

**REPORT TITLE**

REVENUE BUDGET AND LEVY 2006/07

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO****DATE**

AUTHORITY MEETING

8 FEBRUARY 2006

**1. SUMMARY OF REPORT**

This report indicates that following a fourth review of the 2005/06 budget the Authority is currently estimated to have a revenue surplus of £8.609m at 31 March 2006. As a consequence, it shows that after use of forecast revenue balances the proposed net revenue budget for 2006/07 of £50.486m will require funding of £41.877m by constituent councils. It is proposed that the funding will comprise charges for non-household waste of £8.646m and a levy of £33.231m. This represents a total reduction of £7.410m (15%) over the combined cost to constituent councils in 2005/06. The reduction represents in part the effect of the Government's decision to amend the default arrangements for apportioning the levy and as a consequence the removal of the duty of the Joint Waste Disposal Authorities to pay recycling credits to their constituent councils, but also the outcome of a critical review of the Authority's budget requirements for both the remainder of 2005/06 and 2006/07.

This report proposes to return the benefit of forecast balances at 31<sup>st</sup> March 2006 to constituent councils by using the surplus balances to assist with the funding of the 2006/07 budget. However, Members should bear in mind that if balances are fully utilised in 2006/07 constituent councils face the prospect of a significant levy increase in 2007/08.

Although this report is prepared on the basis that the Government will be amending the default arrangements for apportioning the levy in time for 2006/07, at the time of finalising this report the proposed Statutory Instruments have yet to be laid in Parliament. The Government's proposals have both budget and levy apportionment implications. Members and constituent councils will therefore be kept informed of any material developments that may arise after the despatch of this report.

**2. RECOMMENDATIONS**

The Authority is requested to:-

- (i) Consider the 2005/06 revised budget and 2006/07 proposed budget.
- (ii) Agree the establishment of a transitional recycling credit scheme as set out at section 5.12.
- (iii) Agree the biodegradable diversion incentive scheme as set out in section 5.15.
- (iv) Agree the 2006/07 non-household waste charge at £53.32 per tonne.
- (v) Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2006/07 budget.
- (vi) Note the medium term budget forecast for 2007/08, 2008/09 and 2009/10 .
- (vii) Determine the levy for 2006/07.
- (viii) Agree the basis for apportioning the levy as set out in section 6.
- (ix) Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for non-household waste.
- (x) Approve the Prudential Indicators as set out at section 8.
- (xi) Note the Authority’s contribution towards the Gershon efficiency savings and agree the basis of allocation between constituent councils.

Signed by the Financial Adviser: .....

Date: .....

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

- 3.1 At its meeting on 7 December 2005 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 2006/07.
- 3.2 Allowing for the use of forecast balances at 31 March 2005 of £5.079m, it was estimated that the total net cost to constituent councils in 2006/07 (assuming no change in the default arrangements for apportioning the levy) could be in the order of £52.023m, an increase of £2.736m (5.55%) over the total cost to boroughs in 2005/06 (£49.287m). The third review drew attention to the budget issues that would need to be addressed at this meeting including the need for the Authority to finalise its thoughts on the proposal to introduce a supplementary charge for non-household waste to reflect the use of allowances awarded to the Authority under the Landfill Allowance Trading Scheme (LATS) and the introduction of a biodegradable diversion incentive scheme for municipal waste. With the latter in mind Members in December decided that these issues should be examined in detail by the all-party LATS Members' Working Group with the outcome discussed and the implications for the 2006/07 proposed budget determined in consultation with the Chair. The LATS Members' Working Group met on 16 January 2006 and the outcomes as discussed with the Chair have been reflected in the 2006/07 proposed budget.
- 3.3 The December meeting also drew attention to the difficulties of dealing with the uncertain outcome of the Government's consultation to review the default arrangements for apportioning the levy. The Government's response, which has culminated in the decision to amend the default arrangements for apportioning the levy from a council tax basis to a tonnage basis over a three year period, and the regulations that would give effect to changes for 2006/07, were finally made available on 13 January 2006. The levy apportionment changes also have budget implications, particularly in relation to the Government's statutory recycling credit scheme. The Government has also announced that as a consequence of the levy apportionment changes it will be making arrangements to remove the duty for the Joint Waste Disposal Authorities (JWDAs) to pay recycling credits to their constituent councils from April 2006, but without the benefit of a transitional arrangement. As a consequence, officers have also taken the opportunity to discuss the implications of this change with the Members of the LATS Members' Working Group, and after consultation with the Chair, the Authority's 2006/07 budget makes provision for a local recycling credit scheme that mirrors the transitional arrangements for moving to a tonnage-based levy.
- 3.4 This report provides an up to date assessment of the 2005/06 budget and presents for consideration a draft budget for 2006/07.
- 3.5 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.

3.6 Details of the approved budget and levy for 2006/07 must be notified to constituent councils for inclusion in their Council Tax charge before 28 February 2006. This date would normally be 15 February 2006, however, the Authority has learnt that the Statutory Instrument that will be laid before Parliament will contain the later date for 2006/07 only in order to accommodate the late changes to the default levy apportionment arrangements. At the time of writing the new regulations have not been laid in Parliament.

#### 4. **Review of the 2005/06 Revenue Budget**

4.1 At its meeting on 9 February 2005 the Authority agreed an original budget of £54.054m to be financed by estimated balances of £4.767m, charges to boroughs for non-household waste of £7.450m and a levy of £41.837m.

4.2 In subsequent reviews up to December 2005 Members have been advised of:

- The higher level of balances brought forward from 2004/05 (- £1.587m),
- Slippage of income from 2004/05 (- £0.350m),
- Increased income from investment of balances (- £0.200m),
- Reduction in the budgeted level of recycling credit payments (- £1.760m),
- The impact of potential changes in the waste stream and the costs of final disposal due to the reduction in the budgeted levels of recycling and composting (+ £1.567m),
- A reduction in the growth of the waste stream (- £1.882m),
- A reduction in the estimated LWL Compensation Review Claim (- £0.856m),
- Additional landlord and operational costs of operating the Hornsey Street Waste Transfer Station (+ £0.926m),
- Reduction in the estimated value of the LWL hazardous waste claim (APC residues) (- £0.594m)
- Negotiated saving for the treatment of fridges and freezers (- £0.515m),
- The write-back to revenue of an excess creditor provision allowed for recycling credits in the 2004/05 accounts (- £0.391m),
- Reduction in non-household charges (+£0.381m),
- Other miscellaneous changes (+£0.182m).

