

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2006/2007 REVENUE AND CAPITAL BUDGETS FINAL OUTTURN AND 2007/08 FIRST BUDGET REVIEW

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

27th JUNE 2007

1. SUMMARY OF REPORT

This report provides details of actual expenditure and income for 2006/07 and briefly comments on the current financial position and outlook for future years. Based upon current information the Authority is forecast to have a revenue surplus of £0.753m at 31 March 2008. A review of the outlook for the period 2008/09 to 2010/11 reaffirms the likelihood that waste management costs will continue to rise significantly over this period. A further review of the financial position will be reported to the Authority meeting in September.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Note the 2006/07 final outturn (subject to audit).
- (ii) Note the over payments by boroughs in respect of non-household waste in 2006/07 and the arrangements for repayment to boroughs.
- (iii) Approve the 2006/07 draft Statement of Accounts (Appendix A).
- (iv) Note the first review of the 2007/08 budget.
- (v) Note that a second review of the 2007/08 budget will be submitted to the Authority in September.
- (vi) Note the updated outlook for 2008/09, 2009/10 and 2010/11 and likely budget pressures.

Signed by the Finance Adviser:

Date:

3. **Introduction**

3.1 At its meeting on the 7 February 2007 the Authority was provided with an up-to-date assessment of its financial position. This included the fourth review of the 2006/07 budget. The latter formed the basis of the 2006/07 approved revised budget and provided guidance on the level of surplus resources available to assist with funding of the 2007/08 budget.

3.2 The accounts for 2006/07 are now closed and therefore the main purpose of this report is to provide details of the 2006/07 final outturn (subject to audit) and to seek approval of the 2006/07 draft Statement of Accounts. The opportunity is also taken to provide details of the 2007/08 first budget review and to briefly comment on the outlook for future years.

4. **2006/07 Final Outturn**

4.1 At its meeting on 8 February 2006 the Authority agreed an original budget of £50.486m to be financed by estimated revenue balances of £8.609m, charges to boroughs for non-household waste of £8.646m and a levy of £33.231m.

4.2 In subsequent reviews Members have been advised of:

- The higher level of balances brought forward from 2005/06 (- £1.378m),
- Slippage of income from 2005/06 (- £0.350m),
- The likelihood of a reduction in transport, disposal and landfill costs due to a reduction in the waste stream (- £1.283m),
- A reduction in the estimated LWL Compensation Review Claim (- £0.423m),
- Additional Landlord's costs of operating the Hornsey Street Waste Transfer Station (+ £0.243m),
- A reduction in non-household waste income due to a reduction in the waste stream (+ £0.484m),
- A write-back to revenue of an excess creditor provision allowed for recycling credits in the 2005/06 accounts (- £0.404m),
- A net reduction in the cost of dealing with hazardous waste under Waste Electrical and Electronic Equipment Directive (- £0.628m),
- A lower than envisaged use of the in-vessel composting facility and dry recyclable bulking arrangement (- £0.622m),
- Increased income from investment of cash balances (- £0.355m),
- Landfill tax - the net effect of reduced incineration and increased bottom ash recycling by LondonWaste Ltd (+ 0.166m),
- An increase in recycling credit payments (+ £0.181m),
- Slippage in respect of procurement costs (- £0.250m),
- The establishment of a bad debt provision (+ £0.147m),
- A reduction in contingency (- £0.200m),
- Other miscellaneous changes (- £0.136m).

- 4.3 As a consequence the Authority was advised that it would be reasonable to assume that forecast revenue balances of £4.808m at 31 March 2007 could be taken into account when considering its budget and levy requirements for 2007/08.
- 4.4 The actual revenue surplus for the year ended 31 March 2007 is £5.120m, i.e. an increase of £0.312m over the February 2007 forecast.
- 4.5 In addition, the Authority holds an earmarked reserve of £1.320m for the funding of future recycling initiatives.
- 4.6 The Authority also holds a Landfill Allowance Trading Scheme (LATS) reserve which at the 31 March 2007 is valued at £1.799m representing a provisional surplus (subject to verification by DEFRA) of 100,051 allowances.
- 4.7 Comparison of the revised budget and final outturn is shown in Table 1 followed by a commentary on the most significant changes and issues arising.

