

REPORT TITLE

REVENUE BUDGET AND LEVY 2007/08

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO**DATE**

AUTHORITY MEETING

7 FEBRUARY 2007

1. SUMMARY OF REPORT

This report indicates that following a fourth review of the 2006/07 budget the Authority is currently estimated to have a revenue surplus of £4.808m at 31 March 2007. As a consequence, it shows that after use of forecast revenue balances the proposed net revenue budget for 2007/08 of £48.593m will require funding of £43.785m by constituent councils. It is proposed that the funding will comprise charges for non-household waste of £8.884m and a levy of £34.901m. This represents a total increase of £1.908m (4.56%) over the combined cost to constituent councils in 2006/07.

This report proposes to return the benefit of forecast balances at 31 March 2007 to constituent councils by using the surplus balances to assist with the funding of the 2007/08 budget. However, Members should bear in mind that if balances are fully utilised in 2007/08 constituent councils face the prospect of a more significant levy increase in 2008/09.

In view of the notifications received from a number of constituent councils confirming their support for the new default provisions set out in the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006, the 2007/08 levy will be apportioned in accordance with these Regulations (inclusive of the transitional default arrangements). The transitional arrangements provided that the 'household waste' element of the 2007/08 levy will be apportioned on a two-thirds tonnage basis and one-third council tax basis, and that the 'other costs' element of the levy will be apportioned on a council tax basis.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Consider the 2006/07 revised budget and 2007/08 proposed budget.
- (ii) Agree the 2007/08 non-household waste charge at £56.97 per tonne.
- (iii) Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2007/08 budget.
- (iv) Note the medium term budget forecast for 2008/09, 2009/10 and 2010/11 .
- (v) Determine the levy for 2007/08.
- (vi) Note that the levy will be apportioned in accordance with default provisions of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006.
- (vii) Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for non-household waste.
- (viii) Approve the Prudential Indicators as set out at section 8.

Signed by the Financial Adviser:

Date:

3. **Introduction and Background**

- 3.1 At its meeting on 20 December 2006 Members were provided with an up to date assessment of the Authority's financial position, including an assessment of the budget and resource requirements for 2007/08.
- 3.2 Allowing for the use of forecast balances at 31 March 2007 of £4.872m, it was estimated that the total net cost to constituent councils in 2007/08 could be in the order of £44.078m, an increase of £2.201m (5.26%) over the total cost to boroughs in 2006/07 (£41.877m). The third review also drew attention to the budget issues that would need to be addressed at this meeting. With this in mind, the Chairman indicated that an all-party Member Group would meet early in January to discuss the budget setting for the next financial year. This meeting took place on 5 January 2007.
- 3.3 This report provides an up to date assessment of the 2006/07 budget and presents for consideration a draft budget for 2007/08.
- 3.4 Having taken account of the relevant factors the Authority must:-
- (i) be satisfied that the proposed budget will be sufficient to meet the net expenditure requirements for the year;
 - (ii) determine the levy.
- 3.5 Details of the approved budget and levy for 2007/08 must be notified to constituent councils for inclusion in their Council Tax charge before 15 February 2007.

4. **Review of the 2006/07 Revenue Budget**

- 4.1 At its meeting on 8 February 2006 the Authority agreed an original budget of £50.486m to be financed by estimated 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 (- £1.304m),
 - A reduction in the estimated LWL Compensation Review Claim (- £0.744m),
 - Additional Landlord's costs of operating the Hornsey Street Waste Transfer Station (+ £0.243m),
 - Higher than budgeted inflation level (+ £0.055m),
 - Reduction in non-household waste income due to a reduction in the waste stream (+ £0.447m),

- A write-back to revenue of an excess creditor provision allowed for recycling credits in the 2005/06 accounts (- £0.368m),
- 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 (- £0.379m),
- Increased income from investment of cash balances (- £0.346m),
- Landfill tax - the net effect of reduced incineration and increased bottom ash recycling by LondonWaste Ltd (+ 0.264m),
- Slippage in respect of procurement costs (consultants) – (- £0.250m),
- Other miscellaneous changes (- 0.134m).

4.3 A fourth review of the budget has identified a number of further changes, the net effect of which is estimated to reduce the level of surplus revenue balances likely to be available at 31 March 2007 by £0.064m to £4.808m. This review will form the basis of the 2006/07 revised budget. Details of the most significant changes and issues identified by the fourth review are discussed below.

4.4 **Transport and Disposal (Inc. Civic Amenity Waste) (+ £0.342m)**

4.4.1 In December Members were advised that based upon tonnage data available for the period April to October 2006 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 for recycling data provided by boroughs for the period April to September, the underlying growth in the waste stream appeared to have reduced to an annual rate of 0.7%. As four boroughs experienced some upward movement in their waste stream in the period July to October the third budget review allowed for a possible further tonnage increase of 0.5% over the remainder of the year and a full year residual tonnage forecast of 778,129 tonnes, i.e. a reduction of 22,568 tonnes compared with the original budget assumptions.