4.3 A fourth 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 2006 by £3.530m to £8.609m. This review will form the basis of the 2005/06 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 and Landfill Tax) (- £0.577m)**

- 4.4.1 In December Members were advised that based upon tonnage data available for the period April to October 2005 there had been a net reduction of 4.02% in the level of residual waste entering the Authority's waste stream over the same period in 2004/05. Allowing for recycling data provided by most boroughs for the period April to October, the underlying growth in the waste stream appeared to have reduced to an annual rate of 1.1% compared with an actual growth rate of 2.8% experienced in the April to June period. However, in view of the absence of up-to-date recycling data from all boroughs, and given that the decline in the residual waste stream for five boroughs, although still showing a reduction compared with 2004/05, had been halted, the third review allowed for a 2% growth in the underlying waste stream. As a consequence the 2005/06 residual waste stream was estimated to reduce by 20,241 tonnes to 805,763 tonnes (826,004 tonnes in 2004/05).
- 4.4.2 Data now available for the period up to December 2005 indicates a net reduction of 3.61% in the residual waste stream; a small adverse change compared with the December forecast. Allowing, however, for more up-to-date actual recycling data for the period to November from all boroughs, as well as revised full year borough forecasts, the underlying growth in the total municipal waste stream appears to have slowed to 0.6%. Although the Authority is now in possession of more up-to-date recycling tonnage data, which it did not enjoy at this time last year when considering the outturn position for 2004/05 and budget for 2005/06, the degree of change between recent reviews of some boroughs confirms the need for the Authority to continue to adopt a degree of caution particularly at this critical stage of the financial year. The fourth review therefore allows for a 1% growth in the residual waste stream together with a small allowance for increased activity at new civic amenity sites, i.e. a total provision of 1.1%. On this basis the residual waste stream for the year is now estimated to reduce by 24,438 tonnes to 801,566 tonnes (826,004 tonnes in 2004/05). Further consideration on this matter is given at paragraph 4.12 in respect of 2005/06 and paragraphs 5.3 and 5.18 in respect of 2006/07.
- 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 2005 is 2.2%, i.e. a reduction of 0.3%.
- 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 reduce by a further £0.421m in 2005/06.
- 4.4.5 Details of the percentage movement in 2005/06 residual tonnage levels for each borough compared with the 2004/05 tonnages may be summarised as follows: -

Table 1	October Forecast (2nd Review)	December Forecast (3rd Review)	Current Forecast (4th Review)	Variance between 3rd & 4th Reviews
	<i>(April to August)</i>	<i>(April to October)</i>	<i>(April to December)</i>	
Barnet	- 5.90%	- 4.88%	- 3.34%	+ 1.54%
Camden	- 3.64%	- 3.16%	- 3.34%	+ 0.18%
Enfield	- 4.88%	- 6.04%	- 5.22%	+ 0.82%
Hackney	- 2.05%	- 0.83%	- 0.72%	+ 0.11%
Haringey	- 2.11%	- 3.09%	- 2.77%	+ 0.32%
Islington	- 3.66%	- 3.34%	- 3.38%	- 0.04%
Waltham Forest	- 7.92%	- 6.45%	- 6.50%	- 0.05%
Overall position	- 4.36%	- 4.02%	- 3.61%	+ 0.41%

#### 4.5 Legislative Review – Hazardous Waste (- £1.985m)

- 4.5.1 The Authority's original budget allowed for a possible payment to LondonWaste Ltd in respect of the additional costs incurred by the Company for the disposal of the air pollution control residues that were arising from the incineration process at the Edmonton facility. The increased cost came from new rules to end the co-disposal of hazardous and non-hazardous waste which came into effect in July 2004.
- 4.5.2 At the budget meeting in February 2005 the Authority took into account the possibility that it may have to make a payment in respect of both 2004/05 (part year) and 2005/06. Initially LondonWaste Ltd submitted a partial claim for 2004/05 (covering the period from July 2004 to December 2004) and has more recently provided an up-to-date assessment of costs that are being incurred by the Company; a budget reduction of £0.594m was allowed for in third review.
- 4.5.3 Members will be aware from previous reports that the Company has been requested to substantiate the merit of its claim and to justify a payment by the Authority which would be outside the payment arrangements set out in the legislative review clause contained in the Deed of Variation to the Acquisition and Collaboration Agreement (hereafter referred to as the Deed). The Deed states that any payments that the Authority makes to the LondonWaste Ltd under the legislative review clause is limited in any year to the dividend payment that the Authority receives from the Company. LondonWaste Ltd has not paid a dividend for a number of years and is unlikely to do so in the immediate future (under review). As a consequence any costs that are eligible to be recovered from the Authority are carried forward to the next and following years until future dividends paid to the Authority enable a payment to be made to the Company. Although in practice it could take a number of years for the Company to fully recover its costs from the Authority this is a cashflow issue and one that is recognised in the Deed. There is of course the possibility that the Company may not recover all of its costs by the end of the waste contract in 2014. In this circumstance, any costs which remain outstanding after payment of any dividend in the

year following the expiry of the contract period (2015) will cease to be recoverable from the Authority. Whilst the merit and quantum of the claim have yet to be agreed with LondonWaste Ltd the position remains that the Company has not offered any valid reason that the Authority could legitimately take into account (e.g. the Company could no longer continue to trade) that could result in a voluntary payment by the Authority outside the contractual payment arrangements.

4.5.4 Whilst the Authority may need to return to this issue if the Company's circumstances change, the current position is that officers could not recommend a payment to LondonWaste Ltd outside the contractual arrangements set out in the Deed. Accordingly, it is proposed to write back to revenue in 2005/06 a provision of £0.911m that was included in the 2004/05 final accounts and to reduce the 2005/06 budget provision to zero, i.e. a further reduction of £1.074m.

