

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2008/09 SECOND BUDGET REVIEW

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

26 SEPTEMBER 2008

1. SUMMARY OF REPORT

This report is the second in the current year of a series of regular reports on the Authority's finances. It concludes that the Authority is currently forecast to have a revenue surplus of £3.330m at 31 March 2009, i.e. an increase of £1.693m compared with the first review. The report, however, draws attention to issues that could impact on this position. The report also looks briefly at some of the issues and potential budget pressures that could add to the Authority's budget and resource requirements for 2009/10. A further review of the 2008/09 budget, together with an up-to-date assessment of the budget and resource requirements for 2009/10, will be reported to the Authority in December.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Note the second review of the 2008/09 revenue budget.
- (ii) Note the potential budget pressures that could further impact on the Authority's 2009/10 budget and resource requirements.
- (iii) Note that a third review of the 2008/09 budget will be reported to the Authority meeting in December together with an up-to-date assessment of the budget and resource requirements for 2009/10.

Signed by the Financial Adviser:

Date:

3. **Introduction**

- 3.1 At the Authority meeting in June I advised Members that the Authority was forecast to have a revenue surplus of £1.637m at 31 March 2009. As a result of the second review forecast revenue balances at the year-end are now estimated to increase by a further £1.693m to £3.330m. This report provides details of the main changes and other issues that have arisen since the last meeting.

4. **Second Budget Review**

4.1 **Transport, Disposal and Landfill Tax: (- £0.884m)**

- 4.1.1 During the period April to July 2008 there has been a net reduction of 3.26% in the level of residual waste entering the waste stream over the same period in 2007/08. On this basis, the 2008/09 residual waste stream is estimated to reduce by 24,337 tonnes to 722,391 tonnes (746,728 tonnes in 2007/08).
- 4.1.2 Details of the percentage movement in 2008/09 residual tonnage levels for each borough compared with 2007/08 tonnages may be summarised as follows:-

Table 1	Current Forecast (April to July)
Barnet	- 1.72%
Camden	- 1.19%
Enfield	- 0.69%
Hackney	- 5.82%
Haringey	- 3.66%
Islington	- 7.77%
Waltham Forest	- 3.04%
Overall Position	- 3.26%

The figures in table 1 indicate that there has been a significant reduction in the amount of residual waste entering the waste stream in the early part of the year. At the time of writing, officers are not aware of any changes to borough collection arrangements that could have impacted on waste flows. Although, the 2008/09 budget allowed for a further stepped change in borough recycling and composting activity there is no evidence to suggest that the scale of the reduction could have been achieved by these activities alone. The other most likely reason is a reduction in the amount of waste generated by households, particularly in the current economic climate, but as the scale of the reduction has not been uniform across all boroughs this may only be partially correct. The position is by no means clear. However, by the time of the next meeting in December the Authority should have received details of actual borough recycling and composting data for the first six months of the year, as well as an up-to-date full year forecast of these activities. This

will help the Authority to form a better understanding of the waste stream activity in the north London area.

