b>Table 4</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Year-on</b>
	<b>Original</b>	<b>Budget</b>	<b>Year</b>
<b>Expenditure</b>	<b>Budget</b>	<b>Forecast</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Main Waste Disposal Contract (ex CA Waste)	26,912	27,099	187
- Clinical Waste	283	294	11
- In-Vessel Composting Facility	3,481	3,941	460
- Dry Recyclable Bulking Arrangement	2,961	3,869	908
Civic Amenity Waste	1,659	1,655	(4)
Landfill Tax	8,309	10,107	1,798
Hendon Transfer Station	408	796	388
Hornsey Street Transfer Station	2,716	2,771	55
Recycling Credits	151	283	132
Other Recycling Initiatives	119	140	21
BMW Diversion Incentive Scheme	231	526	295
Agency Services	551	730	179
Governance and Other Support	0	500	500
Waste Strategy and Contracts Team	912	1,016	104
Waste Composition Survey	0	200	200
Waste Contract – Procurement costs	2,783	2,970	167
Other Procurement Related Costs	0	900	900
Annual Compensation	34	35	1
Provision for possible Litigation Costs	50	50	0
Revenue Funding – Capital Investment	552	3,663	3,111
LATS – Use of Allowances	5,146	4,308	(838)
LATS – Transfer to Reserve (Surplus Allowances)	<u>1,033</u>	<u>0</u>	<u>(1,033)</u>
	58,291	65,853	7,562
<b>Less</b>			
<b>Income</b>			
Rents	(83)	(92)	(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)	(4,655)	2,263
Net Expenditure	51,373	61,948	9,825
Contingency	<u>500</u>	<u>750</u>	<u>250</u>
<b>Total Net Expenditure</b>	<b><u>51,873</u></b>	<b><u>61,948</u></b>	<b><u>10,075</u></b>
	=====	=====	=====
Financed By :-			
Balances b/fwd	(3,164)	(3,292)	(128)
Charges to Boroughs (Non-household waste)	(10,880)	(12,583)	(1,703)
Estimated Levy	(37,829)	(46,073)	(8,224)
<b>Total Estimated Resource Requirement</b>	<b><u>51,873</u></b>	<b><u>61,948</u></b>	<b><u>(10,075)</u></b>
	=====	=====	=====

## 5. **2009/10 Budget Assumptions**

5.1 The following factors have been taken into account:-

### 5.2 **Inflation**

5.2.1 A continuation of current RPI increases (4.2%) into 2009/10 plus a general allowance for inflation of 2.5% at the relevant price review date during the course of the year has been assumed. Although the budget is currently prepared on traditional lines and is based upon the latest published RPI figures (October 2008) the current economic downturn and more recent inflation forecasts should enable the inflation provisions made in today's paper to be revised downwards at the February budget and levy meeting.

### 5.3 **Transport and disposal**

5.3.1 The transport and disposal budget has been based upon a total residual waste stream of 704,312 tonnes, i.e. a net reduction of 14,155 tonnes over the 2008/09 projected outturn. This forecast reflects the requirement of the boroughs to continue to make significant stepped changes in recycling activity in order to meet the requirements of the Landfill Directive and the Government's recycling targets. Based upon the boroughs' forecast of their increased recycling and composting activity in 2009/10 this has enabled the Authority's residual waste budget to be reduced by a further 23,333 tonnes compared with the borough's forecast recycling levels for 2008/09. Given the current uncertainty about changes in the waste stream the 2009/10 budget forecast makes a prudent allowance for a possible 1% increase in the waste stream, i.e. an allowance of 9,178 tonnes and a net reduction of 14,155 tonnes in total. These forecasts will be reviewed afresh in the light of the nine months tonnage data that will become available in the early weeks of January 2009.

### 5.4 **In-Vessel Composting Facility and Dry Recyclable Bulking Arrangement**

5.4.1 The budget forecast reflects the intention of the constituent boroughs to continue to transfer a significant increase in the amount of green and kitchen waste to the Authority in 2009/10, i.e. a total of 71,335 tonnes (an increase of 13,648 tonnes over the projected tonnage for 2008/09). The overall cost of the green and kitchen waste treatment service in 2009/10 is estimated to cost £3.941m.

