

## NORTH LONDON WASTE AUTHORITY

### REPORT TITLE

2007/08 THIRD BUDGET REVIEW AND 2008/09 BUDGET FORECAST

### REPORT OF

FINANCIAL ADVISER

### FOR SUBMISSION TO

### DATE

AUTHORITY MEETING

12 DECEMBER 2007

### 1. SUMMARY OF REPORT

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 £2.987m at 31 March 2008. A further assessment of the budget and resource requirements for the year ahead indicates that the 2008/09 net budget requirement is currently estimated to be £53.154m, which after use of forecast revenue balances of £2.987m, will require funding of £50.167m by constituent councils. It is estimated that £10.913m will be funded through the non-household charging arrangement, this represents an increase of £2.029m (22.8%) over the original estimated cost in 2007/08 and reflects both the increasing costs of waste treatment and implementation of the new method of determining non-household charges as approved by the Authority at its September meeting. Finally, it is estimated that the remaining costs of the Authority will be funded through a levy of £39.254m, i.e. an increase of £4.353m (12.5%) over the 2007/08 levy.

There remain a number of issues that need to be clarified which could influence the final shape of the 2008/09 budget and levy. Further advice will be provided to Members at the budget meeting in February.

### 2. RECOMMENDATIONS

The Authority is requested to note:-

- (i) The third review of the 2007/08 revenue budget.
- (ii) The current assessment of the budget and resource requirements for 2008/09.
- (iii) The arrangements that have been made to establish the levy apportionment arrangements for 2008/09.
- (vi) The issues that will need to be addressed at the budget and levy meeting on 6 February 2008.

Signed by the Financial Adviser : .....

Date: .....

### 3. **Review of the 2007/08 Revenue Budget**

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

3.2 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 (- £0.960m),
- A reduction in Landlord's costs of operating the Hornsey Street Waste Transfer Station (- £0.069m),
- A successful appeal against the 2005 Rating Revaluation (-£0.163m),
- Slippage of miscellaneous expenditure from 2006/07 to 2007/08 (+ £0.072m),
- A reduction in the cost of recycling credits and other recycling initiatives (£0.195m),
- A saving in the costs of implementing the WEEE Directive following a change to producer responsibility on 1<sup>st</sup> July 2007 (- £0.077m)
- Reduction in non-household waste income due to a reduction in the waste stream (+ £0.416m).
- The write-back to revenue of previous year's contributions to the Earmarked Reserve for recycling and termination of future contributions (- £0.386m).

3.3 A detailed 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 2008 by £0.963m to £2.987m. Details of the most significant changes identified by the third review are shown below.

#### 3.4 **Transport, Disposal and Landfill Tax: (+ £0.238m)**

3.4.1 In September Members were advised that based upon tonnage data available for the period April to July 2007 there had been a net reduction of 3.06% in the level of waste entering the residual waste stream over the same period in 2006/07. 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 2007/08 could reduce to 753,225 tonnes (777,028 tonnes in 2006/07).

3.4.2 Tonnage data now available for the period up to October 2007 indicates a net reduction of 2.99% in the residual waste stream, suggesting a small upward movement in the residual waste stream. In view of this upward trend the third budget review allows for a possible further 1% increase over the remainder of the year and a full year residual tonnage forecast of 754,460 tonnes, i.e. a reduction of 22,568 tonnes compared with 2006/07.

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

Table 1	September Forecast (April to July)	December Forecast (April to October)	Variance (Between September & December Forecast)
Barnet	- 2.80%	- 2.17%	+ 0.63%
Camden	- 1.13%	- 2.32%	- 1.19%
Enfield	- 5.11%	- 4.96%	+ 0.15%
Hackney	+ 0.08%	- 5.40%*	- 5.32%*
Haringey	- 3.03%	- 2.40%	+ 0.63%
Islington	- 4.27%	- 0.41%	+ 3.86%
Waltham Forest	- 5.81%	- 6.37%	- 0.56%
Overall Position	- 3.06%	- 3.41%*	- 0.35%*

\* Although the Hackney position appears favourable, during the first six months of 2007/08 the borough erroneously delivered 4,973 tonnes of out-of-borough non-household waste to the NLWA for disposal. This arrangement has now ceased and therefore the year-on-year projection is nearer -2.54% compared with the figure of -5.4% shown in the table. Similarly, the overall percentage change for all boroughs of -3.41% also reduces to -2.99% indicating a small overall increase in the waste stream since the September forecast.

