

**REPORT TITLE**

BUDGET UPDATE

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO**

**DATE**

AUTHORITY MEETING

11 APRIL 2007

**1. SUMMARY OF REPORT**

This report provides Members with details of the Government's 2007 budget in so far as they relate to the waste industry. The report also draws attention to the final report of Sir Michael Lyons on the future role, function and funding of local government, which makes reference to the financial and environmental pressures that are likely to arise from the management of municipal waste.

**2. RECOMMENDATIONS**

The Authority is requested to note this report.

Signed by the Financial Adviser: .....

Date: .....

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

3.1 In his pre-budget report on 6<sup>th</sup> December the Chancellor of the Exchequer confirmed that it was his intention to raise the standard rate of landfill tax by £3 to £24 per tonne from 1 April 2007. The proposed increase was not unexpected as landfill tax has been rising by £3 per tonne for the last two years and the further increase was in line with the Government's intention to raise landfill tax to £35 per tonne in the long-term. The Chancellor also indicated that the Government would also consider whether the rate of landfill tax needs to rise more steeply from 2008 onwards, or should rise above the £35 per tonne already committed to for the medium to long-term.

3.2 The Chancellor's Budget Report on 21<sup>st</sup> March 2007 included a number of waste related measures.

#### 3.3 **Landfill Tax**

3.3.1 The most significant of the new measures stems from the review of the landfill tax regime. The Chancellor has announced that the standard rate of tax will rise by £8 per tonne each year from April 2008 until at least 2010/11. The standard rate for 2007/08 will be £24 (as reflected in the NLWA budget) and this will rise to £32 in 2008/09, £40 in 2009/10 and £48 in 2010/11. The lower rate will increase from £2 per tonne to £2.50 per tonne from April 2008, however, this is of academic interest to the Authority as it does not currently pay any lower rate tax.

3.3.2 The Authority's landfill tax budget for 2007/08 is £7.073m. Assuming a similar level of waste continues to be sent to landfill in 2008/09 this figure would have increased by £0.884m to £7.957m (with a £3 increase) but is now projected to increase by £2.358m to £9.431m (with an increase of £8 per tonne), i.e. a year-on-year additional cost of £1.474m. The landfill tax liability is forecast to rise to £11.789m in 2009/10 and £14.147m in 2010/11.

3.3.3 Assuming no other changes to the medium-term budget forecast reported to the Authority in February, the year-on-year percentage increase in the cost to the Authority (and through the levy and non-household charges to our constituent councils) is estimated rise as follows:

	As reported to the Authority 7 February 2007	After budget announcement 21 March 2007	Percentage Increase
2008/09	10.9%	14.3%	3.4%
2009/10	6.7%	9.5%	2.8%
2010/11	6.5%	8.8%	2.3%

3.3.4 The Budget Report states that additional revenues from business, as a result of increasing rates of landfill tax, have been recycled to business in England through DEFRA's Business

Resource Efficiency and Waste programme (BREW). The Report indicates that this programme will continue into 2007/08. The additional tax revenue from business as result of the increase in the landfill tax escalator will, however, be recycled to business through a 2p reduction in corporation tax. This will also take effect in April 2008. Spending plans for BREW and other environmental programmes will be set out as part of DEFRA's settlement in the 2007 Comprehensive Spending Review (CSR) later this year.

- 3.3.5 The Government also states that it has recycled additional revenues from local authorities, as a result of increases in landfill tax, back to the sector to help fund improvements in local waste management. The Report further advises that a joint review, carried out by DEFRA, DCLG and HM Treasury, working with local authorities, is identifying ways in which local and central government can work together to improve waste management over the 2007 CSR period. Figures contained in the Budget Report indicate that a further sum of £175m will be available in 2008/09 and £325m in 2009/10.

#### 3.4 **Landfill Communities Fund**

- 3.4.1 The Government has announced that the value of the Landfill Communities Fund will be increased by £5m to £65m in 2007/08. This scheme was originally known as the Landfill Tax Credit Scheme but has been renamed to provide funding for community and environmental projects around landfill sites. The Government allows a proportion of the tax that landfill operators collect to be allocated to the Landfill Communities Fund so that monies can be used to put something back into areas and communities with local landfill sites. Projects must be within a 10 mile radius of a site and comply with certain criteria in order to be eligible for funding. SITA UK for instance provides funding to the SITA Trust, and organisations apply to the SITA Trust for funding. All distributors of monies from the Landfill Communities Fund are regulated by an organisation called ENTRUST.

#### 3.5 **Enhanced Capital Allowances for Waste**

- 3.5.1 The Government has also announced it intends to review the classes of equipment that can qualify for tax relief for good quality combined heat and power (CHP) to ensure that the scheme includes all necessary equipment for CHP facilities to use solid refuse derived fuel.

#### 4. **Lyons Review – Variable Charging for Household Waste**

- 4.1.1 Although not a matter of direct interest to the Authority, Sir Michael Lyons on 21<sup>st</sup> March 2007 published his final report on the future role, function and funding of local government. This included proposals to allow councils to charge for household waste. The report sites evidence of innovative practice by a growing number of local authorities, e.g. Barnet and their introduction of a compulsory recycling scheme, to help manage the volumes of waste that are sent to landfill and to minimise costs. The report refers to the severity of the pressure likely to arise in the waste system – both financial and environmental – and therefore proposes that the Government should introduce a new discretionary power that will enable waste collection authorities to charge for domestic waste collection. This was seen as having a significant role to play in reducing waste and providing a sensible addition to a council's financial 'toolkit'.

5. **Comments of the Legal Adviser**

- 5.1 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:-  
2007 Budget Report – 21<sup>st</sup> March 2007  
Lyons Report - 21<sup>st</sup> March 2007

Contact Officer: R A Bench  
Finance Officer to the NLWA  
Finance Department  
London Borough of Camden  
Town Hall  
Argyle Street  
London WC1H 8NG

Tel: 020 7974 5945  
Email robert.bench@camden.gov.uk

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