- 4.1.3 Based upon information available at the time of determining the 2008/09 budget and levy the transport and disposal budget allowed for a 1% growth of 9,368 tonnes in the total waste stream which was more than offset by a reduction of 16,268 tonnes to reflect the boroughs' planned increase in recycling and composting during 2008/09. Allowing also for the omission of the Hackney out of borough non-household tonnages (4,763 tonnes in 2007/08) the 2008/09 transport and disposal budget was based upon a residual waste stream of 735,982 tonnes. Assuming the current forecast of 722,391 tonnes remains valid for the remainder of the year this would result in a reduction of 13,591 tonnes and transport and disposal saving of £0.485m and a landfill tax saving of £0.494m, i.e. a total of £0.979m.
- 4.1.4 The Authority's waste contracts are linked to changes in the Retail Price Index (RPI). The 2008/09 budget allows for an increase of 3.5% at the relevant review date for these contracts. At the time of writing, however, RPI data available for the year to July 2008 indicates an annual rate of increase of 5%. This could be particularly significant as most of the Authority's contracts are linked to a December/January price review. Whilst there is still time for the growth in the RPI inflation rate to stabilise or reduce in the coming months there is a risk that the current budget assumption of 3.5% could be tested. An RPI increase of 5% could add in the region of £0.095m to the Authority's transport and disposal budget in the current year (£0.380m in a full year) and this has been allowed for in the second budget review.
- 4.2 **In-Vessel Composting Facilities and Dry Recyclable Bulking Arrangement: (-£0.505m)**
- 4.2.1 The 2008/09 approved budget allows for the NLWA constituent boroughs to transfer an additional 34,620 tonnes of green and kitchen waste to the Authority for treatment in 2008/09, i.e. a total 62,895 tonnes at an estimated cost of £3.029m. Based upon information recently obtained from the boroughs the total tonnage to be sent to the Authority for treatment is now estimated to be in the order of 55,304, i.e. a reduction of 7,591 tonnes and potential saving of £0.452m.
- 4.2.2 The 2008/09 budget also allows for a similar growth in the amount of dry recyclable waste to be sent to the Authority for treatment, i.e. an increase of 33,841 tonnes to 59,341 tonnes at a total estimated cost of £2.961m. Again, based upon current borough projections, the total tonnage to be sent to the Authority for treatment is now estimated to be in the region of 58,267 tonnes, i.e. a reduction of 1,074 tonnes and a potential saving of £0.053m.
- 4.3 **Hendon Rail Transfer Station (Rent Review): (- £0.155m)**
- 4.3.1 At the last meeting Members were advised that Bond Pearce, acting as agents for the Authority's landlord - Freightliner Heavy Haul Ltd – had served notice on the Authority of its intention to increase the rent at the Hendon Rail Transfer Station from £214,633.04 to £670,000 with an effective date of March 2003. 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 was considered questionable, it was noted that the increase, after an allowance for existing budget provisions, could add £2.128m to the Authority's costs for the period to 31 March 2008 and a further £0.405m in 2008/09. Although the matter has yet to be resolved, the landlord has so far lowered the proposed rent to £550,000 per annum. Allowing also for a rent discount of c. £0.035m per annum (not previously allowed) the Authority's potential liability reduces to c. £1.311m for the period to 31 March 2008 and £0.250m in 2008/09.

- 4.3.2 In closing the Authority's accounts for 2007/08 the Authority treated the potential liability for years up to and including 2007/08 as a contingent liability. This remains the case, however, in the event that the Authority's challenge is not entirely successful this could reduce the amount of surplus revenue balances currently held by the Authority by an amount of up to £1.311m. In the case of 2008/09 the potential additional cost continues to be treated as a potential budget pressure in the second budget review but at a lower estimated cost, i.e. a reduction of £0.155m compared with the first budget review.

4.4 **Hornsey Street Transfer Station: (- £0.073m)**

- 4.4.1 The Landlord's costs of operating the Hornsey Street facility in 2007/08 were lower than previously envisaged and therefore the Authority has received a refund of £0.124m in the current year. This benefit, however, is partially offset by the higher than previously advised budget costs for 2008/09. The latter will add £0.051m to costs in 2008/09 and therefore a net reduction of £0.073m has been allowed for in the second review.

4.5 **Waste Strategy and Contracts Group: (+ £0.055m)**

- 4.5.1 Although the first review allowed for a reduction in staff costs (because of vacancies), a report elsewhere on this agenda indicates the additional external support that will be necessary in order to procure new short-term contracts for the treatment of borough recyclates. As a consequence the second review has restored the original waste strategy and contracts budget to £0.912m, i.e. an increase of £0.055m compared with the first review.

4.6 **Excess Creditor Provision (Previous Years): (- £0.280m)**

- 4.6.1 Elsewhere on this agenda Members have been requested to approve the recycling credit and biodegradable municipal waste incentive payments to boroughs for 2007/08. As payments are lower than allowed for in closing the 2007/08 accounts an excess creditor provision of £0.280m can now be written back into 2008/09 accounts.

4.7 **Non-household Charges: (+ £0.149m)**

- 4.7.1 Compared with an original budget assumption of 174,011 tonnes the current forecast, based upon information provided by the constituent boroughs, assumes that non-household tonnages will reduce to 171,359 tonnes, i.e. a reduction of 2,652 tonnes and a reduced income of £0.149m (net of an adjustment for higher inflation).