3.4.4 Table 1 indicates that four boroughs experienced an increase in their residual waste stream in the period July to October 2007. Whilst the third budget review allows for a further small increase during the remainder of the year, this assumption could be tested if the November and December waste streams were to rise in any significant way. Residual tonnage data for the period to December 2007 will be available at the February meeting of the Authority to help inform the decisions that will need to be made on the 2007/08 revised budget and 2008/09 draft budget.

3.4.7 The Authority's waste contracts are linked to changes in the Retail Price Index (RPI). Although the 2007/08 budget allowed for an increase of 3% at the relevant review date for these contracts, RPI is currently increasing at an annual rate of 4.2% per annum (3.9% reported in September). With the LondonWaste Ltd main contract due for a price review in December it is now likely that the revised 2007/08 budget will need to allow for a higher rate of inflation.

3.4.8 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 2007/08 is now expected to be slightly higher than assumed in the original budget and is estimated to add c. £0.064m to the Authority's costs in 2007/08.

3.4.9 The overall effect of these changes is to increase the costs to the Authority by £0.238m in 2007/08.

**3.5 In-Vessel Composting Facility and Dry Recyclable Bulking Arrangement: (+ £0.300m)**

3.5.1 The in-vessel composting facility (30,000 tonne capacity) located at Edmonton is now fully utilised by NLWA constituent boroughs. In order, however, to meet the growing treatment requirements of constituent boroughs, arrangements are now in hand to further increase the amount of treatment capacity through a short-term merchant arrangement via LondonWaste Ltd. The boroughs have recently advised that collectively they will require treatment capacity for an additional 3,411 tonnes in the current year at an estimated cost of £0.170m. (The boroughs have also indicated that they will require a further 24,484 tonnes of treatment capacity in 2008/09).

3.5.2 The dry recyclable bulking arrangement operating through LondonWaste Ltd has been fully operational for over a year. Although the 2007/08 original budget assumed the treatment of 25,500 tonnes, recent advice from the boroughs indicates that the full year treatment requirement is likely to be nearer 29,000 tonnes. This will add an estimated £0.130m to costs in 2007/08. (The boroughs have also indicated that they will require a further 32,845 tonnes of treatment capacity in 2008/09).

**3.6 Hornsey Street Waste Transfer Station: (- £0.825m)**

3.6.1 The 2007/08 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 it has been possible to allow for a reduction in LondonWaste Ltd's operational costs covering a number of years. An examination of the Company's 2004 (part year) claim has resulted in a number of favourable adjustments for the Authority and a better understanding of the additional cost profile of operating the Hornsey Street facility. Although formal claims for subsequent years have yet to be submitted by LondonWaste Ltd it is currently envisaged that there will be an overall saving of about £0.656m for the period up to 31 March 2007, and a reduction of £0.169m in the current year's budget, i.e. a total saving of £0.825m.

**3.7 Recycling Credits: (- £0.175m)**

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

### **3.8 BMW Diversion Incentive Scheme: (- £0.430m)**

- 3.8.1 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 waste diverted boroughs receive a payment equivalent to 50% of the LATS allowance value for that year. For 2006/07 the payment is £8.99 per tonne. The claims for 2006/07 have now been validated and an additional 44,106.42 tonnes of bio-degradable waste diverted from the waste stream. The cost of the reward scheme in its first year of operation has therefore been £396,517. This is £27,098 higher than allowed for in closing the 2006/07 final accounts and therefore the additional cost will count against 2007/08.
- 3.8.2 Members will recall from the September meeting that given the current substantial level of LATS surplus allowances in the system that there is very little need for waste disposal authorities to trade in 2007/08 and 2008/09 allowances. As a consequence, LATS values are depressed. With only one trade of £5 in the current year this could reduce the amount of the Authority's incentive payment to £2.50. Clearly, there is a possibility that values might pick-up, but given the current market conditions it is perhaps more likely that values could fall. However, for the purpose of this review it has been assumed that incentive payments will reduce to £2.50 per tonne and a budget reduction of £0.457m.
- 3.8.3 Overall, there is a net reduction of £0.430m allowed for in this review.