Table 1

2006/07 2006/07 2006/07 Variance

Expenditure	Original Budget £'000	Revised Budget £'000	Final Outturn £'000	between Rev & Outturn £'000
Main Waste Disposal Contract	26,879	25,857	25,953	96
- Clinical Waste	236	249	249	
- Fridges and Freezers	482	513	494	(19)
- In-Vessel Composting Facility	1,710	1,530	1,473	(57)
- Dry Recyclable Bulking Arrangement	1,211	769	684	(85)
Civic Amenity Waste	1,706	1,526	1,528	2
Landfill Tax	6,592	6,299	6,245	(54)
Hazardous Waste – TV and Computer Screens	109	200	229	29
WEEE Directive – Other	750	0	0	
Hendon Rail Transfer Station	414	435	435	
Hornsey Street Transfer Station	2,652	2,895	2,895	
Recycling Credits	5,680	5,757	5,892	135
Other Recycling Initiatives	100	100	92	(8)
BMW Diversion Incentive Scheme	432	374	369	(5)
Agency Services	487	499	377	(122)
Waste Strategy and Contracts Group	846	768	704	(64)
Waste Contract – Procurement Costs (Consultants)	500	250	237	(13)
Annual Compensation	32	32	32	
Provision for Litigation Costs	50	50	0	(50)
Contribution to Earmarked Reserve	50	61	61	
LATS – Use of 2006/07 Allowances	0	5,797	4,227	(1,570)
LATS – Use of 2005/06 Allowances (Net Adjustment)	0	0	(123)	(123)
LATS – Transfer to Reserve	0	680	1,660	980
Excess Creditors (Previous Years)	0	(404)	(595)	(191)
	50,918	54,237	53,118	(1,119)
Less Income				
Rents	(82)	(80)	(81)	(1)
Interest on Balances	(850)	(1,555)	(1,219)	336
LATS Grant 2006/07	(0)	(6,477)	(5,764)	713
Bad Debt Provision	0	147	147	
Dividends (LWL)	(0)	(0)	(0)	
	(932)	(7,965)	(6,917)	1,048
Net Expenditure	49,986	46,272	46,201	(71)
Contingency	500	300	0	(300)
Total Net Expenditure 2006/07	50,486	46,572	46,201	(371)
	=====	=====	=====	=====
Financed By :-				
Revenue Balances b/fwd	(8,609)	(9,987)	(9,987)	
Charges to Boroughs (Non-household waste)	(8,646)	(8,162)	(8,103)	59
2006/07 Levy	(33,231)	(33,231)	(33,231)	
Balances c/fwd as at 31 March 2007:				
General Balances	(0)	(4,808)*	(5,120)	(312)
Earmarked Reserve (Recycling)	(1,309)	(1,320)	(1,320)	
LATS Reserve	(139)	(819)	(1,799)	(980)

* This figure has been used to assist with the funding of the 2007/08 budget.

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

4.9 **Transport and Disposal : (+ £0.098m)**

4.9.1 In December Members were advised that based upon data available for the period April to October there had been a net reduction of 2.28% in the level of residual waste entering the Authority's waste stream over the same period in 2005/06. Allowing, however, for estimated recycling tonnages provided by constituent boroughs for the year, the underlying growth in the total waste stream (before allowing for borough recycling activity) was estimated to be 0.7%.

4.9.2 Subsequently, in February, Members were advised that based upon data available for the period up to December 2006, the figures indicated a net reduction of 2.15% in the residual waste stream, i.e. a small adverse change compared with the previous forecast. Allowing, however, for more up-to-date recycling and composting data from the boroughs, the underlying increase in the waste stream remained at about 0.7%. However, in view of the upward movement in the residual waste stream the 4th budget review allowed for a further 0.3% growth in the underlying waste stream over the remainder of the year, i.e. 1% for the year in total. On this basis the 2006/07 residual waste stream was estimated to be 775,967 tonnes (789,867 tonnes in 2005/06).

