

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2006/07 SECOND BUDGET REVIEW

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

20 SEPTEMBER 2006

1. SUMMARY OF REPORT

This report is the second in the current year of a series of regular reports on the Authority's finances. It concludes that the Authority is currently forecast to have a revenue surplus of £2.684m at 31 March 2007, i.e. an increase of £1.102m compared with the first review. The report, however, draws attention to issues that could impact on this position. A further review of the 2006/07 budget, together with an up-to-date assessment of the budget and resource requirements for 2007/08, will be reported to the Authority in December.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Note the second review of the 2006/07 revenue budget.
- (ii) Note that a third review of the 2006/07 budget will be reported to the Authority meeting in December together with an up-to-date assessment of the budget and resource requirements for 2007/08.

Signed by the Financial Adviser:

Date:

3. **Introduction**

3.1 At the Authority meeting in June I advised Members that the Authority was forecast to have a revenue surplus of £1.582m at 31 March 2007. As a result of the second review forecast revenue balances at the year-end are now estimated to increase by a further £1.102m to £2.684m. This report provides details of the main changes and other issues that have arisen since the last meeting.

4. **Second Budget Review**

4.1 **Transport, Disposal and Landfill Tax: (- £1.620m)**

4.1.1 During the period April to July 2006 there has been a net reduction of 3.06% in the level of residual waste entering the waste stream over the same period in 2005/06. On this basis, the 2006/07 residual waste stream is estimated to reduce by 24,144 tonnes to 765,722 tonnes (789,866 tonnes in 2005/06).

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

Table 1	<i>April to June</i>	<i>Current Forecast (April to July)</i>
Barnet	- 4.13%	- 5.42%
Camden	- 0.84%	- 3.87%
Enfield	- 1.87%	- 4.38%
Hackney	+ 3.02%	+ 2.08%
Haringey	+ 1.68%	+ 0.01%
Islington	- 3.67%	- 5.64%
Waltham Forest	- 2.37%	- 3.80%
Overall Position	- 1.22%	- 3.06%

The figures in table 1 indicate that there has been a significant reduction in the amount of waste entering the waste stream in the early part of the year, particularly during July. At the time of writing, officers are not aware of any changes to borough collection arrangements that could have impacted on waste flows. The tonnage reduction in this period is therefore most likely to have arisen because of either a reduction in the amount of waste generated by households, or, by an increase in the recycling and composting activity by constituent boroughs. Given, however, the early date of this meeting the Authority has yet to receive the comparable borough recycling and composting data that should enable the Authority to establish scale of the underlying change in the total waste stream (before recycling and composting activity is taken into account). The position is by no means clear. However, by the time of the next meeting in December the Authority should have received details of actual borough recycling and composting data for the first six months of

the year, as well as an up-to-date full year forecast of these activities. This will help the Authority to form a better understanding of the waste stream activity in the north London area.

- 4.1.3 Based upon information available at the time of determining the 2006/07 budget and levy the transport and disposal budget allowed, on the one hand, for a 2% growth in the total waste stream (an increase of 23,801 tonnes), and on the other, a reduction of 24,670 tonnes to reflect the boroughs' planned increase in recycling and composting during 2006/07. As a consequence the 2006/07 transport and disposal budget was based upon a residual waste stream of 800,697 tonnes. Assuming the current forecast of 765,722 tonnes remains valid this would result in a transport and disposal saving of £0.935m and a landfill tax saving of £0.734m.
- 4.1.4 The Authority's waste contracts are linked to changes in the Retail Price Index (RPI). The 2006/07 budget allows for an increase of 2.5% at the relevant review date for these contracts. Currently, however, RPI is increasing at an annual rate of 3.3% per annum. Assuming this rate of increase continues to apply in the coming months this would add c. £0.049m to the Authority's costs in 2006/07 (£0.206m in a full year).
- 4.1.5 The second review therefore allows for a net saving of £1.620m.