4.4.2 Data now available for the period up to December 2006 indicates a net reduction of 2.15% in the residual waste stream; a small favourable change (- 0.13%) compared with the December forecast. The underlying growth in the waste stream, i.e. before allowance is made for borough recycling and composting activity, remains at about 0.7%. Given, however, that five boroughs experienced an adverse change in their waste stream during November and December there remains a need to adopt a degree of caution in projecting the tonnage outturn for the year, particularly at this critical stage of the financial year. The fourth review therefore allows for a further 0.3% growth in the waste stream over the remainder of the year, i.e. 1% in total. This represents a reduction of 2,162 tonnes (0.2%) compared with the third review in December. On this basis the residual waste stream for the year is now estimated to reduce by 24,739 tonnes to 775,967 tonnes compared with the original budget assumptions, and by 13,900 tonnes compared with the residual tonnage outturn for 2005/06 (789,867 tonnes).

- 4.4.3 Compared with an original budget assumption of 2.5%, the provisional increase in the Retail Price Index for the year to December 2006 is 4.4%, i.e. an increase of 1.9%, and 0.7% higher than reported in December 2006.
- 4.4.4 Allowing for these changes and also changes in the waste flows of different waste disposal contracts the transport and disposal budget is estimated to increase by a £0.021m in 2006/07.
- 4.4.5 Details of the percentage movement in 2006/07 residual tonnage levels for each borough compared with the 2005/06 tonnages may be summarised as follows: -

Table 1	September Forecast (2nd Review)	December Forecast (3rd Review)	Current Forecast (4th Review)	Variance between 3rd & 4th Reviews
	<i>(April to July)</i>	<i>(April to October)</i>	<i>(April to December)</i>	
Barnet	- 5.42%	- 4.30%	- 3.90%	+ 0.40%
Camden	- 3.87%	- 1.26%	- 0.36%	+ 0.90%
Enfield	- 4.38%	- 3.91%	- 3.71%	+ 0.20%
Hackney	+ 2.08%	+ 0.20%	+ 2.35%	+ 2.15%
Haringey	+ 0.01%	- 1.15%	- 1.94%	- 0.79%
Islington	- 5.64%	- 2.95%	- 4.10%	- 1.15%
Waltham Forest	- 3.80%	- 4.03%	- 3.17%	+ 0.86%
Overall position	- 3.06%	- 2.28%	- 2.15%	- 0.13%

- 4.4.6 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 not been priced for in the original contract price). In December, based upon information provided by LondonWaste Ltd, I advised that in view of a significant improvement in the price that LondonWaste Ltd has now obtained for the sale of its electricity, and also the continued payment of a transport credit to the Authority (in consideration for allowing LondonWaste Ltd to maximise its claim without having to actually re-direct 75,000 tonnes of the Authority's waste to Edmonton for incineration), there would be a reduction of £0.744m in 2006/07. In the light of further information from LondonWaste Ltd this figure has been overstated and should be reduced to £0.423m, i.e. an adverse change of £0.321m. The reduced benefit will also impact on the 2007/08 draft budget.

4.5 **Landfill Tax (- £0.098m)**

- 4.5.1 As a consequence of the reduction in the residual waste stream the Authority's landfill tax liability is estimated to reduce by £0.042m.

4.5.2 In December I advised that, following completion of the Edmonton Energy-from-Waste boiler refurbishment to meet the requirements of the Waste Incineration Directive (WID), there had been a lower than expected amount of waste incinerated in the post-WID period to the end of November. Whilst, it was always expected that there would be an extended proving period to enable the boilers to settle after their refurbishment, it would appear based upon their performance to date that less waste is now required to maintain the performance of the boilers. Whilst this remains the case, there has been a small improvement in incineration levels during December. It is now reasonable to assume an incineration level of 500,000 tonnes in a full year (compared with 497,315 tonnes allowed for in the third review) for the purpose of estimating the Authority's potential landfill tax liability under the main waste disposal contract with LondonWaste Ltd. The fourth budget review therefore assumes that 2,685 fewer tonnes of waste will not now be sent to landfill, resulting in a further saving of £0.056m.

4.6 In-Vessel Composting Facility and Dry Recyclable Bulking Arrangement (- £0.243m)

4.6.1 The costs of the in-vessel composting operation have been reviewed, and in view of actual performance, the budget has been refined to allow for a lower estimate of the compost product output and residues that will require removal after the composting process. This is estimated to save a further £0.048m in 2006/07. There should be an ongoing benefit in 2007/08.