4.9.3 The actual residual waste stream for the year was 777,028 tonnes, i.e. a reduction of 12,839 tonnes (1.63%) compared with 2005/06 actual tonnages, but an increase of 1,061 tonnes compared with the 4th budget review. Allowing for the boroughs' latest estimate of their outturn recycling and composting figures for 2006/07 the underlying waste stream now appears to have grown by 1.28% in 2006/07, an adverse variance of 0.28% compared with the 4th budget review. As a result the cost of transport and disposal has increased by £0.098m.

4.9.4 Details of the actual percentage movement in 2006/07 tonnage levels for each borough compared with 2005/06 tonnages may be summarised as follows:-

	2006/07 February Forecast	2006/07 Actual	Variance
Barnet	- 3.90%	- 2.53%	+ 1.37%
Camden	- 0.36%	- 1.02%	- 0.66%
Enfield	- 3.71%	- 3.52%	+ 0.19%
Hackney	+ 2.35%	+ 3.52%	+ 1.17%
Haringey	- 1.94%	- 0.77%	+ 1.17%
Islington	- 4.10%	- 4.26%	- 0.16%
Waltham Forest	- 3.17%	- 2.80%	+ 0.37%
Overall position	- 2.15%	- 1.63%	+ 0.52%

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

4.10 **Landfill Tax : (- £0.054m)**

4.10.1 The increase in the waste stream referred to above should result in an increase in the Authority's landfill tax liability by £0.022m, however, in practice this increase should be more than offset by other landfill tax savings. The latter is due to an improvement in the incineration levels at the Edmonton energy from waste facility in the closing weeks of 2006 and a reduction, compared with the budget assumptions, in the amount of bottom ash and flue gas treatment residues that have been sent to landfill by the Company. These improvements should reduce LondonWaste Ltd's 2006/07 landfill tax claim to the Authority by £0.76m, and result in a net saving of £0.054m for this budget.

4.11 **In-Vessel Composting (IVC) Facility and Dry Recyclable Bulking Arrangement: (- £0.142m)**

4.11.1 Lower than budgetted use of the composting and dry recyclable bulking arrangement has resulted in a saving of £0.142m.

4.12 **Landfill Allowance Trading Scheme (LATS) – Transfer to Reserves : (+ 0.980m)**

4.12.1 The LATS scheme came into effect on 1st April 2005; a powerful new driver for reducing the level of biodegradable municipal waste that can be sent to landfill. The Government intends to impose a penalty payment of £150 per tonne for all biodegradable waste sent to landfill that is not covered by an allowance. Members will recall that although the Authority should enjoy a favourable trading position in the period until 2009/10 the position for 2005/06 was always expected to be finely balanced. Compared with an allocation of 312,933 allowances, the 2005/06 accounts assumed a usage of 306,064 allowances for the year and a surplus of 6,869 allowances with a book value of £0.139m (based upon the valuation set by DEFRA). Subsequent to closure of the 2005/06 accounts DEFRA has calculated the Authority's 2005/06 allowance usage to be 298,373 with the result that the Authority's surplus for 2005/06 has increased to 14,560 allowances with a book value of £0.294m using the allowance valuation originally set by DEFRA for 2005/06. The DEFRA has now set the value for the 2006/07 allowances at £17.98 compared with £20.20 in 2005/06, i.e. a reduction of £2.22 per allowance. As a consequence, it is necessary to revalue the Authority's 2005/06 surplus allowances from £0.294m to £0.262m., i.e. a reduction of £0.032m. Allowing for both the increase in the number of 2005/06 surplus allowances and a reduction in their value there is a net increase in the 2005/06 amount transferred to the LATS reserve of £0.123m. This is reflected in the Authority's 2006/07 accounts.