4.2 **Recycling Credits and BMW Diversion Incentive Scheme**

- 4.2.1 The 2006/07 budget continues to allow for the payment of recycling credits to boroughs that take waste out of the waste stream by virtue of their recycling or composting activities (although the Authority's duty to pay recycling credits ceased on 1st April 2006, the Authority has previously decided to operate a local recycling credit scheme to coincide with the phasing-in of the new default arrangements for apportioning the levy), and an incentive scheme to reward boroughs that take biodegradable waste out of the waste stream. With reference to the discussion at paragraph 4.1.2 above the 2006/07 budget assumptions could be tested if data received from the boroughs reveals that the reduction in the waste stream has been caused by a higher than assumed level of borough recycling and composting activity.

4.3 **Non-household Charges: (+ £0.518m)**

- 4.3.1 Under the Authority's current arrangement for calculating non-household tonnages/charges the reduction in the residual waste stream (paragraph 4.1.1) will also have a direct impact on the Authority's non-household income. Compared with an original budget assumption of 162,168 tonnes the current forecast assumes that non-household tonnages will reduce to 152,441 tonnes, i.e. a reduction of 9,727 tonnes and a reduced income of £0.518m. The non-household charging arrangement is currently under review, but any changes will not be applied to the current year.

4.8 **Summary**

- 4.8.1 Table 2 provides a summary of the current financial position:-

Table 2

	2006/07 Original Budget	2006/07 First Review	2006/07 Second Review	Variance between 1st & 2nd Review £'000
Expenditure	£'000	£'000	£'000	£'000
Main Waste Disposal Contract (Ex CA Waste)	26,879	26,879	25,993	(886)
- Clinical Waste	236	236	236	
- Fridges and Freezers	482	482	482	
- In-Vessel Composting Facility	1,710	1,710	1,710	
- Dry Recyclable Bulking Arrangement	1,211	1,211	1,211	
Civic Amenity Waste	1,706	1,706	1,706	
Landfill Tax	6,592	6,592	5,858	(734)
Hazardous Waste – TV and Computer Screens	109	109	109	
WEEE Directive	750	750	750	
Hendon Transfer Station	414	414	414	
Hornsey Street Transfer Station	2,652	2,798	2,798	
Recycling Credits	5,680	5,680	5,680	
Other Recycling Initiatives	100	100	100	
BMW Diversion Incentive Scheme	432	432	432	
Agency Services	487	487	487	
Waste Strategy and Contracts Group	846	846	846	
Waste Contract – Procurement Costs	500	500	500	
Annual Compensation	32	32	32	
Provision for Possible Litigation Costs	50	50	50	
LATS – Use of Allowances	0	6,477	6,477	
Contribution to Earmarked Reserve (Recycling)	50	50	50	
	<u>50,918</u>	<u>57,541</u>	<u>55,921</u>	<u>(1,620)</u>
Less				
Income				
Rents	(82)	(82)	(82)	
Interest on Balances	(850)	(1,200)	(1,200)	
LATS Grant	0	(6,477)	(6,477)	
Estimated Dividend Stream	0	0	0	
	<u>(932)</u>	<u>(7,759)</u>	<u>(7,759)</u>	
Net Expenditure	49,986	49,782	48,162	(1,620)
Contingency	<u>500</u>	<u>500</u>	<u>500</u>	<u> </u>
Total Net Expenditure 2006/07	<u>50,486</u>	<u>50,282</u>	<u>48,662</u>	<u>(1,620)</u>
Financed By :-				
Balances b/fwd	(8,609)	(9,987)	(9,987)	
Charges to Boroughs (Non-household waste)	(8,646)	(8,646)	(8,128)	518
2006/07 Levy	(33,231)	(33,231)	(33,231)	
Total Resources Available	<u>(50,486)</u>	<u>(51,864)</u>	<u>(51,346)</u>	<u>518</u>
Estimated Revenue Balances as at 31 March 2007 (Surplus)	0	(1,582)	(2,684)	(1,102)

7. **Conclusion**

- 7.1 Although the second review indicates that there has been an improvement in forecast balances at 31 March 2007 there are a number of uncertainties and potential budget pressures that could impact on this position. I am nevertheless confident that the Authority's overall budget should remain sufficiently robust to meet the cost of its waste disposal obligations in 2006/07.

8. **Comments of the Legal Adviser**

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

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:-
Reports to the Authority 8 February 2006 and 28 June 2006
2006/07 Budgetary Control Working Papers

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