4.6.2 Further information from constituent boroughs indicates that the take up of the NLWA dry recyclable bulking arrangement will be lower than previously estimated, because some boroughs will continue to also operate through their existing recycling contractors. This will result in a saving against this expenditure head of £ 0.195m in 2006/07. However, this benefit will be partially offset by an increase in the tonnages claimed by those boroughs under the recycling credit scheme (see also paragraph 4.7.1 below). There will be an ongoing effect on the 2007/08 budget.

4.7 Recycling Credits (- £0.181m)

4.7.1 As indicated at paragraph 4.6.2 above, a reduction in the use of the NLWA dry recyclable bulking arrangement would add c. £0.176m to the cost of the recycling credit scheme in 2006/07. The remaining increase (£0.005m) relates, in the main, to the effect of the increase in the Retail Price Index on the value of the recycling credit payment.

4.8 Excess Creditor Provision (Previous Years) (- £0.036m)

4.8.1 The shredder claim with LondonWaste Ltd has been settled at £0.200m, £0.036m lower than that allowed for in the 2005/06 accounts. As a consequence the excess creditor provision can now be written back to revenue in 2006/07.

4.9 BMW Incentive Scheme (- £0.058m)

4.9.1 This scheme is intended to reward boroughs that increase the amount of biodegradable municipal waste (BMW) that they take out of the residual waste stream compared with the amount of BMW that they diverted in 2004/05. The original 2006/07 assumptions have been reviewed and revised downward to reflect slippage in the likely level of claims that will be submitted under this scheme.

4.10 Charges to Boroughs for Non-Household Waste (+ £0.037m)

4.10.1 In view of the changes both in the volume and make-up of the waste stream, non-household tonnages for the year are currently estimated to reduce by 8,254 tonnes for the year. Allowing, also, for a net reduction in the non-household charge from £53.32 to £53.03 tonne (to reflect the higher than previously estimated rate of inflation, i.e. plus £0.14, and a reduction in the Landfill Allowance Trading Scheme supplementary payment, i.e. minus £0.43), non-household charges are currently estimated to reduce by £0.485m (net) in 2006/07. This represents a reduction of £0.037m compared with the third review.

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

Table 2	2006/07 Original Estimate £	2006/07 Current Forecast £	Estimated Variance £
Barnet	1,074,611	1,024,168	- 50,443
Camden	1,889,181	1,781,331	- 107,850
Enfield	703,291	669,822	- 33,469
Hackney	1,250,301	1,221,122	- 29,179
Haringey	1,176,932	1,104,827	- 72,105
Islington	1,484,162	1,348,659	- 135,503
Waltham Forest	1,068,320	1,012,130	- 56,190
	8,646,798	8,162,059	- 484,739

4.10.3 The figures currently indicate that all seven boroughs could be entitled to a refund.

4.10.4 Constituent councils may wish to bear in mind the potential impact of the above changes in the context of their own budget process. The final charges will be calculated as part of the 2006/07 final accounts process and reported to the Authority in June 2007. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

4.11 Landfill Allowance Trading Scheme (LATS)

4.11.1 There are no changes to the figures previously reported. The review allows for a projected surplus of 33,644 allowances at year-end with a notional cash value of c. £0.680m (based upon the 2005/06 book value of £20.20 per allowance). To the extent that there is a surplus at year-end the notional value of the allowances will be transferred to the LATS earmarked reserve pending a decision on the future use of the surplus. It was envisaged that it would be possible to come to this meeting with a proposed trading strategy, however, further work is required before a suggested way forward can be recommended. This will be the subject of a future report to the Authority.

4.12 Bad Debt Provision (+ £0.147m)

4.12.1 A bad debt provision has been established to allow for the possible non-recovery of technical support costs from Ashburton Grove Properties. These costs were incurred by the Authority in connection with the Ashburton Grove/Hornsey Street relocation.

4.13 Contingency (- £0.200m)

4.13.1 Although individual budget heads have been reviewed in the light of the latest available information there is a risk that unforeseen costs, particularly as a result of changes in the waste stream, could arise during the closing months of the year. As a consequence, it is recommended that a contingency of £0.300m be retained in the 2006/07 revised budget. This will enable the original contingency provision to be reduced by £0.200m.

4.14 Overview of the 2006/07 Revised Budget

4.14.1 Allowing for the above factors, the proposed 2006/07 revised budget for the Authority is £46.572m. This represents a net increase of £0.027m when compared with the third budget review in December. Allowing also for a further reduction in non-household charges (+£0.037m), the revenue surplus at 31 March 2007 is therefore estimated to reduce to £4.808m.