5.4.2 The budget forecast allows for a similar growth in the amount of dry recyclable waste sent to the Authority for treatment. The constituent boroughs have also indicated that they will need treatment capacity for 71,408 tonnes of dry recyclable material in 2009/10 (an increase of 11,115 tonnes over the projected tonnage requirement for 2008/09). The overall cost of the dry recyclable bulking arrangement in 2009/10 is estimated to cost £3.869m. This cost also allows for an above inflation increase to allow for the current collapse in the value of recyclates.

## **5.5 Landfill Tax**

5.5.1 The standard rate of landfill tax is due to rise from £32 to £40 per tonne on 1 April 2009. The budget forecast allows for this increase.

5.5.2 The forecast also makes reasonable assumptions about the incineration capacity of the Edmonton Energy-from-Waste facility in the year ahead and the amount of the Authority's waste that is sent to landfill.

## **5.6 Ashburton Grove Transfer Station/Hornsey Street Replacement**

5.6.1 The 2009/10 budget forecast allows for a continuation of the lower operational costs referred to at paragraph 3.8 above, but an above inflation increase in landlords costs to cover the cost of identified works in the coming year.

## **5.7 Recycling Credits/Other Recycling Initiatives**

5.7.1 The Authority has a statutory obligation to pay third party recycling and reuse credits. Applicants for the 2009/10 scheme-year will be submitted to the February 2009 meeting for registration. The budget forecast includes a provision of £0.283m for these payments.

5.7.2 The 2009/10 budget forecast allows a sum of £0.140m to assist with other recycling initiatives.

## **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 5.15 below).

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

5.9.1 The budget forecast allows for a full complement of staff and a programme of works. In view of the Review of Contracts Activity report to be found elsewhere on this agenda the budget forecast allows for the possibility of an additional member of staff to deal with the growth of work in the contract monitoring team at an estimated cost of £0.042m. The budget forecast also allows for an increase of £0.037m in the value of waste prevention work planned by the team.

## **5.10 Implementation of the North London Joint Waste Strategy – Procurement Process**

5.10.1 Elsewhere on this agenda Members will find a number of reports dealing with the procurement process. In setting the budget for 2008/09 a budget of £2.783m was approved to provide for the initial support by consultants and the establishment of an in-house

procurement team. Members will see that the 2008/09 costs are forecast to rise by £0.084m to £2.867m. The procurement team has quantified the cost of taking the Authority through the next stage of the procurement process culminating in the award of a contract in 2011. The 2009/10 base cost for the in-house 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 the revenue cost of acquiring sites in the coming year. The budget forecast allows for a full year cost of acquiring sites through prudential borrowing at an estimated cost of £3.663m. The aim at this stage of the budget process is to ensure that the budget forecast is sufficiently robust to enable all potential permutations to be funded in the coming year. There may be scope, however, to reduce this provision and therefore further advice will be provided to Members at the February meeting.

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 officers are currently examining the scope to capitalise this cost, it is considered prudent at this stage of the budget process to allow an additional provision in the 2009/10 budget forecast. An amount of £0.900m has been allowed in 2009/10 with a further £0.100m in 2010/11.

#### 5.11 **Governance and Other Support**

5.11.1 The 2009/10 budget forecast allows for the full year estimated cost of the additional support arrangements proposed elsewhere on this agenda.

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

5.12.1 No income is anticipated from this source.

#### 5.13 **Interest on Balances**

5.13.1 The Budget forecast 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 2008 and which is widely expected to reduce further in the coming months.

#### 5.14 **Non-household Waste Charges**

5.14.1 Based upon estimated non-household tonnages of 171,481 tonnes and a forecast cost per tonne of £73.38 (comprising a base cost of £70.31 and a LATS premium of £3.07), the total cost to boroughs in 2009/10 is currently estimated to be £12.583m (see also 5.16 below).