### **3.9 Waste Strategy and Contracts Team: (- £0.061m)**

- 3.9.1 This reduction represents in the main slippage in the recruitment of two posts and the transfer of the budget provision for one post to the in-house procurement team (see also paragraphs 3.10 and 5.12). Because of the need to procure both short-term and long-term contract facilities (post 2014), budget provision for the two remaining procurement posts is retained under this budget head to deal with the Authority's short-term procurement needs.

### **3.10 Procurement Costs: (+ £0.202m)**

- 3.10.1 A provision of £0.700m was allowed for in the 2007/08 original budget. Allowing for the cost of consultants and in-house appointments to date, plus an allowance for costs during the remainder of 2007/08 it is estimated that an additional budget provision of £0.202m will be required to cover the spend on the procurement project in the current year. In particular the third review allows for the cost of securing, fitting-out and operating additional accommodation for the in-house procurement team at an estimated cost of £0.108m.

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

- 3.11.1 Elsewhere on this agenda Members are requested to approve the 2006/07 audited recycling credit claims. Compared with the data available at the time of closing the Authority's 2006/07 accounts, actual borough claims and third party claims are lower than expected

and therefore the balance of the amounts now due to be paid are lower than year-end creditor provision allowed for in the 2006/07 accounts. As a consequence an excess creditor provision of £0.300m can now be written back to revenue in 2007/08.

### 3.12 Interest on Balances (- £0.195m)

3.12.1 The third review allows for an improved cashflow.

### 3.13 Charges to Boroughs for Non-Household Waste (- £ 0.345m)

3.13.1 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 3,411 tonnes for the year under the current methodology. Charges are currently estimated to reduce from £56.97 to £53.25 per tonne, i.e. a reduction of £3.72. As advised previously in this report LATS allowance values are currently depressed and as a result the LATS premium of £5 allowed for in the original estimated price has been reduced to £1.20, i.e. a reduction of £3.80. This reduction has been partly off-set by an increase of £0.08 to reflect the anticipated inflation increase due to be implemented in respect of the LondonWaste Ltd main contract in December. The overall effect of these changes is to reduce the estimated income from non-household charges by £0.762m for the year. Compared, however, with the second review this represents a further reduction in income of £0.345m. The potential financial effect on boroughs varies.

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

Table 2	<b>2007/08 Original Estimate</b>	<b>2007/08 Current Forecast</b>	<b>Estimated Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	1,113,137	985,178	- 127,959
Camden	1,940,740	1,737,547	- 203,193
Enfield	729,785	662,537	- 67,248
Hackney	1,330,420	1,363,466	+ 33,046
Haringey	1,202,466	1,064,947	- 137,519
Islington	1,468,288	1,359,206	- 109,082
Waltham Forest	1,099,977	950,140	- 149,837
	<b>8,884,813</b>	<b>8,123,021</b>	<b>- 761,792</b>

3.13.3 The figures currently indicate that all boroughs other than Hackney could be entitled to a refund. The charge for Hackney anticipates that the forecast refund of £220,583 as calculated under the normal methodology for calculating non-household charges will be more than offset by the charge for out-of-borough tonnages (£253,629) erroneously sent to the NLWA for disposal.

### 3.14 **Contingency**

3.14.1 It would not be prudent, at this stage of the budget process to reduce the 2007/08 contingency provision (£0.500m). Further advice on this will be provided at the budget and levy meeting in February.