**4.6 Legislative Review – Edmonton Rating Assessment (- £0.047m)**

4.6.1 LondonWaste Ltd has not submitted a claim for 2005/06. However, for the same reasons set out at 4.5 above, even if a claim was considered valid officers could not recommend a payment to LondonWaste Ltd outside the contractual arrangements set out in the Deed. The fourth review therefore allows for the budget provision to be reduced to zero, i.e. a reduction of £0.047m.

**4.7 Recycling Credits (- £0.403m)**

4.7.1 The fourth review allows for a further update by boroughs of their projected recycling and composting activity in 2005/06. Compared with the information available in December borough activity is estimated to reduce by 6,500 tonnes to 158,800 tonnes resulting in a saving of £0.403m.

**4.8 Other Recycling Initiatives (- £0.050m)**

4.8.1 The budget provision is unlikely to be fully utilised in 2005/06 and has been reduced by £0.050m (50%).

**4.9 Interest on Balances (- £0.475m)**

4.9.1 The Authority continues to benefit from a favourable cash flow, as a result it is anticipated that there should be an additional income from the investment of balances of £0.475m for the year.

#### 4.10 Charges to Boroughs for Non-Household Waste (- £0.078m)

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 10,149 tonnes for the year. Allowing for a reduction in the non-household charge per tonne to reflect the lower than previously estimated rate of inflation (reducing from £44.21 to an estimated figure of £44.14) non-household charges are currently estimated to reduce by £0.459m (net) in 2005/06, i.e. a further reduction of £0.078m 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:-

<b>Table 2</b>	<b>2005/06 Original Estimate £</b>	<b>2005/06 Current Estimate £</b>	<b>Estimated Variance £</b>
Barnet	850,114	868,764	+ 18,650
Camden	1,600,225	1,527,288	- 72,937
Enfield	609,081	568,567	- 40,514
Hackney	1,105,383	1,010,850	- 94,533
Haringey	1,023,550	951,482	- 72,068
Islington	1,276,475	1,199,902	- 76,573
Waltham Forest	985,485	863,687	- 121,798
	<b>7,450,313</b>	<b>6,990,540</b>	<b>- 459,773</b>

4.10.3 The figures currently indicate that six boroughs could be entitled to a refund and only Barnet would need to make an additional payment.

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 2005/06 final accounts process and reported to the Authority in June 2006. 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 The LATS scheme came into effect on 1st April 2005. Although landfill tax increases will continue to impact over the coming years – rising to £35 per tonne by 2011/12 – LATS has become the new powerful driver for reducing the level of biodegradable municipal waste that is sent to landfill. The Government intends to impose a penalty payment of £150 per tonne for every tonne of biodegradable waste sent to landfill that is not covered by an allowance. Members will be aware 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. The latter is due to the loss of energy-from-waste capacity during 2005 as a result of the boiler refurbishment works at Edmonton to comply with the Waste Incineration Directive. The Authority did not envisage that it would have surplus allowances to sell in 2005/06 but in view of the increased length of time taken to modify

some of the boilers, less of the Authority's waste in 2005 has been diverted from landfill than expected.

4.11.2 In December I advised that, on the basis of up-to-date information from LondonWaste Ltd concerning the levels of NLWA waste currently being incinerated at the Edmonton facility, and also borough recycling activity, the Authority was estimated to exceed its 2005/06 LATS allowance of 312,933 tonnes by about 12,600 tonnes. A current review suggests that the Authority could still exceed its allowances by about 10,000 tonnes. In December I also advised that the Authority was in discussion with LondonWaste Ltd to see if and how the volume of NLWA waste incinerated could be increased by the end of the financial year. On the 20<sup>th</sup> January the Company submitted a proposal and this is being assessed by officers with the assistance of AEA Technology (the Authority's external ad hoc technical adviser). As negotiations are unlikely to be concluded ahead of the budget and levy meeting, Members are reminded of the delegated authority for the Head of Waste Strategy and Contracts and the Financial Adviser to conclude negotiations with LondonWaste Ltd subject to there being a clear financial advantage for the Authority, with final terms to be agreed in consultation with the Chair. The 2005/06 fourth budget review allows a provision of £0.156m to meet the potential cost of this arrangement. If LondonWaste Ltd cannot remedy the shortfall, the LATS scheme allows the Authority to 'borrow' up to 5% of its 2006/07 allowances, i.e. up to 16,031 tonnes in 2005/06. Alternatively, the Authority could buy surplus allowances from another waste disposal authority, however, on the basis of current information this should not be necessary.

#### 4.12 **Contingency (- £0.200m)**

4.12.1 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 2005/06 revised budget. This will enable the contingency to be reduced by £0.200m.

#### 4.13 **Overview of the 2005/06 Revised Budget**

4.13.1 Allowing for the above factors, the proposed 2005/06 revised budget for the Authority is £46.573m. This represents a reduction of £3.530m when compared with the third budget review in December. The revenue surplus at 31 March 2006 is therefore estimated to increase to £8.609m.

4.13.2 Details of the variations, which have led to an increase in forecast revenue balances at 31 March 2006, may be summarised as follows:-

	<b>£'000</b>
Hazardous Waste (APC) - LWL Legislative Review	(1,074)
Hazardous Waste (APC) - Excess Creditor Provision (Previous Years)	(911)
LWL Legislative Review – Edmonton Rating Assessment	(47)
Transport and Disposal	(577)
Fridges and Freezers	(37)
Landfill Allowance Trading Scheme (net)	156
Recycling Credits	(403)
Other Recycling Initiatives	(50)
Interest on Balances	(475)
Contingency	(200)
Non-household Charges	78
Miscellaneous	10
	-----
Increase in Revenue Balances	(3,530)
	-----