4.14.2 Details of the variations, which have led to a reduction in forecast revenue balances at 31 March 2007, may be summarised as follows:-

	£'000
Transport and Disposal	21
LondonWaste Ltd – Compensation Review Claim	321
In-Vessel Composting and Bulking of Dry Recyclables	(243)
Landfill Tax	(98)
Recycling Credits	181
Excess Creditor Provision (Previous Years)	(36)
LATS BMW Incentive Scheme	(58)
Non-household Charges	37
Interest on Balances	(9)
Bad Debt Provision	147

Contingency	(200)
Earmarked Reserve (Recycling)	1

Reduction in Revenue Balances	64

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

Table 3

2006/07 Original Budget	2006/07 Third Review	2006/07 Fourth Review	Variance between 3rd & 4th Reviews
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Expenditure	£'000	£'000	£'000	£'000
Main Waste Disposal Contract (Ex. CA Waste)	26,879	25,552	25,857	305
- Clinical Waste	236	239	249	10
- Fridges and Freezers	482	513	513	
- In-Vessel Composting Facility (48)	1,710	1,578	1,530	
- Dry Recyclable Bulking Arrangement	1,211	964	769	(195)
Civic Amenity Waste	1,706	1,499	1,526	27
Landfill Tax				6,592
	6,397	6,299	(98)	
Hazardous Waste – TV and Computer Screens	109	200	200	
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	5,576	5,757	181
Other Recycling Initiatives	100	100	100	
BMW Diversion Incentive Scheme	432	432	374	(58)
Agency Services	487	499	499	
Waste Strategy and Contracts Team	846	768	768	
Waste Contract – Procurement Costs (Consultants)	500	250	250	
Annual Compensation	32	32	32	
Provision for Litigation Costs etc	50	50	50	
Contribution to Earmarked Reserve/Recycling	50	60	61	1
LATS – Use of Allowances	0	5,797	5,797	
LATS – Transfer to Reserve (Surplus Allowances)	0	680	680	
Excess Creditor Provision (Previous Years)	<u>0</u>	<u>(368)</u>	<u>(404)</u>	<u>(36)</u>
	50,918	54,148	54,237	89
Less				
Income				
Rents	(82)	(80)	(80)	
Interest on Balances	(850)	(1,546)	(1,555)	(9)
LATS – Grant	(0)	(6,477)	(6,477)	
Bad Debt Provision	0	0	147	147
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(932)	(8,103)	(7,965)	138
Net Expenditure	49,986	46,045	46,272	227
Contingency	500	500	300	(200)
Total Net Expenditure 2006/07	<u>50,486</u>	<u>46,545</u>	<u>46,572</u>	<u>27</u>
Financed By :-				
Balances b/fwd	(8,609)	(9,987)	(9,987)	
Charges to Boroughs (Non-household waste) *	(8,646)	(8,199)	(8,162)	37
2006/07 Levy *	<u>(33,231)</u>	<u>(33,231)</u>	<u>(33,231)</u>	<u> </u>
Total Resources Available	<u>(50,486)</u>	<u>(51,417)</u>	<u>(51,380)</u>	<u>64</u>
Estimated Revenue Balances				
as at 31 March 2007 (Surplus)	(0)	(4,872)	(4,808)	64
Total cost to Boroughs in 2006/07 *	41,877			
5. <u>2007/08 Proposed Budget</u>				

- 5.1 Further to my assessment of the 2007/08 budget and resource requirements in December I have undertaken a further review of the assumptions that supported this forecast. The results of this review are reflected in table 4 below:-

Table 4	2006/07 Original Budget £'000	2007/08 Proposed Budget £'000
Expenditure		
Main Waste Disposal Contract (Ex CA Waste)	26,879	26,774
- Clinical Waste	236	269
- Fridges and Freezers	482	218
- In-Vessel Composting Facility	1,710	1,697
- Dry Recyclable Bulking Arrangement	1,211	1,256
Civic Amenity Waste	1,706	1,659
Landfill Tax	6,592	7,073
Hazardous Waste – TV and Computer Screens	109	82
WEEE Directive	750	0
Hendon Rail Transfer Station	414	447
Hornsey Street Transfer Station	2,652	2,982
Recycling Credits	5,680	3,477
Other Recycling Initiatives	100	129
BMW Diversion Incentive Scheme	432	642
Agency Services	487	514
Waste Strategy and Contracts Team	846	896
Waste Contract – Procurement Costs	500	700
Annual Compensation	32	33
Provision for possible Litigation Costs	50	50
LATS – Use of Allowance	0	5,875
LATS – Transfer to Reserve (Surplus Allowances)	0	808
Contribution to Earmarked Reserve/Recycling	<u>50</u>	<u>66</u>
	50,918	55,647
Less		
Income		
Rents	(82)	(83)
Interest on Balances	(850)	(788)
LATS – Grant	(0)	(6,683)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>
	(932)	(7,554)
Net Expenditure	49,986	48,093
Contingency	500	500
2007/08 Proposed Budget	<u>50,486</u>	<u>48,593</u>
	=====	=====
To be financed by :-		
Estimated Balances b/fwd	(8,609)	(4,808)
Charges to Boroughs (Non-household waste) *	(8,646)	(8,884)
2007/08 Proposed Levy *	(33,231)	(34,901)
Total proposed funding by Boroughs – 2007/08 *	(41,877)	(43,785)
Increased cost to Boroughs compared with 2006/07		(+ 1,908)
		(+ 4.56%)