4.12.2 For 2006/07 the Authority received a LATS allocation of 320,610 allowances. In the 4th budget review it was estimated that the Authority would use 286,966 allowances and would therefore enjoy a surplus of 33,644 allowances with a provisional book value of £0.680m (assuming a value of £20.20 per allowance). At year-end the Authority is currently estimated to have used 235,119 allowances (subject to

verification by DEFRA) resulting in a surplus of 85,491 allowances; a significant improvement compared with the 4th budget review. Allowing for both the increase in the number of surplus allowances and a value of £17.98 per allowance, the amount to be transferred to the LATS reserve for the 2006/07 LATS scheme year is £1.537m, i.e. an increase of £0.857m.

4.12.3 The total value of surplus allowances held by the Authority at 31st March 2007 is currently estimated to be £1,799m, a total increase of £0.980m compared with the 4th budget review. It should be borne in mind that this is a notional value. The actual value will not crystallise until the allowances are sold. Work is currently underway to re-affirm the Authority's likely trading position in the medium term and a report will be submitted to the September meeting of the Authority with proposals for a trading strategy.

4.13 **Recycling Credits : (+ £0.135m)**

4.13.1 Borough recycling credit claims for 2006/07 have yet to be submitted to the Waste Strategy and Contracts Team, which must then be audited by them. However, provisional figures provided by the boroughs indicate that total recycling credit claims for 2006/07 are likely to be in the order of 133,000 tonnes. This is based upon a total recycling and composting activity of 173,000 tonnes less 40,000 tonnes of borough separated waste, which has been either composted or bulked for recycling through the arrangements that the Authority has with LondonWaste Ltd. The 2006/07 final accounts have therefore been closed on this basis and represent a net increase of about 3,000 tonnes compared with the data provided by boroughs in January 2007. Assuming borough recycling credit claims are in line with this latest forecast there is an overspend of £0.135m in 2006/07.

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

4.14.1 A small saving of £0.008m has arisen on this budget, however, a commitment to spend £0.012m in support of composting projects in the north London area has slipped into 2007/08 and is allowed for in the 2007/08 first budget review (as reported to the Authority in April).

4.15 **Agency Services : (- £0.122m)**

4.15.1 Expenditure on most services provided under this category has been broadly in line with the budget assumptions except in the case of external technical and corporate financial support to the Authority where there has been an underspend of £0.115m, part of which is accounted for by slippage into 2007/08 of expenditure on the Strategic Environmental Assessment of the North London Joint Waste Strategy (c. £0.060m has been allowed for in the 2007/08 first budget review). There have been other minor savings amount to £0.007m.

4.16 **Waste Strategy and Contracts Team : (- £0.064m)**

- 4.16.1 A saving has arisen due to lower than anticipated use of agency/temporary staff to cover vacant posts, and slippage of some activities into 2007/08.
- 4.17 **Provision for Possible Litigation Costs : (- £0.050m)**
- 4.17.1 In addition to the cost of legal support services contained within the Agency Services budget a separate budget provision is held to meet the potential costs of litigation with third parties. This provision was not called upon in 2006/07.
- 4.18 **Contingency : (- £0.300m)**
- 4.18.1 Although individual budget heads were reviewed in the light of the latest available information, it was considered prudent for the 2006/07 revised budget to retain a contingency of £0.300m to accommodate possible unforeseen additional costs in the closing months of the year. Outturn figures show that it has not been necessary to make a call on the contingency.
- 4.19 **Excess Creditor Provision (previous years) : (-£0.191m)**
- 4.19.1 Finalisation by the London Borough of Islington of its 2005/06 landlord's costs for the Hornsey Street Transfer Station at a lower than previously advised figure (£0.153m), and final settlement of the Hendon contract price reviews for the period 2004/05 and 2005/06 (£0.038m) have resulted in an additional write-back to revenue of £0.191m in 2006/07.
- 4.20 **Interest on Balances : (+ £0.336m)**
- 4.20.1 The revised budget assumed that interest relating to the outstanding compensation payment due to be paid by the Highways Agency for land acquired at the frontage to the Edmonton Plant would be paid in 2006/07. The income from this source, estimated to be at least £0.350m, will now slip into 2007/08 and has been allowed for in the first budget review.
- 4.20.2 A general improvement in the Authority's cash flow in the last 3 months of the year has partially reduced the income shortfall for the year by £0.014m.
- 4.21 **Dividend Income (LondonWaste Ltd)**
- 4.21.1 At the Annual General Meeting of LondonWaste Ltd on 25 May 2007 the Directors recommended that no dividend should be paid to shareholders. This is in line with the Authority's budget assumptions.
- 4.22 **Charges to Boroughs for Non-Household Waste : (+ £0.059m)**
- 4.22.1 At the budget meeting in February Members were provided an up-to-date assessment of the estimated cost to boroughs of non-household waste in 2006/07 (in accordance with the Authority's charging arrangements for this category of waste under section 52 (9) of the Environmental Protection Act 1990).