### 3.15 **Overview**

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

Table 3

	2007/08 Original Budget	2007/08 Second Review	2007/08 Third Review	Variance between 2nd & 3rd Reviews
	£'000	£'000	£'000	£'000
<b>Expenditure</b>				
Main Waste Disposal Contract (ex CA Waste)	26,774	26,257	26,468	211
- Clinical Waste	269	269	272	3
- Fridges and Freezers	218	161	161	0
- In-Vessel Composting Facility	1,697	1,697	1,867	170
- Dry Recyclable Bulking Arrangement	1,256	1,256	1,386	130
Civic Amenity Waste	1,659	1,659	1,616	(43)
Landfill Tax	7,073	6,630	6,697	67
Hazardous Waste – TV and Computer Screens	82	62	62	0
Hendon Transfer Station	447	355	357	2
Hornsey Street Transfer Station	2,982	2,842	2,017	(825)
Recycling Credits	3,477	3,310	3,171	(139)
Other Recycling Initiatives	129	113	77	(36)
BMW Diversion Incentive Scheme	642	642	212	(430)
Agency Services	514	574	513	(61)
Waste Strategy and Contracts Team	896	896	835	(61)
Waste Contract – Procurement costs	700	700	902	202
Annual Compensation	33	33	33	0
Provision for possible Litigation Costs	50	50	50	0
Contribution to Earmarked Reserve (Recycling)	66	(320)	(320)	0
LATS – Use of Allowances	5,875	5,229	5,229	0
LATS – Transfer to Reserve (Surplus Allowances)	808	719	719	0
Excess Creditor Provision (Previous Years)	0	0	(300)	(300)
	55,647	53,134	52,024	(1,110)
<b>Less</b>				
<b>Income</b>				
Rents	(83)	(83)	(86)	(3)
Interest on Balances	(788)	(1,138)	(1,333)	(195)
LATS – Grant	(6,683)	(5,948)	(5,948)	(0)
Estimated Dividend Stream	(0)	(0)	(0)	(0)
	(7,554)	(7,169)	(7,367)	(198)
Net Expenditure	48,093	45,965	44,657	(1,308)
Contingency	500	500	500	
<b>Total Net Expenditure 2007/08</b>	<b>48,593</b>	<b>46,465</b>	<b>45,157</b>	<b>(1,308)</b>
Financed By :-				
Balances b/fwd	(4,808)	(5,120)	(5,120)	0
Charges to Boroughs (Non-household waste) *	(8,884)	(8,468)	(8,123)	345
2007/2008 Levy *	(34,901)	(34,901)	(34,901)	0
<b>Total Resources Available</b>	<b>(48,593)</b>	<b>(48,489)</b>	<b>(48,144)</b>	<b>345</b>
<b>Estimated Revenue Balances as at 31 March 2008 (Surplus)</b>	<b>0</b>	<b>(2,024)</b>	<b>(2,987)</b>	<b>(963)</b>
<b>Total cost to Boroughs in 2007/08 *</b>	<b>43,785</b>			



#### 4. **2008/09 Budget Forecast**

4.1 At the Authority meeting in February, I provided Members with an early forecast of the budget and resource requirements for 2007/08. This indicated that the net budget requirement for the year ahead was estimated to be in the order of £50.783m. Given the full use of projected revenue balances to assist with the funding of the 2007/08 budget, and assuming no revenue balances at 31 March 2008, the overall cost to constituent boroughs was forecast to increase by 14.3% in 2008/09. Since then revenue balances at 31 March 2007 improved by £0.312m, and the first two reviews of the 2007/08 budget have revealed the likelihood that revenue balances at 31 March 2008 could rise by a further £1.712m to £2.024m. The effect of this was to reduce the forecast increase in the cost to boroughs in 2008/09 by 2.9% to 11.4%.