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

<b>Table 6</b>	<b>2009/10 Estimated Tonnes</b>	<b>2009/10 Estimated Cost</b>
		<b>£</b>
Barnet	21,998	1,614,213
Camden	48,016	3,523,415
Enfield	13,791	1,011,984
Hackney	28,530	2,093,531
Haringey	17,467	1,281,728
Islington	29,337	2,152,749
Waltham Forest	12,342	905,656
<b>Total</b>	<b>171,481</b>	<b>12,583,276</b>

#### 5.15 Landfill Allowance Trading Scheme (LATS)

5.15.1 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. The forecast allows for a £12 notional value based upon work recently undertaken for the procurement project. This is by no means certain. Although 2009/10 is a target year and waste disposal authorities are not allowed to carry-forward unused allowance 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.

5.15.2 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 payment 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.

## 5.16 Contingency

- 5.16.1 A general contingency of £0.750m. This should be sufficient to fund the equivalent of a 1% adverse variance in the total waste stream and allow some headroom for other costs should they arise.

## 6. Levy Apportionment Arrangements

- 6.1 The decision on the apportionment of the levy is a matter for the NLWA 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 transition 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. There is a smaller 'other' costs element which will continue to be apportioned entirely on a council tax basis.
- 6.3 For 2008/09, and with expiry of the transitional arrangements, the levy was apportioned on a household and council tax basis in accordance with the default levy regulations.
- 6.4 In order to be clear on the levy apportionment arrangements that will apply for 2009/10 it will be necessary to formally ask the constituent councils if it is their intention to seek agreement on a levy apportionment basis other than by the current statutory default arrangements. Constituent councils will therefore be asked to notify the Authority of this by 24 December 2008 in order to avoid any unnecessary abortive work. Constituent councils will also be advised that unless letters are received by the Authority from all seven boroughs agreeing to an alternative levy apportionment basis by 31 January 2009 it will be assumed that the default arrangements for apportioning the levy prevailing at the time of the budget and levy meeting on 11 February 2009 will come into effect.
- 6.5 The default 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 (attached at Appendix A).
- 6.6 Allowing for the level of level of revenue balances projected to be available at 31 March 2009 and the Authority's current forecast of its 2009/10 budget requirements, Table 7 below provides an indication of the relative share of the levy that could be borne by each constituent council based upon the default levy apportionment arrangements (full details of the apportionment can be found at Appendix B). It is important to bear in mind that this illustration uses 2008/09 council tax data that will need to be updated when constituent

councils have completed calculation of their 2009/10 council tax base and duly notified this to the Authority. The 2007/08 household waste tonnage data as used in the levy apportionment will not change.

Table 7	2008/09 Actual Levy £'000	2009/10 Forecast Levy £'000	Variance  £'000
Barnet	7,423	9,228	+ 1,805 (24.32%)
Camden	4,900	5,980	+ 1,080 (22.04%)
Enfield	5,337	6,470	+ 1,133 (21.23%)
Hackney	5,257	5,984	+ 727 (13.83%)
Haringey	5,462	6,918	+ 1,456 (26.67%)
Islington	4,794	5,931	+ 1,137 (23.72%)
Waltham Forest	4,656	5,562	+ 906 (19.46%)
Total	37,829	46,073	+ 8,244 (21.79%)

## 7. **Conclusion**

- 7.1 On the basis of current information the third review indicates that the 2008/09 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year. The 2009/10 budget forecast has been prepared using the latest information on the likely waste stream and costs in the coming year. There are a number of budget areas that will need to be carefully reviewed before the Authority takes final decisions on the 2009/10 budget and levy in February 2009. Members will be aware that the Authority is not able to make a substitute levy and therefore in February it will be necessary for Members to take decisions to ensure that the 2009/10 budget is sufficient to meet the Authority's statutory obligations in the year ahead. Members will be provided with further advice at the budget and levy setting meeting in February.
- 7.2 Although the Authority faces the prospect of a significant increase in the levy in 2009/10, it should be borne in mind that the increase allows for an £8 per tonne increase in the Authority's landfill tax liability, the possibility of continuing high levels of inflation (under review), a significant increase in the amount of green and dry recyclable materials to be sent by the constituent councils for treatment in 2009/10, a sufficiently robust provision for the costs of procurement in the year ahead and scope to fund capital investment of £83m on the future provision of new and better value waste treatment services.

## 8. **Comments of the Legal Adviser**

- 8.1 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 and 26 September 2008  
2008/09 budgetary control and 2009/10 budget working papers

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