- 4.22.2 The meeting was also reminded that the final charges will be calculated as part of the 2006/07 final accounts process and that this would be reported to the Authority in June 2007. Any under or over payment by boroughs would be collected from or repaid to boroughs at that time.
- 4.22.3 Although compared with the 2006/07 revised budget the income due to the Authority has reduced by £0.059m, a net repayment of £0.544m is now due to be repaid to boroughs. This is because under the Authority's charging arrangements for non-household waste, boroughs are required to make payments on account throughout the year on the basis of the original approved estimate for the year in question, i.e. £8.647m in 2006/07. Based upon 2006/07 outturn tonnages all boroughs will receive a refund.
- 4.22.4 Compared with the original budget assumptions there has been a tonnage reduction of 7,888 tonnes and a net price reduction of £0.80 per tonne. The price reduction comprises two elements, a reduction in the LATS premium charge of £0.94 (which is linked to the DEFRA determination of the value of the 2006/07 allowances at year end), as offset by a higher waste disposal cost of £0.14 (due to higher than budgetted inflation).
- 4.22.5 Details of the original, revised and actual costs of non-household waste are shown in table 2 below.

Table 2	(1) 2006/07 Original Estimate	(2) 2006/07 Revised Estimate	(3) 2006/07 Actual Cost	(4) (Payment due to/from Boroughs (Column 3 - 1)
Cost per tonne	£53.32	£53.03	£52.52	
	£	£	£	£
Barnet	1,074,611	1,024,168	1,017,680	(56,931)
Camden	1,889,181	1,781,331	1,760,996	(128,185)
Enfield	703,291	669,822	662,750	(40,541)
Hackney	1,250,301	1,221,122	1,223,243	(27,058)
Haringey	1,176,932	1,104,827	1,099,506	(77,426)
Islington	1,484,162	1,348,659	1,333,693	(150,469)
Waltham Forest	1,068,320	1,012,130	1,004,918	(63,402)
	8,646,798	8,162,059	8,102,786	(544,012)

5. **Capital Budget 2006/7**

- 5.1 There were no capital transactions in 2006/07.
- 5.3 At 31 March 2007 the Authority holds usable capital receipts of £0.621m.

6. **Accounts and Audit Regulations 1996**

- 6.1 This report has provided details of the final outturn of the Authority's expenditure and income for 2006/07. In addition the Accounts and Audit Regulations 1996 also require the Authority to formally approve the supporting annual statement of accounts for audit.
- 6.2 The responsible officer, which in the case of the NLWA is the Financial Adviser, is required to sign and date the statement of accounts; and the 2006/07 accounts must be approved by the Authority by 30 June.
- 6.3 The draft statement is attached at Appendix A to this report. Once the Statement has been approved, it will be formally presented for audit, with a view to publication of the final audited statement of accounts by 30 September 2007. Deloitte & Touche, the Authority's external auditor, is scheduled to report on the key findings of its audit to the Authority at its September meeting. Once published, the final Statement will be circulated to all Members of the Authority. Members will be informed of any material changes arising from the audit.

7. **First Review of the 2007/08 Revenue Budget**

- 7.1 At its meeting on 7 February 2007 the Authority agreed the 2007/08 budget at £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.

7.2 **Transport and Disposal**

- 7.2.1 At this early stage in the year, data collected about the waste stream for April and May does not warrant a change to the budget assumptions for the cost of transport and disposal in 2007/08. A greater appreciation of any trends that may be developing should become apparent when data is available for the period up to and including August. The outcome of this review will be reported to the September meeting of the Authority.