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

**Table 3**

	<b>2005/06 Original Budget</b>	<b>2005/06 Third Review</b>	<b>2005/06 Fourth Review</b>	<b>Variance between 3rd &amp; 4th Reviews</b>
<b>Expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Main Waste Disposal Contract (Ex. CA Waste)	27,216	26,600	26,107	(493)
- Clinical Waste	217	225	226	1
- Fridges and Freezers	1,004	532	495	(37)
Civic Amenity Waste	1,833	1,567	1,539	(28)
Landfill Tax	6,591	6,294	6,237	(57)
Landfill Allowance Trading Scheme (net)	0	0	156	156
LWL Legislative Review – Hazardous Waste	1,668	1,074	0	(1,074)
LWL Legislative Review – Edmonton Rating Review	47	47	0	(47)
Hazardous Waste – TV and Computer Screens	0	59	65	6
Hendon Rail Transfer Station	406	407	407	
Hornsey Street Transfer Station	1,969	2,895	2,895	
Recycling Credits	11,986	10,226	9,823	(403)
Other Recycling Initiatives	100	100	50	(50)
Agency Services	478	477	477	
Waste Strategy and Contracts Team	574	628	628	
Annual Compensation	30	31	31	
Provision for Litigation Costs etc	50	50	50	
Contribution to Earmarked Reserve/Recycling	25	50	54	4
Excess Creditor Provision (Previous Years)	0	(391)	(1,302)	(911)
	<u>54,194</u>	<u>50,871</u>	<u>47,938</u>	<u>(2,933)</u>
<b>Less</b>				
<b>Income</b>				
Rents	(80)	(80)	(80)	
Interest on Balances	(560)	(1,110)	(1,585)	(475)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(640)	(1,190)	(1,665)	(475)
Net Expenditure	53,554	49,681	46,273	(3,408)
Contingency	<u>500</u>	<u>500</u>	<u>300</u>	<u>(200)</u>
<b>Total Net Expenditure 2005/06</b>	<b><u>54,054</u></b>	<b><u>50,181</u></b>	<b><u>46,573</u></b>	<b><u>(3,608)</u></b>
	=====	=====	=====	=====
Financed By :-				
Balances b/fwd	(4,767)	(6,354)	(6,354)	
Charges to Boroughs (Non-household waste) *	(7,450)	(7,069)	(6,991)	78
2005/06 Levy *	(41,837)	(41,837)	(41,837)	
<b>Total Resources Available</b>	<b><u>(54,054)</u></b>	<b><u>(55,260)</u></b>	<b><u>(55,182)</u></b>	
<b>Estimated Revenue Balances as at 31 March 2006 (Surplus)</b>		<b>(5,079)</b>	<b>(8,609)</b>	<b>(3,530)</b>
<b>Total cost to Boroughs in 2005/06 *</b>	<b>49,287</b>			

5. **2006/07 Proposed Budget**

5.1 Further to my assessment of the 2006/07 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:-

<b>Table 4</b>	<b>2005/06 Original Budget £'000</b>	<b>2006/07 Proposed Budget £'000</b>
<b>Expenditure</b>		
Main Waste Disposal Contract (Ex CA Waste)	27,216	26,879
- Clinical Waste	217	236
- Fridges and Freezers	1,004	482
- In-Vessel Composting Facility	0	1,710
- Dry Recyclable Bulking Arrangement	0	1,211
Civic Amenity Waste	1,833	1,706
Landfill Tax	6,591	6,592
LWL Legislative Review – Hazardous Waste	1,668	0
LWL Legislative Review – Edmonton Rating Review	47	0
Hazardous Waste – TV and Computer Screens	0	109
WEEE Directive	0	750
Hendon Rail Transfer Station	406	414
Hornsey Street Transfer Station	1,969	2,652
Recycling Credits	11,986	5,680
Other Recycling Initiatives	100	100
BMW Diversion Incentive Scheme	0	432
Agency Services	478	487
Waste Strategy and Contracts Team	574	846
Waste Contract – Procurement Costs	0	500
Annual Compensation	30	32
Provision for possible Litigation Costs	50	50
Contribution to Earmarked Reserve/Recycling	<u>25</u>	<u>50</u>
	54,194	50,918
<b>Less</b>		
<b>Income</b>		
Rents	(80)	(82)
Interest on Balances	(560)	(850)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>
	(640)	(932)
Net Expenditure	53,554	49,986
Contingency	<u>500</u>	<u>500</u>
<b>2006/07 Proposed Budget</b>	<b><u>54,054</u></b>	<b><u>50,486</u></b>
	=====	=====
<b>To be financed by :-</b>		
<b>Estimated Balances b/fwd</b>	<b>(4,767)</b>	<b>(8,609)</b>
<b>Charges to Boroughs (Non-household waste) *</b>	<b>(7,450)</b>	<b>(8,646)</b>
<b>2006/07 Proposed Levy *</b>	<b>(41,837)</b>	<b>(33,231)</b>
<b>Total proposed funding by Boroughs – 2006/07 *</b>	<b>(49,287)</b>	<b>(41,877)</b>
<b>Reduced cost to Boroughs compared with 2005/06</b>		<b>(7,410)</b>
		<b>(-15%)</b>

5.1.1 The figures in table 4 show that the net budget requirement for 2006/07 of £50.486m has reduced by £3.568m compared with the 2005/06 original budget. Allowing for the use of forecast revenue balances of £8.609m at 31 March 2006 the net cost to constituent councils in 2006/07 is estimated to be £41.877m; comprising charges for non-household waste of £8.646m and a levy of £33.231m in respect of household waste and the core costs of operating the Authority. This represents a reduction of £7.410m (15%) over the cost to boroughs in 2005/06 (£49.287m).

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

## 5.2. **Inflation**

5.2.1 A general allowance for inflation of 2.5% 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 – in part a reflection of consumer preference but also increased house building across the north London area. With the introduction of the Landfill Allowance Trading Scheme in April 2006 the need for reliable and timely tonnage data, together with detailed information on borough recycling activity has now assumed far greater importance. Without this information it is necessary to take a more cautious approach in estimating the tonnage that the Authority will need to dispose of in any period. During the course of 2005/06 the boroughs have become more responsive to the Authority's need for reliable and timely tonnage data. Accordingly, on the basis of information provided by boroughs the 2006/07 residual tonnage forecast allows for a reduction of 24,670 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). After allowing for a general growth of 2% (previously 3%) and the full year effect of new civic amenity facilities, the 2006/07 residual waste stream is estimated to grow by 23,801 tonnes. As a consequence, the transport and disposal budget has been based upon a total residual waste stream of 800,697 tonnes, i.e. a net reduction of 869 tonnes over the 2005/06 projected outturn.

5.3.2 The draft budget allows for the cost of processing green and similar wastes through the in vessel composting facility at Edmonton at a cost of £1.710m (30,000 tonnes) and also operation of the bulking arrangement for dry recyclable waste a cost of £1.211m (25,000 tonnes) – also at Edmonton.