4.2 Following both a detailed review of the 2007/08 budget and the budget requirements for 2008/09, revenue balances at the 31 March 2008 are currently estimated to rise by a further £0.963m to £2.987m, and the 2008/09 budget requirement increased from £50.783m to £53.154m, i.e. an increase of £2.371m. The net effect of these changes is to increase the forecast increase in the cost to constituent boroughs to 14.6% over the cost in 2007/08, i.e. an increase of £6.382m. However, with the implementation of the new methodology of calculating non-household charges in 2008/09, and also the likely full year implementation of the new levy apportionment arrangements it is perhaps more appropriate to express the projected increases in 2008/09 in the following way:

	2007/08	2008/09	Variance
Non-household charges	£ 8.884m	£10.913m	+ £2.029m (22.8%)
Levy	£34.901m	£39.254m	+ £4.353m (12.5%)
Total	£43.785m	£50.167m	+ £6.382m (14.6%)

4.3 Members will however be aware that because of impact of the new non-household charging methodology and the likely full impact of the default levy apportionment arrangements in 2008/09, that the actual percentage change for each borough will be different, in some case significantly different, from the average year-on-year increases summarised above. Details of each boroughs 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 6.6.

4.4 Further information on the 2008/09 budget forecast assumptions can be found at paragraph 5.

4.5 Table 4 below provides a summary of the 2008/09 budget forecast:-

**Table 4**

<b>Expenditure</b>	<b>2007/08 Original Budget £'000</b>	<b>2008/09 Budget Forecast £'000</b>	<b>Year-on Year Change £'000</b>
Main Waste Disposal Contract (ex CA Waste)	26,774	27,155	381
- Clinical Waste	269	285	16
- Fridges and Freezers	218	30	(188)
- In-Vessel Composting Facility	1,697	3,087	1,390
- Dry Recyclable Bulking Arrangement	1,256	3,614	2,358
Civic Amenity Waste	1,659	1,640	(19)
Landfill Tax	7,073	8,559	1,486
Hazardous Waste – TV and Computer Screens	82	10	(72)
Hendon Transfer Station	447	409	(38)
Hornsey Street Transfer Station	2,982	2,800	(182)
Recycling Credits	3,477	540	(2,937)
Other Recycling Initiatives	129	25	(104)
BMW Diversion Incentive Scheme	642	231	(411)
Agency Services	514	535	21
Waste Strategy and Contracts Team	896	902	6
Waste Contract – Procurement costs	700	2,626	1,926
Annual Compensation	33	35	2
Provision for possible Litigation Costs	50	50	0
Contribution to Earmarked Reserve (Recycling)	66	0	(66)
Revenue Funding – Capital Investment	0	860	860
LATS – Use of Allowances	5,875	5,146	(729)
LATS – Transfer to Reserve (Surplus Allowances)	<u>808</u>	<u>1,033</u>	<u>225</u>
	55,647	59,572	3,925
<b>Less</b>			
<b>Income</b>			
Rents	(83)	(89)	(6)
Interest on Balances	(788)	(650)	138
LATS – Grant	(6,683)	(6,179)	504
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(7,554)	(6,918)	636
Net Expenditure	48,093	52,654	4,561
Contingency	<u>500</u>	<u>500</u>	<u>0</u>
<b>Total Net Expenditure</b>	<b><u>48,593</u></b>	<b><u>53,154</u></b>	<b><u>4,561</u></b>
Financed By :-			
Balances b/fwd	(4,808)	(2,987)	1,821
Charges to Boroughs (Non-household waste) *	(8,884)	(10,913)	(2,029)
Proposed Levy	(34,901)	(39,254)	(4,353)
<b>Total Resources Available</b>	<b><u>48,593</u></b>	<b><u>53,154</u></b>	<b><u>(4,561)</u></b>

## 5. **2008/09 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 2008/09 plus a general allowance for inflation of 3.5% at the relevant price review date during the course of the year.

### 5.3 **Transport and disposal**

5.3.1 The transport and disposal budget has been based upon a total residual waste stream of 742,866 tonnes, i.e. a net reduction of 11,594 tonnes over the 2007/08 projected outturn. On the one hand the 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 2008/09 this has enabled the Authority's residual waste budget to be reduced by a further 16,268 tonnes. On the other hand, however, despite the increase in recycling by boroughs the total waste stream (before recycling activity) continues to rise at about 1% per annum and therefore it has been necessary to add back 9,437 tonnes to the Authority's residual tonnage forecasts. Allowing also for the omission of the Hackney out-of borough non-household tonnages of 4,763 tonnes in 2007/08 this results in a net reduction of 11,594 tonnes.