- 5.1.1 The figures in table 4 show that the net budget requirement for 2007/08 of £48.593m has reduced by £1.893m compared with the 2006/07 original budget. Allowing for the use of

forecast revenue balances of £4.808m at 31 March 2007 the net cost to constituent councils in 2007/08 is estimated to be £43.785m; comprising charges for non-household waste of £8.884m and a levy of £34.901m in respect of household waste and the core costs of operating the Authority. This represents an increase of £1.908m (4.56%) over the cost to boroughs in 2006/07 (£41.877m).

5.1.2 The following forecasts and assumptions have been taken into account:-

5.2. **Inflation**

5.2.1 A continuation of current RPI increases (4.4%) into 2007/08 plus a general allowance for inflation of 3% on the anniversary of the relevant price review date.

5.3 **Transport and disposal**

5.3.1 The level of waste entering the Authority's waste stream over the past two to three years has been affected by the significant stepped change in borough recycling activity. Despite this success, however, the underlying waste stream continues to grow, albeit at a slower pace. On the basis of information provided by boroughs the 2007/08 residual tonnage forecast allows for a reduction of 16,027 tonnes to reflect the boroughs' planned increase in recycling and composting over the coming year. However, this benefit is to a large extent still negated by the need to allow for a continued growth in the total waste stream (before recycling is taken into account), which continues to grow at about 1% per annum. After allowing for a general growth of 1% (2% was allowed in the 2006/07 original budget) and the full year effect of new/re-opening civic amenity facilities, the 2007/08 total waste stream (before recycling activity) is estimated to grow by 11,760 tonnes. As a consequence, the 2007/08 transport and disposal budget has been based upon a total residual waste stream of 771,700 tonnes, i.e. a net reduction of 4,267 tonnes over the 2006/07 projected outturn.

5.4 **In-Vessel Composting Facilities and Dry Recyclable Bulking Arrangement**

5.4.1 The budget forecast allows for the cost of processing green and similar wastes through the in-vessel composting facility at Edmonton at a cost of £1.697m (30,000 tonnes) and a full year of the bulking arrangement for dry recyclable waste at a cost of £1.256m (25,500 tonnes) – via Edmonton and Hornsey Street. Both estimates are based upon the boroughs' latest forecasts of their use of these services in 2007/08. The circumstances set out at paragraph 4.6.2 also apply to 2007/08.

5.5 **LondonWaste Ltd - Compensation Review**

5.5.1 The 2007/08 draft budget allows for an estimated claim of £2.987m. For reasons already set out at paragraph 4.4.6 this figure is £0.387m higher than allowed for in the December 2007/08 budget forecast.

5.6 **Fridges and Freezers, TV and Computer Screens (WEEE Directive)**

5.6.1 A report elsewhere on this agenda sets out the timescales for implementation of the Waste Electrical and Electronic Equipment Directive. As there is now greater certainty that the scheme will now be introduced, the benefit can be reflected in the 2007/08 draft budget. The budget assumes that the Authority will continue to bear the full cost of treatment and disposal in the first quarter of 2007/08 and only a handling charge thereafter. Compared with the December 2007/08 forecast this has resulted in a saving of £0.431m.

5.7 **Landfill Tax**

5.7.1 The standard rate of landfill tax is expected to rise from £21 to £24 per tonne on 1 April 2007.

5.8 **Hornsey Street Waste Transfer Station**

5.8.1 The 2007/08 proposed budget allows for the full year cost of operating this facility based upon information previously provided by both the London Borough of Islington (landlord costs) and LondonWaste Ltd (operational costs). LondonWaste Ltd has indicated that its operating costs may be lower but at this time is not in a position to quantify this benefit (this also applies to 2006/07).

5.9 **Recycling Credits/Other Recycling Initiatives**

5.9.1 2007/08 is the second of a three-year transition to a tonnage-based levy. Although the Government removed the duty for joint waste disposal authorities to pay a recycling credit to its constituent boroughs on 1 April 2006, the Authority at its budget meeting in February 2006 decided to operate a local recycling credit scheme that would mirror the transitional change to a tonnage based levy, i.e. the recycling credit value would be reduced to 66.7% and 33.4% of the estimated full credit value in 2006/07 and 2007/08 respectively. The 2007/08 budget forecast therefore allows for an estimated recycling credit payment of £23.54 per tonne (£43.79 in 2006/07). Tonnages are based upon the latest recycling and composting forecasts provided by the boroughs but adjusted for tonnages that pass through the Authority's in-vessel composting facility and dry-recyclable bulking arrangement with LondonWaste Ltd. On this basis the 2007/08 draft budget is £3.149m.