4.8 Summary

4.8.1 Table 2 provides a summary of the 2008/09 financial position:-

Table 2	2008/09 Original Budget	2008/09 First Review	2008/09 Second Review	Variance between 1st & 2nd Review
	£'000	£'000	£'000	£'000
Expenditure				
Main Waste Disposal Contract (Ex CA Waste)	26,912	26,912	26,600	(312)
- Clinical Waste	283	283	284	1
- In-Vessel Composting Facility	3,481	3,481	3,029	(452)
- Dry Recyclable Bulking Arrangement	2,961	2,961	2,908	(53)
Civic Amenity Waste	1,659	1,659	1,580	(79)
Landfill Tax	8,309	8,309	7,815	(494)
Hendon Transfer Station	408	813	658	(155)
Hornsey Street Transfer Station	2,716	2,716	2,643	(73)
Recycling Credits (third parties)	151	151	151	
Other Recycling Initiatives	119	119	119	
BMW Diversion Incentive Scheme	231	231	231	
Agency Services	551	551	551	
Waste Strategy and Contracts Group	912	857	912	55
Waste Contract – Procurement Costs	2,783	2,783	2,783	
Annual Compensation	34	34	34	
Provision for Possible Litigation Costs	50	50	50	
Revenue Funding – Capital Investment	552	552	552	
LATS – Use of Allowances	5,146	1,454	1,454	
LATS – Transfer to reserve (surplus allowances)	1,033	200	200	
Excess Creditors (Previous Years)	0	0	(280)	(280)
	58,291	54,116	52,274	(1,842)
Less				
Income				
Rents	(89)	(89)	(89)	
Interest on Balances	(650)	(1,350)	(1,350)	
LATS Grant	(6,179)	(1,654)	(1,654)	
Estimated Dividend Stream	0	0	0	
	(6,918)	(3,093)	(3,093)	
Net Expenditure	51,373	51,023	49,181	(1,842)
Contingency	500	500	500	
Total Net Expenditure 2008/09	51,873	51,523	49,681	(1,842)
Financed By :-				
Balances b/fwd	(3,164)	(4,451)	(4,451)	
Charges to Boroughs (Non-household waste)	(10,880)	(10,880)	(10,731)	149
2008/09 Levy	(37,829)	(37,829)	(37,829)	
Total Resources Available	(51,873)	(53,160)	(53,011)	(1,693)
Estimated Revenue Balances as at 31 March 2009 (Surplus)	0	(1,637)	(3,330)	(1,693)

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

- 5.1 In June the Authority was reminded of the potential medium term budget and resource requirements for the period 2009/10, 2010/11 and 2011/12. The figures indicated that the average cost to constituent councils could rise by 16.4% in 2009/10, a further 7.5% in 2010/11 and by a further 6% in 2011/12 (the actual percentage change will differ between boroughs because of the levy apportionment arrangements). The main reasons for this were:
- (i) In 2009/10, the need to replace the use of balances used to fund the 2008/09 budget.
 - (ii) A year-on-year stepped change in the amount of recyclates to be sent by the boroughs to the NLWA for treatment.
 - (ii) The impact of the landfill tax escalator across all years.
 - (iii) The cost of the Procurement Process, also across all years.
- 5.2 No allowance was made for the costs of implementing the procurement process other than providing the revenue funding to underpin the start-up of a site acquisition programme for new facilities.
- 5.3 Members were also advised that the shape of the Authority's future costs would be better informed once the Outline Business Case (OBC) for PFI funding had been determined. Reports elsewhere on this agenda provide an update on the OBC process. The OBC will be submitted to the Authority for final approval in October. In the light of this, and a detailed review of the data underlying the Authority's budget and resource requirements for next year and the medium term, Members will be provided with an up-to-date assessment of the Authority's budget and resource needs at its December meeting.

6. **Conclusion**

- 6.1 Although the second review indicates that there could be an improvement in forecast balances at 31 March 2009 there are a number of uncertainties and potential budget pressures that could impact on this position. Whilst I am confident that the Authority's overall budget should remain sufficiently robust to meet the cost of its waste disposal obligations in 2008/09, there are a growing number of budget pressures that could impact on the Authority's 2009/10 budget and resource requirements. These will be examined in more detail in December.

7. **Comments of the Legal Adviser**

- 7.1 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 6 February 2008 and 25 June 2008
2008/09 Budgetary Control Working Papers

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