### 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 transfer a significant increase in the amount of green and kitchen waste to the Authority in 2008/09, i.e. a total of 57,895 tonnes (an increase of 24,484 tonnes over the projected tonnage for 2007/08). This means that the in-vessel composting facility at Edmonton will be fully utilised and it will be necessary for the Authority to arrange for additional merchant capacity to treat this waste formerly treated at direct borough expense. The overall cost of the green and kitchen waste treatment service in 2008/09 is estimated to cost £3.614m.

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 61,741 tonnes of dry recyclable material in 2008/09 (an increase of 32,845 tonnes over the projected tonnage requirement for 2007/08). The overall cost of the dry recyclable bulking arrangement in 2008/09 is estimated to cost £3.087m.

### 5.5 **Landfill Tax**

5.5.1 The standard rate of landfill tax is due to rise from £24 to £32 per tonne on 1 April 2008. The budget forecast allows for this increase.

5.5.2 Members will recall that when the landfill tax escalator was announced in the Government's March 2007 Budget Report that the Authority wrote to the Local Government Association (LGA) to express its concern about the scale and impact of the increase, and to seek assurances about the return of the additional landfill tax revenues to local government. Although the Comprehensive Spending Review in November announced that an additional £2bn would be allocated to support the waste PFI programme it is far from clear how the additional landfill tax revenues may otherwise have been returned to local authorities. Officers have recently responded to a request by the LGA for details of the impact of the landfill tax escalator on its budget process.

5.5.3 The forecast also allows for a small reduction in incineration capacity at Edmonton to reflect the need for higher levels of boiler maintenance in the coming year, in case this affects the Authority's landfill tax liability.

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

5.8.1 The 2008/09 budget forecast allows for a continuation of the lower operational costs referred to at paragraph 3.6 above.

#### **5.9 Recycling Credits/Other Recycling Initiatives**

5.9.1 The transitional arrangements for apportioning the levy come to an end in 2008/09. As a result the majority of the authority's expenditure, other than the cost of treating non-household waste, will be funded by a levy that will be largely apportioned on a household tonnage basis and with only a small proportion of costs continuing to be apportioned on a council tax basis. As a consequence, the local recycling credit scheme introduced by the Authority in 2006/07 to mirror the phasing to a tonnage based levy is terminated. The Authority will however continue to pay third party recycling and reuse credits. Applicants for the 2008/09 scheme-year will be submitted to the February 2008 meeting for registration. The budget forecast includes a provision of £0.540m for these payments.

5.9.2 The 2008/09 budget forecast also allows a small provision of £0.025m to assist with other recycling initiatives.

#### **5.10 BMW Diversion Incentive Scheme**

5.10.1 The budget forecast continues to allow for the operation of a scheme but in view of the low LATS values referred to earlier in this report the payment for 2008/09 may be no higher £2.50. It could be less; but it could also be more. Boroughs will therefore need to take a cautious approach when finalising their home authority budgets for both 2007/08 and 2008/09.

#### **5.11 WEEE Directive**

5.11.1 With the introduction of producer responsibility on 1 July 2007 the Authority should only incur a handling fee for any WEEE materials taken in by LondonWaste Ltd.

## 5.12 Waste Strategy and Contracts Team

5.11.1 Apart from the transfer of funding of one procurement post to the in-house procurement team the 2008/09 budget forecast allows for a full complement of staff and programme of works.

## 5.12 Implementation of the North London Joint Waste Strategy

5.12.1 Elsewhere on this agenda Members will find a number of reports dealing with the procurement process. In setting the budget for 2007/08 a budget of £0.700m was approved to provide for the initial support by consultants and the establishment of an in-house procurement team. Members will see that the 2007/08 costs are expected to rise to £0.902m. However, as the procurement process gathers momentum the need to enlarge and staff an in-house team becomes increasingly important. In total an in-house team of nine full time equivalents is required to work on the long-term procurement requirements after 2014. The Authority's short-term procurement requirements will not be developed by this team, this activity will continue to be performed by the Waste Strategy and Contracts Team, hence the need to retain budget provision for two procurement posts within the Team budget.