5.9.2 The recycling credits budget also allows for an increase in the payment of third party credits (including, new for 2007/08, re-use credits). A report elsewhere on this agenda recommends registration for a number of community groups/not for profit organisations and to private sector profit making organisations for which a total provision of £0.328m has been made.

5.9.3 The 2007/08 draft budget for other recycling initiatives has been reduced from £0.175m to £0.129m compared with December forecast. This remaining proposed budget allows for the estimated financial impact of support to the Real Nappies for London (RNfL) scheme approved at the December 2006 meeting of the Authority. Concern was expressed at the Budget Members' Working Group at the extent of the provision for re-useable nappies and the financial sustainability of this. Whilst most of the expenditure will only arise if the

RNFL forecast up-take is achieved, Members nevertheless asked that this matter is kept under review.

5.10 Waste Strategy and Contracts Team

5.10.1 The 2007/08 draft budget allows for a full complement of staff. However, compared with the December forecast the budget for waste prevention and reduction initiatives has been reduced from £0.080m to £0.022m.

5.11 Implementation of the Joint Waste Strategy

5.11.1 The Authority is about to embark on a major procurement process and therefore it is essential the Authority is appropriately supported in order to ensure that it is well placed to secure the best contractual terms for the Authority. As this is likely to involve the need to engage external support across a wide range of professional disciplines the 2007/08 draft budget allows a provision of £0.500m for this purpose. Given the scale of the procurement process it is inevitable that the Authority will also need to establish an in-house project team that will work with the external consultants. Although details of the structure and how this will work have yet to be developed it is important that next year's budget makes provision for this and a provision of £0.200m has been allowed for in the 2007/08 proposed budget.

5.11.2 Currently, no allowance has been made for the potential capital cost of implementing the Joint Waste Strategy in 2007/08. Given the additional treatment facilities that will be required in the medium term, the Authority will have the option of seeking to secure sites and building these facilities and/or purchasing merchant capacity. The capital implications of this will depend upon the development of a detailed procurement programme plan and a business case review of the potential options. This will be the subject of a future report to the Authority.

5.11.3 In December, the procurement report drew attention to the cost implications of delivering the North London Joint Waste Strategy and the impact of re-tendering for its waste treatment/disposal when the current contract with LondonWaste Ltd expires in December 2014. By 2015/16 it has been estimated that the revenue costs of the Authority contracted operational services could possibly double in real terms. With this in mind, Members may wish to reflect on the possibility of establishing a reserve over the coming years, from balances – should these arise – in order to help smooth the future increase in the cost to boroughs through the levy.

5.12 Contribution to Earmarked Reserve (Recycling)

5.12.1 The Authority has previously decided to preserve the value of its Earmarked Reserve for Recycling by making a contribution to the fund equivalent to the interest on the balances held in the fund. The principle is effectively reaffirmed each year as part of the budget process. The 2007/08 draft budget continues to assume that a further contribution will be made to the earmarked reserve, however, this is an area of the budget that Members could decide to review. The budget assumes a contribution of £0.066m but in practice will depend upon cash flow, interest rates and the extent to which the fund is used. At the 31st

March 2007 the earmarked reserve is estimated to have a value of £1.320m. The Reserve was originally established in 1999/2000 following the payment of a special dividend by LondonWaste Ltd out of its Packaging Recovery Notes (PRN) income. The Packaging Waste Regulations require that this income is used to fund recycling initiatives only.

5.13 Dividend Income (LondonWaste Ltd)

5.13.1 No income is expected 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 Charges

5.15.1 As previously advised the draft budget assumes the continued use of the existing trade waste charging scheme and waste survey data as a basis for calculating non-household waste charges in 2007/08.

5.15.2 Based upon estimated non-household tonnages of 155,956 tonnes and a total cost per tonne of £56.97 (comprising a basic cost per tonne of £51.97 and a LATS supplementary charge of £5.00 per tonne) the total cost to boroughs in 2007/08 is estimated to be £8.884m. The basic cost of £51.97 allows for price inflation of 4.4/3.3% and £3 increase in landfill tax rates in April 2007.

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

Table 5	2007/08 Estimated Tonnes	2007/08 Estimated Cost (Including LATS Premium Charge) £
Barnet	19,539	1,113,137
Camden	34,066	1,940,740
Enfield	12,810	729,785
Hackney	23,353	1,330,420
Haringey	21,107	1,202,466
Islington	25,773	1,468,288
Waltham Forest	19,308	1,099,977
Total	155,956	8,884,813

5.16 Reward Scheme for the Diversion of Biodegradable Municipal Waste (BMW)

5.16.1 Assuming a notional value of £10 per tonne the cost of the reward scheme is estimated to be in the region of £0.642m.