#### **5.4 LondonWaste Ltd - Compensation Review**

5.4.1 The 2006/07 draft budget allows for a claim of £3.25m, i.e. a reduction of c. £0.750m compared with the 2005/06 original budget assumptions. As reported in December, this reflects the envisaged return to incineration levels nearer to those achieved prior to the Waste Incineration Directive refurbishment works and a significant improvement in the price that the LondonWaste Ltd will receive for the sale of electricity generated at the Edmonton energy-from-waste facility.

#### **5.5 Fridges and Freezers**

5.5.1 The proposed budget allows for the treatment and disposal of c. 53,000 appliances, a reduction of 5,000 compared with the original 2005/06 budget assumptions.

#### **5.6 Landfill Tax**

5.6.1 The standard rate of landfill tax is expected to rise from £18 to £21 per tonne on 1 April 2006. The proposed budget allows for this increase.

5.6.2 The WID engineering works at the Edmonton energy-from-waste facility were completed prior to Christmas. As a result it is expected that the incineration capacity of the facility will return to nearer pre-WID levels in 2006/07. Although hot commissioning of the final two refurbished boilers is expected to be completed by the middle of February 2006 LondonWaste Ltd has advised that 2006 is likely to be a period of familiarisation and ongoing optimisation of boiler performance levels. The landfill tax budget therefore assumes that the facility will achieve a tonnage throughput c. 518,000 tonnes, i.e. an improvement of 43,000 tonnes compared with the 2005/06 budget position.

#### **5.7. LondonWaste Ltd Legislative Review – Hazardous Waste (APC) and Edmonton Rating Review**

5.7.1 For reasons set out at paragraphs 4.5 and 4.6 above no allowance is made for these costs in 2006/07. This has the effect of reducing the 2006/07 budget requirement by £1.433m.

#### **5.8 Hornsey Street Waste Transfer Station**

5.8.1 The 2006/07 proposed budget allows for the higher level of both landlord costs and LondonWaste Ltd operational costs previously reported to the Authority.

#### **5.9 Waste Electrical and Electronic Equipment (WEEE)**

5.9.1 In December I advised that although the WEEE Directive was now scheduled to come into force in June 2006 the implementation has already been delayed by a year and that there was still great uncertainty about the likely effective date. This remains the case and the current thinking is that the effective date could easily slip until January 2007.

5.9.2 When introduced it is expected that retailers and distributors will take responsibility for operating a take back arrangement in stores or upon delivery to households. As a consequence it is possible that the cost to the Authority for treatment of fridges and freezers, TV and computer screens may reduce. Notwithstanding this it is envisaged there will be a growing range of household 'white' goods (washing machines, dishwashers, cookers and microwaves etc) and 'brown' goods (DVDs, videos, hi-fis etc) that are expected to attract different treatment costs in the coming year. An allowance of £0.750m has been allowed for this possible cost.

#### **5.10 Waste Strategy and Contracts Team**

5.10.1 The 2006/07 draft budget allows for the final stage of a move to the new full establishment agreed by the Authority in July 2004.

#### **5.11 Waste Contract – Procurement Costs**

5.11.1 At its December meeting the Authority agreed to an approach that would help inform the decision-making process on the future procurement strategy of waste facilities and services to meet the needs of the North London Joint Waste Strategy. A budget provision of £0.5m was agreed for 2006/07 and is included in next year's draft budget.

5.11.2 No allowance has been made for the potential capital cost of implementing the Joint Waste Strategy in 2006/07 (see also section 8 below).

#### **5.12 Recycling Credits**

5.12.1 The Authority currently has a duty to pay recycling credits to its constituent councils. However, as part of the Government consultation process to review the default arrangements for apportioning the levy, the Government also asked consultees if they supported its proposal to remove the duty for all Joint Waste Disposal Authorities (JWDAs) to pay recycling credits to their collection authorities. Of the 31 respondents 27 supported this line and some, including the NLWA, sought reassurance that there would be some discretionary powers for the JWDAs to make payment to their constituent councils to incentivise them for recycling and composting in new ways.

5.12.2 The Government announced their response to the consultation process on 13 January 2006. Although concluding that the default arrangements for apportioning the levy should move to a tonnage basis from 2006/07 the Government has also recognised the challenge that this would place on some constituent councils and therefore special transitional arrangements that will enable constituent councils to move to a default tonnage-based levy over three years are to be put in place. The Authority along with three other Authorities will be required to move to a tonnage based default levy over three years with a third of the costs of the JWDA apportioned under the tonnage based levy in 2006/07 and two thirds of the costs if the JWDA apportioned under the new tonnage based levy by 2007/08. All Authorities are required to have moved to a full tonnage based default levy by 2008/09. The Clean Neighbourhoods and Environment Act 2005 included a power to remove the duty on JWDAs to pay recycling credits to their constituent councils. Given that due to the

transitional arrangements constituent councils will only benefit from a one third tonnage-based levy saving officers have questioned the logic of not also phasing out the statutory recycling credit scheme over the same three year period. DEFRA, the sponsoring Government Department, has indicated that this would not be possible without enacting primary legislation and point to the discretionary powers that are available to the Authority to introduce a scheme of its own.

5.12.3 At a meeting of the all-party LATS Members' Working Group on 16 January 2006 officers took the opportunity to also discuss the merit of introducing a local recycling credit scheme for 2006/07 and 2007/08 such that the recycling credit value paid per tonne would be reduced by 33.3% in 2006/07 and 66.6% in 2007/08. The aim would be to mirror the transitional arrangements of the move to a tonnage-based levy. The Members present supported this approach and following consultation with the Chair the 2006/07 draft budget allows for the payment of an NLWA transitional recycling credit payment to constituent councils of £43.71 per tonne.

5.12.4 In December I advised that in addition to the statutory recycling credit scheme the 2006/07 budget forecast also allowed for a payment to boroughs, which represented the net difference between the cost to the Authority of processing borough waste through the in-vessel composting facility at LondonWaste Ltd (£0.256m) and the bulking of comingled dry recyclable wastes also through LondonWaste Ltd (£0.767m). These payments were predicated on the continuation of the statutory recycling credit scheme. Now that, this duty is to be removed and replaced by the NLWA transitional recycling credit scheme the value of the 2006/07 transitional recycling credit payment is lower than the cost of treatment/bulking and therefore a net payment is no longer payable.