7.3 **2005 Rating Revaluation – Non-Domestic Properties :(- £0.163m)**

- 7.3.1 In 2005 the Authority appointed consultants, on a no-win-no-fee basis to appeal against the new non-domestic properties rating assessments that came into effect on 1 April 2005. The Authority has obtained a total rateable value reduction of £155,000, comprising £100,000 at Hendon and £55,000 at Hornsey Street. It is therefore estimated that the Authority will be entitled to a rate refund of £0.094m in respect of the period 2005/06 and 2006/07 and enjoy a reduced rate charge of £0.069m for

2007/08. As no allowance had been made for a successful outcome the saving of £0.163m will be accounted for in 2007/08.

7.4 Miscellaneous Expenditure slipped from 2006/07 to 2007/08 : (+ £0.072m)

7.4.1 Reference has been made above to slippage of two items of expenditure from 2006/07 in to 2007/08, i.e. other recycling initiatives – composting projects (paragraph 4.14 - £0.012m), and the Strategic Environmental Assessment of the North London Joint Waste Strategy (paragraph 4.15 - £0.060m). An allowance has been made for this expenditure in the 2007/08 first review.

7.5 Interest on Balances : (- £0.350m)

7.5.1 Interest relating to the outstanding compensation payment due to be paid by the Highways Agency for land acquired at the frontage to the Edmonton Plant should now be paid in 2007/08. An amount of £0.350m has been allowed for in the first review.

7.6 LATS

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

7.7 Overview

7.7.1 After allowing for the foregoing changes and the higher level of balances brought forward from 2006/07 Table 3 provides a summary of the current financial position:-

Table 3	2007/08	2007/08	
Expenditure	Original	First	Variance
	Budget	Review	
	£'000	£'000	£'000
Main Waste Disposal Contract (Ex CA Waste)	26,774	26,774	
- Clinical Waste	269	269	
- Fridges and Freezers	218	218	

- In-Vessel Composting Facility	1,697	1,697	
- Dry Recyclable Bulking Arrangement	1,256	1,256	
Civic Amenity Waste	1,659	1,659	
Landfill Tax	7,073	7,073	
Hazardous Waste – TV and Computer Screens	82	82	
Hendon Transfer Station	447	355	(92)
Hornsey Street Transfer Station	2,982	2,911	(71)
Recycling Credits	3,477	3,477	
Other Recycling Initiatives	129	141	12
BMW Diversion Incentive Scheme	642	642	
Agency Services	514	574	60
Waste Strategy and Contracts Group	896	896	
Waste Contract – procurement Costs	700	700	
Annual Compensation	33	33	
Provision for Possible Litigation Costs	50	50	
LATS – use of Allowances 2007/08	5,875	5,229	(646)
LATS – Transfer to Reserve (Surplus Allowances)	808	719	(89)
Contribution to Earmarked Reserve/Recycling	<u>66</u>	<u>66</u>	
	55,647	54,821	(826)
Less income:			
Rents	(83)	(83)	
Interest on Balances	(788)	(1,138)	(350)
LATS Grant 2007/08	(6,683)	(5,948)	735
Estimated Dividend Stream (LWL)	<u>0</u>	<u>0</u>	
	(7,554)	(7,169)	385
Net Expenditure	48,093	47,652	(441)
Contingency	<u>500</u>	<u>500</u>	
Total Net Expenditure 2007/08	48,593	48,152	(441)
	=====	=====	=====
Financed By :-			
Balances B/fwd	(4,808)	(5,120)	(312)
Charges to Boroughs (Non-household waste)	(8,884)	(8,884)	
2007/08 Levy	<u>(34,901)</u>	<u>(34,901)</u>	
Total Resources Available 2007/08	48,593	48,905	(312)
	=====	=====	=====
Estimated Revenue Balances			
as at 31 March 2008 (Surplus)	0	(753)	(753)

8. **Review of the Outlook for 2008/09, 2009/10 and 2010/11**

- 8.1 At the Authority Meeting in February I advised that assuming the full use of forecast revenue balances in 2007/08, and a year-on-year increase in the waste stream of 1% per annum (as adjusted for further stepped increases in recycling and composting), the increase in the cost to constituent councils in 2008/09 could be in the region of 10.9%, an increase of 6.7% in 2009/10 and an increase of 6.5% in 2010/11. The increase for 2008/09 reflects the fact that balances of £4.808m were used to part fund the 2007/08 budget.

