

**REPORT TITLE**

REVIEW OF EARMARKED RECYCLING RESERVE

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO**

**DATE**

AUTHORITY MEETING

27 JUNE 2007

**1. SUMMARY OF REPORT**

At the budget meeting in February the Chairman reported that he had requested officers to prepare a future report on the Authority's earmarked recycling reserve. This report provides details of the fund's origins and outlines the way forward.

**2. RECOMMENDATIONS**

The Authority is recommended to retain the earmarked recycling reserve and to review its future use in the light of establishing the Authority's future treatment facility needs and operation of the London Waste Recycling Fund.

Signed by the Financial Adviser: .....

Date: .....

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

- 3.1 In 2000 the Board of LondonWaste Ltd recommended the payment of a special dividend of £2m to be shared equally between the NLWA and SITA (UK) Ltd. This was endorsed by the shareholders. The payment was made from reserves built up by the Company in respect of its trading in Packaging Recovery Notes (PRNs).
- 3.2 The Packaging Waste Regulations, which came into force in 1997, require obligated companies to ensure that they can account for recycling and recovery of material as part of a Europe-wide effort to achieve overall packaging recovery rates of 60% by December 2008 (there are different rates for different materials). For the period 2006 to 2010 the UK Government has set business recovery targets starting at 66% and rising by one percent per annum over this period to 70% to ensure that the UK is able to meet the EU Directive target of 60%. Companies must be able to demonstrate compliance and this is achieved by them purchasing or acquiring evidence that the required amount of packaging waste has been recovered or recycled. The only evidence that may be used is the Packaging Waste Recovery Note (PRN) or Packaging Waste Export Recovery Note.
- 3.3 In July 2000 Members were advised that it was necessary for LondonWaste Ltd to demonstrate to the Environment Agency that they have used the income generated support to any, or all of the following:
- Increasing the capacity of plant used for recycling or recovering energy from waste,
  - Enhancing the collection of waste for subsequent recovery or recycling; and,
  - Stimulating markets for products derived from waste recovery or recycling.

As a consequence, the Authority decided, as it would be necessary to use the special dividend payment for a particular purpose, that it would transfer its special dividend payment of £1m to an earmarked reserve for the funding of future recycling initiatives.

- 3.4 The special dividend payment has been held in the earmarked reserve since 2000/01. However, in order to preserve the value of the fund until it was used, the Authority also decided to make an annual contribution to the fund, equivalent to the interest on the balances held in the fund. Although this was not normal accounting practice, the Authority decided because of the special nature of the fund that it wished to make an exception in this particular instance.
- 3.5 At 31<sup>st</sup> March 2007 the fund now has a value £1.320m. Hitherto, the fund has been held pending the identification of and procurement of treatment facilities, such as a Material Recovery Facility (MRF) which, until recently, the Authority had decided to procure through LondonWaste Ltd. The intention would have been to make a contribution towards the capital cost of the new facility which would have the effect of reducing the gate fee. As reported elsewhere on this agenda a report will be submitted to the September meeting of the Authority with proposals for procuring the future MRF capacity required by the Authority.

#### **4. The Way Forward**

- 4.1 The North London Joint Waste Strategy (NLJWS) provides for the Authority to take the lead in procuring the future facility needs of the the Authority and its constituent councils. Where the boroughs' own recycling and composting arrangements come to an end over the next few years, it is envisaged that the Authority will in future procure the treatment facilities for the north London area, with a view to securing the economies of scale envisaged by the NLJWS. For this reason, it is considered best for the Authority to retain the fund for its future use.
- 4.2 As referred to above, proposals for the provision of future MRF facilities will be presented to the next meeting of the Authority. Additionally, the Authority may have further information about the new London Waste and Recycling Fund (LWRF). This was announced by the Government in July 2006, the details of which would be worked up in consultation with stakeholders. On 13 June 2007, the Environment Minister, Ben Bradshaw, announced the Government's intention to set up a statutory London Waste and Recycling Board. It will manage the London Waste Recycling Fund. The Board will be able to direct funding for key priorities in London and help stimulate investment in the infrastructure of waste management. The Government is committed to providing £19m by re-diverting an element of the existing London local authority waste funding currently provided by the Waste Performance and Efficiency Grant (WPEG) – the exact position will be determined in the autumn spending review - plus a contribution of £6m from the GLA, i.e. a total pot of about £25m is envisaged. Given that previous waste infrastructure funding support has required a degree of match funding by grant receiving authorities, it is quite likely that this trend will continue, and that the earmarked reserve may be needed for this.
- 4.3 In view of the forgoing, it is recommended that the future use of the earmarked reserve should be reviewed in the light of further developments, both in terms of determining the Authority's future treatment facility needs and operation of the London Waste and Recycling Fund.

#### **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.

None

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