5.12.5 Discounting the tonnages that will be delivered to the in-vessel composting facility (30,000 tonnes) and under the bulky dry recyclable waste arrangement (25,000 tonnes) the 2006/07 draft budget allows for payment in respect of an estimated 128,470 tonnes under the NLWA transitional recycling credit scheme at a rate of £43.71 per tonne. The rate per tonne is based upon the estimated 2006/07 unadjusted recycling credit value of £65.53 less 33.3%, i.e. a reduction of £21.82. The budget also allows a provision of £0.064m for payments to third parties.

### 5.13 **Contribution to Earmarked Reserve (Recycling)**

5.13.1 The budget assumes that a further contribution will be made to the earmarked reserve, i.e. by making a contribution to the fund equivalent to the interest on the balances that are held in the fund. The budget assumes a contribution of £0.050m but in practice will depend upon cash flow, interest rates and the extent to which the fund is used. The Reserve which could have a value of c. £1.250m at year-end can only be used for recycling initiatives.

### 5.14 **Dividend Income (LondonWaste Ltd)**

5.14.1 No income is expected from this source.

## 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 2006/07.
- 5.15.2 In December the Authority considered afresh the merit of introducing a supplementary LATS charge and also the introduction of a targeted reward scheme for biodegradable municipal waste diversion in 2006/07. The Authority decided that these issues should be examined in detail by the all-party LATS Members' Working Group with the outcome discussed and the implications for the 2006/07 proposed budget determined in consultation with the Chair.
- 5.15.3 The LATS Members' Working Group met on 16 January 2006 to consider the issues in detail. The Working Group noted that the allowances issued to the Authority relate to both household and non-household waste and that although the Authority benefits from a favourable allowance allocation up to the first target year of 2009/2010, thereafter the Authority's allowances reduce steeply (NLWA's total LATS allowances for 2005/06 are 312,933 increasing to 358,996 in 2009/10 but tapering to 239,117 by 2012/13 and tapering further to 167,318 by 2019/20). The non-household deemed share of the Authority's 2006/07 LATS allowances is 64,983 tonnes reducing to 33,915 tonnes by 2019/20, i.e. a reduction of 31,068 tonnes equivalent to 45,688 tonnes of non-household waste (assuming a biodegradable content of 68%). The Working Group considered the implications for the 2006/07 budget year and given that non-household tonnages for 2006/07 are currently forecast to be in the order of 162,168 tonnes and every allowance used is the use of an asset (particularly for tonnages above the non-household deemed share of allowances) the Working Group concluded that the Authority should take into account the opportunity cost of using a LATS allowance (this is because the Authority expects to have a favourable trading position at least until 2009/10). The Members present therefore acknowledged the rationale for charging a supplementary LATS premium for non-household waste. Following consultation by the Head of Waste Strategy and the Finance Officer with the Chair the decision has been taken to make a LATS premium charge for non-household waste in 2006/07 and this has been reflected in the 2006/07 proposed budget.
- 5.15.4 For 2006/07 it is proposed that the total volume of biodegradable non-household waste (110,274 tonnes) above the deemed LATS allowance for non-household waste (64,983 tonnes) is forecast to be 45,291 tonnes. Allowing for the current market value of a LATS traded allowance of £20 the opportunity cost of the non-household biodegradable tonnages not covered by an allowance is valued at £0.906m, i.e. 45,291 tonnes at £20. It is proposed that this cost is spread across all 2006/07 non-household tonnages (162,168 tonnes) resulting in a supplementary charge of £5.59 per tonne. Details of the background papers presented to the LATS Members' Working Group, updated for the 2006/07 draft budget data, can be found at Appendix A.

5.15.5 Based upon estimated non-household tonnages of 162,168 tonnes and a total cost per tonne of £53.32 (comprising a basic cost per tonne of £47.73 and a LATS supplementary charge of £5.59 per tonne) the total cost to boroughs in 2006/07 is estimated to be £8.646m. The basic cost of £47.73 allows for price inflation of 2.5% and £3 increase in landfill tax rates in April 2006.

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

<b>Table 5</b>	<b>2006/07 Estimated Tonnes</b>	<b>2006/07 Estimated Cost (Including LATS Premium Charge)</b>
		<b>£</b>
Barnet	20,154	1,074,611
Camden	35,431	1,889,181
Enfield	13,190	703,291
Hackney	23,449	1,250,301
Haringey	22,073	1,176,932
Islington	27,835	1,484,162
Waltham Forest	20,036	1,068,320
<b>Total</b>	<b>162,168</b>	<b>8,646,798</b>

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

5.16.1 The LATS Members' Working Group also considered the merit of introducing an incentive scheme that would reward constituent boroughs which increased their diversion of biodegradable municipal waste from the waste stream.

5.16.2 Two options were considered. The first proposed a reward for all BMW tonnages above each boroughs achievement in 2004/05, i.e. 2004/05 would become the base year for all subsequent calculations. Use of tonnage data for 2004/05 would mirror the proposed basis for apportioning the 2006/07 levy. The second option proposed the use of 2001/02 tonnage data as this information was used to calculate the Authority's allocation of LATS allowances. On balance, and after consultation with the Chair it was agreed that a reward scheme based upon using 2004/05 tonnage data should be built into the 2006/07 proposed budget.

5.16.3 Assuming a notional value of £10 per tonne, equivalent to 50% of the estimated current value of a LATS allowance, the cost of the reward scheme is estimated to be in the region of £0.432m. As the 2006/07 budget forecast in December had allowed for a higher cost scheme based upon 2001/02 tonnage data Members also considered the desirability of using the cost saving of a scheme using 2004/05 tonnage data (£0.481m) to create a reserve to fund the future purchase of allowances or to assist with the future funding of new facilities.

Subject to meeting the prudence test all Members felt that any cost reduction should be used to further reduce the 2006/07 levy.