- 8.2 These forecasts were based upon known and quantifiable changes only, including landfill tax rates where the standard rate of tax was expected to rise by stepped increases of £3 per year until a rate of £35 per tonne is reached. Allowance was also made for a small increase in the year-on-year growth in the use of recycling and composting treatment facilities to be provided through the Authority (a stepped year-on-year increase of 20,000 tonnes per annum) and the cost of the procurement process. The forecasts therefore made no allowance for the substantive costs of implementing the North London Joint Waste Strategy. Whilst, the Authority will require additional facilities before the replacement of its current main waste disposal contract in 2014, preliminary work undertaken in developing a procurement strategy suggests that waste management costs will not begin to rise steeply until about 2013/14 onwards, i.e. outside the scope of this review. Nevertheless, it will be necessary to further examine the impact of procuring additional treatment facilities, and ,or, merchant capacity and its impact on the Authority's waste management costs over the medium term. To assist with this exercise constituent councils have been requested to advise the Authority of the potential additional treatment facility requirements that will arise from the transfer of recycling and composting arrangements to the Authority over the review period. This may test the stepped year-on-year increase of 20,000 tonnes per annum referred to above. This will be the subject of a future report.
- 8.3 In April I advised that the Chancellor of the Exchequer in his budget report had announced that the standard rate of landfill tax will rise by £8 per tonne each year from April 2008 until at least 2010/11. The effect was to increase the estimated year-on-year increase in the cost to constituent councils to 14.3% in 2008/09, a further 9.5% in 2009/10 and by a further 8.8% in 2010/11.
- 8.4 Given current uncertainties regarding the level of LATS surplus allowances and the future market for LATS no allowance has been made for a potential income from this source.
- 8.5 Table 4 therefore provides only a partial update of the Authority's medium term budget and resource requirements. Further information can be found at Appendix B.

Table 4	2008/09 £'000	2009/10 £'000	2010/11 £'000
Estimated net expenditure (February 2007)	48,560	51,836	55,210
Impact of landfill tax escalator	1,473	2,947	4,420
Procurement Process (additional provision)	750	1,000	500

Less estimated revenue balances @ 31/3/08	- 753	0	0
	-----	-----	-----
Net expenditure to be funded by Constituent Councils	50,030	55,783	60,130
Less cost to Constituent Councils:			
2007/08 (actual)	43,785		
2008/09 (Estimate)		50,030	
2009/10 (Estimate)			55,783
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Estimated increase in cost to Constituent Councils	6,245	5,753	4,347
Percentage increase over the cost in previous year	14.3%	11.5%	7.8%

8.6 Table 4 indicates that the cost to constituent councils could rise by up to 14.3% in 2008/09, a further 11.5% in 2009/10 and by a further 7.8% in 2010/11. In addition, and as indicated above, the Authority is likely to encounter other budget pressures which are not at present quantifiable, and will be the subject of future reports to the Authority.

9. Conclusion

9.1 On the basis of current information, and allowing for the improvement in revenue balances brought forward from 2006/07, the 2007/08 budget should remain sufficiently robust to meet the costs of the Authority's waste disposal obligations in the current year.

9.2 For reasons set out in this report waste disposal costs are likely to continue to rise significantly over the coming years. The Authority faces the prospect of a number of budget pressures in future years. Members will be kept informed of developments. A further review of the Authority's financial position will be submitted to the Authority in September.

10. Comments of the Legal Adviser

10.1 The Legal Adviser has been consulted in the preparation of this report and has no comments to add.

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:-
Report to the Authority 7 February 2007 – Revenue Budget and Levy 2007/08
2006/07 Final Account Working Papers

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