5.17. **Landfill Allowance Trading Scheme (LATS)**

5.17.1 The Authority expects to be in a favourable trading position in 2007/08 and is currently estimated to have a surplus of c. 40,000 allowances. The draft budget allows for a notional value of the credits based upon the 2005/06 book value (£20.20).

5.18 **Contingency**

5.18.1 Previous sections of this report have advised Members of the robustness of individual budget heads to meet the Authority's statutory waste disposal obligations. Whilst I believe that these budgets are soundly based, the Authority needs to consider how it would fund any additional costs. In particular, if there are issues concerning the level of the waste stream in the year ahead or the proportion of it delivered to the Authority by constituent councils.

5.18.2 In coming to a view on this, Members should bear in mind that it is currently envisaged that forecast balances at 31 March 2007 will be fully utilised during the course of 2007/08, and that by law, the Authority is not able to make a substitute levy. Additionally, following divestment of the Authority's operations in accordance with the Environmental Protection Act 1990, the Authority now has very little scope to make compensating savings for costs which may arise in meeting its waste disposal obligations. Similarly, although the Authority has responsibility for the disposal of the waste arisings from its constituent councils, it has no direct control over the volumes of waste entering the waste stream.

5.18.3 Members will also be aware that the Local Government Act 2003 places a formal duty on the Financial Adviser to report to Members on the adequacy of its reserves.

5.18.4 In view of the foregoing, and allowing also for the retention of a contingency of £0.300m in 2006/07, my advice is that a contingency of £0.5m is allowed for in the 2007/08 proposed budget. This equates to a 1% increase in the waste stream.

6. **Apportionment of the Levy**

6.1 The decision on the apportionment of the levy is a matter for the Authority's 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 transitional 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 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 2007/08 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. In view of the notifications received from a number of constituent councils confirming their support for the new default provisions set out in the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006, the 2007/08 levy will be apportioned in accordance with these Regulations (inclusive of the transitional default arrangements).
- 6.5. The levy apportionment arrangements require constituent councils to formally notify the Authority of both their council tax base for 2007/08 and also their household waste tonnages for 2005/06 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. At the time of writing, all but one constituent council has advised the Authority of its council tax base, however, only four boroughs have confirmed their 2005/06 household tonnage figures. The proposed apportionment of the 2007/08 levy as set out at Appendix A is therefore conditional upon formal notification/confirmation of the figures contained in table 6.

Table 6 below provides details of both constituent council 2007/08 council tax base figures and their 2005/06 household tonnages:

Table 6	2007/08 Council Tax Base	2005/06 Household Tonnages
Barnet	135,345.00	113,975
Camden	92,250.00	80,027
Enfield	108,068.00	88,697
Hackney	68,563.00 Provisional	87,657
Haringey	84,468.00	86,801
Islington	82,597.19	74,081
Waltham Forest	74,506.00	77,222
Total	645,797.19	608,460

7. **Medium Term Budget Forecast for 2008/09 and for 2009/10 and 2010/11**

- 7.1 Assuming full utilisation of revenue balances by 31 March 2007 and further year-on-year increases in the waste stream of 1% per annum (as adjusted for further stepped increases in recycling), the termination of the Authority's local recycling credit scheme in 2007/08, implementation of the WEEE Directive during 2007/08 and boroughs making greater use of

the Authority's in-vessel composting and dry recyclable bulking arrangement, the percentage increase in the cost to constituent councils is estimated to be 10.9% in 2008/09, 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 at 31st March 2007 will be used to part fund the 2007/08 budget. Future years forecasts do not, at this stage, assume the availability of any in year balances to offset the levy increase. Officers will, however, continue to exercise tight control over expenditure with any underspend then being available in the following year to mitigate levy increases. Further information can be found at Appendix B.

- 7.2 This forecast is based upon known and proposed changes to the landfill tax rates during this period (the standard rate of tax is expected to rise annually by £3 per tonne).
- 7.3 Although the current budgets allow for the cost of developing a joint waste strategy with its constituent councils no specific allowance has been made for the costs of delivering the strategy.
- 7.4 It is currently envisaged that the combined effect of recycling, composting and use of the Edmonton energy-from-waste facility should obviate the need for the Authority to buy allowances before 2010/11. The Authority should find itself with a favourable trading position during this period and therefore any sale proceeds will be available to assist with the costs of meeting the the joint waste strategy or as directed by the Authority.