5.12.2 The scale of the challenge and its cost means that it is difficult to be wholly accurate on the both the level of the budget and timing of the cash flow requirements. Much will depend upon the resolution of many complex and inter-related issues. From a governance point of view it is essential that sufficient resources are available to enable the procurement process to travel at the pace necessary to ultimately secure the best outcome for the Authority. This does mean, however, that it is necessary to ensure that the 2008/09 budget is sufficiently robust and flexible to satisfy this requirement. Accordingly, based upon the advice of the Procurement Director, and his experience at Greater Manchester Waste Disposal Authority, and that of our consultants who have been appointed under a framework contract arrangement, the proposed procurement budget for 2008/09 is £2.626m, comprising:

In-house procurement team	£0.700m
Use of consultants and other external support	£1.426m
Contingency	£0.500m
Total	£2.626m

5.12.3 The Authority has not had a capital programme since Vesting and the transfer of functions to LondonWaste Ltd in 1994. Whilst the Authority is currently considering the possibility of securing PFI funding to help support the provision of new waste disposal facilities, there will also be a need to give careful consideration to the merit of using Prudential Borrowing. This is particularly likely to prove attractive in the acquisition of sites as this should give the Authority maximum flexibility in securing cheaper services, not only by securing better competition for the provision of new facilities, but also by avoiding the higher financing costs that tend to be associated with a contractor led solution. Much will depend upon the business case for a particular project.

5.12.4 In the short to medium term the Authority will need new treatment facilities to deal with both the growing quantities of green (including kitchen) and dry recyclable materials that are being sent to the Authority for treatment. The cost of securing these services is expected to rise significantly in 2008/09 with a cost of £6.701m. Given this need and growing demand over the coming years the officer view is that there should be significant merit in considering one or two small site purchases that would enable treatment facilities to be provided within the north London region rather than incurring the cost of transporting materials to locations outside the Authority's area. Accordingly it is recommended that Members consider providing sufficient revenue funding to support a £10m capital investment in sites at an estimated cost of £0.860m in the coming year. Although this will involve upfront funding in a year when the levy increase is already at a relatively high level, such an investment should provide the means to securing cheaper services in the long run.

**5.13 Dividend Income (LondonWaste Ltd)**

5.13.1 No income is anticipated from this source.

**5.14 Interest on Balances**

5.14.1 The Budget forecast allows for an income that is expected from the temporary investment of monies held by the Authority.

**5.15 Non-household Waste Charges**

5.15.1 At its September meeting the Authority agreed, following consultation with its constituent boroughs, a new basis for assessing the amount of non-household waste delivered to the Authority for disposal. The new scheme comes into effect for 2008/09.

5.15.2 At its base the scheme provides for the determination of non-household waste collected through the borough's refuse 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 (not all boroughs have this category of waste) delivered to the Authority is charged for in addition to the above. The total value of validated tonnages is 165,429 tonnes and the amount of construction waste is 8,952 tonnes, i.e. a total tonnage of 174,381 tonnes:

**Table 5**

	Validated Declared Tonnes	Construction Tonnes	Total Tonnes
Barnet	18,892	2,703	21,595
Camden	48,301	0	48,301
Enfield	13,285	20	13,305
Hackney	29,356	0	29,356
Haringey	15,152	1,682	16,834
Islington	29,768	1,452	31,220
Waltham Forest	10,675	3,095	13,770
<b>Total</b>	<b>165,429</b>	<b>8,952</b>	<b>174,381</b>

5.15.3 Based upon estimated non-household tonnages of 174,381 tonnes and a forecast cost per tonne of £62.58 (comprising a base cost of £61.17 and a LATS premium of £1.41), the total cost to boroughs in 2008/09 is currently estimated to be £10.913m.