#### **5.17. Landfill Allowance Trading Scheme**

5.17.1 The Authority expects to be in a favourable trading position in 2006/07, however, there are some unresolved accounting issues concerning the accounting treatment of revaluation gains and losses on future year allowances. Version four of the draft CIPFA accounting guidance is currently in circulation and is being reviewed. Despite the current accounting problems it is also felt at present unlikely, given the anticipated improvement of allowance values in or around the first target year of the LATS scheme, that the Authority would become a seller of any surplus allowances in 2006/07. In addition the Authority may have to use up to 5% of its 2006/07 allowances (16,031 tonnes) in 2005/06 and although the incineration capacity in 2006/07 should return to nearer pre-WID incineration levels this is not guaranteed. As a consequence no allowance is currently made for any trading surpluses in the 2006/07 draft budget. To the extent that the Authority does have surplus allowances in 2006/07, and for that matter 2005/06, the Authority will have a balance sheet asset that will not crystallise into cash until the allowances are actually sold. Members will be kept informed of developments.

#### **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 2006 will be fully utilised during the course of 2006/07, 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 2005/06, my advice is that a contingency of £0.5m is allowed for in the 2006/07 proposed budget. This equates to a 1% increase in the waste stream.

## 6. Apportionment of the Levy

- 6.1 Prior to Christmas the Authority, following the request of the majority of Members at the NLWA meeting on 7th December 2005 consulted with constituent boroughs to determine whether there was a unanimous will to move voluntarily towards a tonnage-based levy in 2006/07. As the London Borough of Barnet advised the Authority that it was not prepared to support a voluntary move to a tonnage based levy if it included transitional arrangements the Authority wrote to Chief Executives on 5th January 2006 to advise that as unanimous agreement will not be possible the Authority will be required to apportion the 2006/07 levy in accordance with the levy apportionment default provisions prevailing at the time of the Authority's budget and levy meeting on 8 February 2006.
- 6.2 The DEFRA proposals released on 13th January 2006 envisage that there will be three elements to the levy, a household waste element, an other costs element and a CA waste (commercial) element. The latter does not apply to the NLWA.
- 6.3 **The household waste element** will be apportioned on a tonnage basis except that with the transitional arrangements that have been put in place this element of the levy will be apportioned 33.3% tonnage and 66.7% council tax in 2006/07, and 66.6% tonnage and 33.4% council tax in 2007/08. 2008/09 will be apportioned entirely on a tonnage basis.

This element will capture the costs incurred by the NLWA in the disposal or treatment of household waste, including an appropriate share of administrative costs of dealing with the disposal or treatment of household waste.

- 6.4 **The other costs element** will be apportioned on a council tax basis.

This element will capture the costs of civic amenity wastes, recycling/biodegradable municipal waste diversion incentives and administrative/other items of the Authority's budget which cannot be allocated to the household waste element.

- 6.5 Under the current Levying Bodies (General) Regulations 1992, constituent councils are required to notify the NLWA of their council tax base by 31st January 2006. This remains the case. New for 2006/07, however, is the requirement of constituent councils to advise the NLWA of their tonnage of household waste delivered to the Authority for disposal within the last complete financial year for which data is available before the financial year in respect of which the levy is issued, i.e. 2004/05 tonnage data will be used to apportion the 2006/07 household waste levy. Although this information is held by the NLWA the draft Statutory Instrument (2006 NO. 0000) seen by the Authority requires constituent councils to formally notify the Authority of these tonnages by 31st January 2006. Constituent councils have therefore been provided with details of their 2004/05 household tonnage data and have been asked to confirm these figures in accordance with the draft regulations (see also Appendix B). Table 6 below provides details of both constituent council 2006/07 council tax base figures and their 2004/05 household tonnages:

Table 6	2006/07 Council Tax Base	2004/05 Household Tonnes
Barnet	135,103.00	118,359
Camden	91,450.00	80,740
Enfield	106,755.00	91,490
Hackney	66,973.00	86,547
Haringey	83,739.00	89,283
Islington	79,807.02	75,603
Waltham Forest	74,581.00	80,355
Total	638,408.02	622,377

6.6 At the time of finalising this report the regulations that will give effect to default levy apportionment changes and the arrangements for removing the duty for the JWDAs to pay recycling credits have yet to be laid in Parliament. It is anticipated by DEFRA that the Regulations will be laid very shortly and in any event before 28<sup>th</sup> February. The intention is that once laid they have the full impact of law subject to a period of 21 days scrutiny by the Joint Committee on Statutory Instruments. As it is a Statutory Instrument it will not be debated in the House of Commons. Although it could technically be overturned this is considered highly unlikely (the House of Commons last annulled a Statutory instrument on 24 October 1979) what is more significant is that unless the regulations are laid in Parliament before the date of today's budget and levy meeting the current Levying Bodies (General Regulations) 1992 are technically the regulations which should be used to apportion the 2006/07 levy. Nevertheless, it is the intention of DEFRA that the new regulations will enable JWDAs to move to the new default levies for the forthcoming year.

6.7 Clearly, given the Government's stated intention to change the default arrangements for apportioning the levy in time for 2006/07, this report and in particular the 2006/07 proposed budget and the default levy apportionment arrangements also reflect this intention. If the new regulations, however, are not laid by the time of the budget and levy meeting on 8 February 2006 this raises both budget and levy apportionment issues. Members and constituent councils will be kept informed of any material developments that may arise after the publication of this report, and a revised budget and levy will be prepared if necessary. Details of the levy apportionment can be found at Appendix C.

## 7. **Medium Term Budget Forecast for 2007/08 and for 2008/09 and 2009/10**

7.1 Assuming full utilisation of revenue balances by 31 March 2006 and further year-on-year increases in the waste stream of 2% per annum (as adjusted for further stepped increases in recycling), the elimination of the recycling credit scheme by 2008/09 and the implementation of the WEEE Directive by 2007/08, the percentage increase in the cost to constituent councils is estimated to be 20.2% in 2007/08, a reduction of 0.2% in 2008/09 and an increase of 6.6% in 2009/10. The increase for 2007/08 reflects the fact that balances of £8.609m at 31<sup>st</sup> March 2006 will be used to part fund the 2006/07 budget. Further information can be found at Appendix D.