8. Capital Programme – Prudential Indicators

- 8.1 The Prudential Code (the Code) of Borrowing came into effect on 1 April 2004.
- 8.2 The Authority is required to agree indicators for the period to 2009/10, even if they are nil. Although the Authority does not at present have a capital programme it is about to embark on a procurement process and therefore this position may well change in the future. For the time being the Authority is therefore requested to approve the following indicators:

Capital Expenditure					
	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
NLWA	Nil	Nil	Nil	Nil	Nil

- 8.3 The Authority has no outstanding debt. Also, the Authority currently has no new plans that will involve external borrowing. As a consequence, the following ratio of financing costs to net revenue stream are recommended for approval:-

Ratio of Financing Costs to Net Revenue Stream					
	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
NLWA	Nil	Nil	Nil	Nil	Nil

- 8.4 The Capital Financing Requirement measures the underlying need to borrow. The following capital financing requirements are recommended for approval:-

Capital Financing Requirement					
	31.03.06 Actual	31.03.07 Estimate	31.03.08 Estimate	31.03.09 Estimate	31.03.10 Estimate
NLWA	Nil	Nil	Nil	Nil	Nil

- 8.5 In order to ensure that over the medium term borrowing will only be for a capital purpose, the Authority will need to ensure that net external borrowing does not, except in the short term, exceed the total of the Capital Financing requirement in the previous year plus estimates of any additional Capital Financing Requirement for the budget year and the next two years. As the Authority does not have any capital expenditure plans that involve borrowing the authorised limit for external debt for this period is nil. The following authorised limits for external debt are recommended for approval: -

Authorised Limit for External Debt					
	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Borrowing	Nil	Nil	Nil	Nil	Nil
Other long term liabilities	Nil	Nil	Nil	Nil	Nil

- 8.6 The following operational boundaries for external debt are recommended for approval-

Operating Boundary for External Debt					
	2005/06 Actual	2006/07 Estimate	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate
Borrowing	Nil	Nil	Nil	Nil	Nil
Other long term liabilities	Nil	Nil	Nil	Nil	Nil

- 8.7 The above indicators may need to be reviewed in the light of the review by consultants of the procurement options available to best achieve the facility requirements outlined in the North London Joint Waste Strategy.

9. **Advice on Reserves and Balances and Robustness of the Budget Process**

- 9.1 Advice is usually provided at this stage on the level of reserves and balances available to the Authority, and on the robustness of the estimates that have been used to arrive at the proposed budget. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Financial Adviser) to report to the Authority on:

The adequacy of the proposed reserves

The robustness of the budget

- 9.2 The level of balances and the robustness of estimates are closely linked. Balances and reserves should be set at a level that takes account of the financial risks facing the authority; the greater the level of uncertainty, the more likely balances will be needed. A budget is prepared on the best information available at the time, and inevitably includes some uncertainty.
- 9.3 It is important that, in setting the budget, Members take account of the uncertainties involved, both in establishing a suitable level of balances and contingencies, and also in setting an overall strategy for the budget. This involves, for example, ensuring that only resources likely to be available in the long term are used to accomplish long-term objectives.
- 9.4 In my view, and taking account of the issues raised above, the Authority's budget estimates are sufficiently robust this year to deal with the current risks and uncertainties facing the Authority. However, the process can be improved, and would need to be strengthened in a period of greater instability.

10. **Conclusion**

- 11.1 Although there are a number of areas where there is a degree of uncertainty I am satisfied that the detailed budgets are soundly based. Allowing also for the inclusion of prudent levels of contingency in both the 2006/07 revised budget and 2007/08 proposed budget, the overall budget should be sufficiently robust to meet the Authority's expenditure requirements over this period. The medium term budget forecast indicates that the costs of the Authority will benefit from the removal of the duty to pay recycling credits, however, constituent councils will need to look at the impact of this on their waste management costs in the round. The Authority is forecast to have surplus balances of £4.808m at 31 March 2007. The reasons for this position are set out in this report. It is the custom to fully utilise forecast balances at this date to assist with the funding of the subsequent years budget. The impact of fully utilising available revenue balances to assist with the funding of the 2007/08 budget will mean that constituent councils face the prospect of a more significant levy increase in 2008/09.
- 11.2 The decision on the level of the levy is one that only the Authority can make and in reaching its decision, Members should have regard to the advice contained in this report. Members are reminded that forecast revenue balances at 31 March 2007 are expected to be fully utilised in the coming year and therefore they must satisfy themselves that the proposed budget and levy is sufficient to meet the Authority's statutory obligations in the year ahead.

12. **Comments of the Legal Adviser**

- 12.1 The Legal Adviser has been consulted on 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 8 February 2006, 28 June 2006, 20 September 2006 and 20 December 2006

Budget working papers

Notification letters from constituent councils in respect of their 2007/08 Council Tax base and 2005/06 actual household tonnages delivered to the NLWA for disposal.

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