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

<b>Table 6</b>	<b>2008/09 Estimated Tonnes</b>	<b>2008/09 Estimated Cost</b>
		<b>£</b>
Barnet	21,595	1,351,415
Camden	48,301	3,022,677
Enfield	13,305	832,627
Hackney	29,356	1,837,098
Haringey	16,834	1,053,472
Islington	31,220	1,953,748
Waltham Forest	13,770	861,726
<b>Total</b>	<b>174,381</b>	<b>10,912,763</b>

## 5.16 Landfill Allowance Trading Scheme (LATS)

5.16.1 The Authority expects to be in a favourable trading position in 2008/09 and is currently estimated to have a surplus of c. 57,458 allowances. The forecast allows for a notional value of the credits based upon the 2006/07 book-value (£17.98 per allowance), which is the last formal valuation. The actual value is more likely to be in the order of £5 based upon current trading activity, but any change here is wholly offset by an equivalent opposite change to the LATS Grant and therefore has a neutral effect on the Authority's budget and resources requirements.

## 5.17 **Contingency**

- 5.17.1 A general contingency of £0.500m. 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, unless all constituent boroughs agree an alternative basis for apportionment the levy shall be apportioned on a household and council tax basis in accordance with the default levy regulations.
- 6.3 All boroughs supported the Governments proposals for change - subject, in some cases - to there being transitional arrangements. As a consequence in the absence of agreement on an alternative basis for apportioning the levy the new default arrangements were used to apportion the 2006/07 levy.
- 6.4 In order to be clear on the levy apportionment arrangements that will apply for 2008/09 constituent councils have been asked to advise the Authority if they are minded to seek agreement on a levy apportionment basis other than by the current statutory default arrangements. Constituent councils have therefore been asked to notify the Authority of this by 21 December 2007 in order to avoid any unnecessary abortive work. Constituent councils have also been advised that unless letters are received by the Authority from all seven boroughs agreeing to an alternative levy apportionment basis by 31 January 2008 it will be assumed that the default arrangements for apportioning the levy prevailing at the time of the budget and levy meeting on 6 February 2008 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 2008/09 and also their household waste tonnages for 2006/07 by 31 January 2007. 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 2008 and the Authority's current forecast of its 2008/09 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 2007/08 council tax data that will need to be updated when constituent councils have completed calculation of their 2008/09 council tax base and duly notified this to the Authority. The 2006/07 household waste tonnage data as used in the levy apportionment should not change.

Table 7	2007/08 Actual Levy £'000	2008/09 Provisional Levy £'000	Variance £'000
Barnet	6,901	7,704	+ 803 (11.6%)
Camden	4,775	5,076	+ 301 ( 6.3%)
Enfield	5,439	5,537	+ 98 ( 1.8%)
Hackney	4,410	5,457	+ 1,047 (23.7%)
Haringey	4,785	5,673	+ 888 (18.6%)
Islington	4,350	4,974	+ 624 (14.3%)
Waltham Forest	4,241	4,833	+ 592 (14.0%)
Total	34,901	39,254	+ 4,353 (12.5%)

## 7. **Conclusion**

- 7.1 On the basis of current information the third review indicates that the 2007/08 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year. The 2008/09 budget forecast has been prepared using the latest information on the likely waste stream in the coming year and costs. There are a number of budget areas that will need to be carefully reviewed before the Authority takes final decisions on the 2008/09 budget and levy in February 2008. 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 take decisions to ensure that the 2008/09 budget is sufficient to meet the Authority's statutory obligations in the year ahead. Members will be provided with further advice at the budget meeting in February.
- 7.2 Although the Authority faces the prospect of a significant increase in the levy in 2008/09, it should be borne in mind that the increase allows for an £8 per tonne increase in the Authority's landfill tax liability, continuing high levels of inflation, a significant increase in the amount of green and dry recyclable materials to be sent by the constituent councils for treatment in 2008/09, a sufficiently robust provision for the costs procurement in the year

ahead and scope to fund capital investment of £10m in 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 7 February 2007, 27 June 2007 and 19 September 2007  
2007/08 budgetary control and 2008/09 budget working papers

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