- 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. The Authority is currently in the process of engaging consultants to assist with the determination of the best procurement route for the facilities identified by the North London Joint Waste Strategy. The outcome of this work is scheduled to be reported to the September 2006 meeting of the Authority. Until this work is completed it is not possible allow for the potential implications of delivering the Joint Waste Strategy. This will be the subject of a detailed report in the coming year.
- 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 new indicators for the period to 2008/09. It has only been necessary to capture the payment of a grant to LondonWaste Ltd in the Authority's prudential indicators. Although the Authority does not at present have a capital programme it is in the process of engaging consultants to assist with the determination of the best procurement route for the facilities identified by the North London Joint Waste Strategy. The outcome of this work is scheduled to be reported to the September 2006 meeting of the Authority. Until this work is complete the prudential indicators that are required to be approved at this meeting will be set at nil. The Authority is therefore requested to approve the following indicators:

<b>Capital Expenditure</b>					
	<b>2004/05 Actual</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>	<b>2008/09 Estimate</b>
NLWA	£1.700m	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:-

<b>Ratio of Financing Costs to Net Revenue Stream</b>					
	<b>2004/05 Actual</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>	<b>2008/09 Estimate</b>
NLWA	Nil	Nil	Nil	Nil	Nil

- 8.4 The Capital Financing Requirement measures the underlying need to borrow. The capital contribution that the NLWA has made to LondonWaste Ltd for the cost of the In-vessel composting facility was funded by a capital grant from the London Recycling Fund and therefore the capital financing requirement for this period is nil. The following capital financing requirements are recommended for approval:-

<b>Capital Financing Requirement</b>					
	<b>31.03.05 Actual</b>	<b>31.03.06 Estimate</b>	<b>31.03.07 Estimate</b>	<b>31.03.08 Estimate</b>	<b>31.03.09 Estimate</b>
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: -

<b>Authorised Limit for External Debt</b>					
	<b>2004/05 Actual</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>	<b>2008/09 Estimate</b>
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-

<b>Operating Boundary for External Debt</b>					
	<b>2004/05 Actual</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>	<b>2008/09 Estimate</b>
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. **Gershon – Efficiency Targets in Waste Management Services**

- 9.1 In July I advised the Authority that the Government Spending Review 2004 set an expectation that local government would achieve efficiency gains of 2.5% per annum over the next three years (2005/06, 2006/07 and 2007/08) to deliver at least £6.45 billion of efficiency savings overall by 2007/08. It is expected that environmental services, including waste disposal, will deliver some £299m of these efficiency gains. The Authority is involved in this process in terms of identifying efficiency gains for constituent councils against the element of their costs derived from the Authority's levy on them. The JWDAs have not been set an efficiency target of their own.
- 9.2 The Authority has on behalf of constituent councils challenged the DEFRA/ODPM assessment of each constituent council's allocated share of base line expenditure that is used to calculate the value of each council's annual efficiency target. This has been incorrectly calculated for two reasons. Firstly the ODPM did not use the correct value of each constituent council's share of the 2004/05 NLWA levy. Secondly, the base line expenditure for the Authority was overstated by £16.888m. As a consequence, the aggregate waste disposal related annual efficiency target of 2.5% reduces from £1.381m to £0.959m.
- 9.3 The Authority has not been an operational authority since December 1994. Although, the provisions of the Environmental Protection Act 1990 which required the Authority to divest itself of its waste disposal operations was repealed in 2005, the position remains that the Authority is not an operational authority and therefore has little scope to achieve efficiency savings. Nevertheless, during 2005/06 the Authority successfully renegotiated the price that it pays for the treatment and disposal of fridges and freezers. In 2005/06 this is estimated to achieve a budget saving of £0.515m. Given the uncertainty about the implementation date of the WEEE Directive the 2006/07 proposed budget currently assumes that this cost will continue to be borne next year and therefore the reduced price should continue to provide benefit for most if not all of 2006/07. It is understood that some boroughs have taken benefit from the income they derive from the recycling credit scheme. This is a matter for the each constituent council to decide.
- 9.4 Table 7 below provides details of each council's allocated share of saving attributable to the NLWA levy, the adjusted saving required as a result of revisions proposed by the NLWA, and a summary of each council's share of the fridges and freezers efficiency saving based upon each council's share of the 2004/05 levy (as envisaged by DEFRA/ODPM but the Authority could agree an alternative basis).

Table 7	Original Allocation of Waste disposal Annual efficiency Target	Adjusted Allocation of Waste disposal Annual efficiency Target	Share of Fridges and Freezers saving
	£'000	£'000	£
Barnet	297	207	111,111
Camden	182	139	74,495
Enfield	233	163	87,736
Hackney	148	95	51,207
Haringey	164	125	67,079
Islington	192	118	63,360
Waltham Forest	165	112	60,012
Total	1,381	959	515,000

## 10. Advice on Reserves and Balances and Robustness of the Budget Process

10.1 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 (Director of Finance) to report to the Authority on

The adequacy of the proposed reserves  
The robustness of the budget

10.2 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.

10.3 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.

10.4 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.

## 11. **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 2005/06 revised budget and 2006/07 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 significant balances at 31 March 2006. 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 2006/07 budget will mean that constituent councils face the prospect of a very significant levy increase in 2007/08.
- 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 2006 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.
- 11.3 At the time of finalising this report the Government's regulations to amend the default arrangements for apportioning the levy have yet to be laid before Parliament. The proposed regulations have both budget and levy apportionment implications. This report assumes that the new regulations will come into effect; if they do not, the budget and levy could be c. £3.5m higher. Members and constituent councils will be kept informed of any material developments.

## 12. **Comments of the Legal Adviser**

- 12.1 The Legal Adviser has reviewed the contents of this report and her comments contained within the body of the report.

## **Local Government Act 1972 - Section 100 as amended**

Documents used in the preparation of this report:-

Reports to the Authority dated 9 February 2005, 6 July 2005, 19 October 2005 and 7 December 2005

Budget working papers

Government Response to the consultation on altering the funding mechanism for joint waste disposal authorities and their constituent councils dated 13<sup>th</sup> January 2006

Notification letters from constituent councils in respect of their 2006/07 Council Tax base and 2004/05 actual household tonnages delivered to the NLWA for disposal.

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](mailto:robert.bench@camden.gov.uk)

rb/nlwa/bud2006071 (3)