

**NORTH LONDON WASTE AUTHORITY**

**REPORT TITLE**

2005/06 SECOND BUDGET REVIEW

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO**

**DATE**

AUTHORITY MEETING

19 OCTOBER 2005

**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 £3.446m at 31 March 2005, i.e. an increase of £1.309m compared with the first review. The report, however, draws attention to issues that could impact on this position. A further review of the 2005/06 budget, together with an up-to-date assessment of the budget and resource requirements for 2006/07, will be reported to the Authority in December.

**2. RECOMMENDATIONS**

The Authority is requested to:-

- (i) Note the second review of the 2005/06 revenue budget.
- (ii) Note that a third review of the 2005/06 budget will be reported to the Authority meeting in December together with an up to date assessment of the budget and resource requirements for 2006/07.

Signed by the Financial Adviser: .....

Date: .....

### 3. **Introduction**

- 3.1 At the Authority meeting in July I advised Members that the Authority was forecast to have a revenue surplus of £2.137m at 31 March 2006. As a result of the second review forecast revenue balances at the year-end are now estimated to increase by a further £1.309m to £3.446m. 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 and Disposal: ( + £1.125m)**

- 4.1.1 During the period April to August 2005 there has been a net reduction of 4.36% in the level of residual waste entering the waste stream over the same period in 2004/05. On this basis, the 2005/06 residual waste stream is estimated to reduce by 35,987 tonnes to 790,015 tonnes (826,004 tonnes in 2004/05).

- 4.1.2 Details of the percentage movement in 2005/06 residual tonnage levels for each borough compared with 2004/05 tonnages may be summarised as follows:-

Table 1	<i>April to June</i>	<i>April to August</i>
Barnet	- 4.97%	- 5.90%
Camden	- 2.20%	- 3.64%
Enfield	- 4.29%	- 4.88%
Hackney	+ 2.11%	- 2.05%
Haringey	- 1.47%	- 2.11%
Islington	+ 2.89%	- 3.66%
Waltham Forest	- 5.15%	- 7.92%
Overall Position	- 2.04%	- 4.36%

The figures in the table 1 suggest that all boroughs are experiencing a reduction in their waste stream, compared with 2004/05. Of particular significance are the changes experienced by Hackney, Islington and Waltham Forest during July and August.

- 4.1.3 The above table also shows the movement in the residual waste stream for the period April to June 2005. Allowing for recycling data provided by the boroughs for this period the underlying growth in the waste stream was in the region of 2.8%. In the absence, however, of up-to-date recycling data for the period April to August it is not possible to provide an authoritative up-to-date assessment of the underlying changes in the waste stream for this period. Recently, however, to assist the Authority in reviewing the impact of the Government's proposals for amending the default arrangements for apportioning the levy, the boroughs provided the Authority with up-to-date full year projections of their 2005/06 recycling activity. On the basis of this information the significant reductions in waste experienced during July and August do not appear to be as a result of further stepped

change in recycling for these months. This would suggest a very significant reduction in the level of waste entering the waste stream before borough recycling and composting activities. The position is by no means clear. However, by the time of the next meeting in December the Authority should have been provided with borough recycling data for the first six months of the year; this should help the Authority to form a better understanding of the waste stream activity in the north London area. Depending upon the outcome of the third review there is the prospect of a saving on this budget head.

4.1.4 Members will recall that although the 2004/05 growth in the waste stream was projected to continue to grow in the last three months of the year this did not happen and therefore the reduction materialised as a saving in the 2004/05 final accounts. The 2005/06 base budget for transport and disposal was also based upon this premise and therefore notwithstanding the uncertainties about the current growth in the waste stream it is reasonable to declare a saving of £0.442m in respect of this over provision. The transport and disposal and landfill tax budgets have been adjusted to reflect this in the second review.

4.1.5 As indicated at paragraph 4.1.3 above the boroughs have provided the Authority with an up-to-date projection of their recycling activity. This information has been used to revise downward the likely level of recycling credit payments that the Authority will make for 2005/06 (see also paragraph 4.6). As a consequence it is assumed that waste that is not recycled will enter the residual waste stream and therefore the transport and disposal and landfill tax budgets have been increased by an aggregate of £1,567m in the second review.

#### 4.2 **Fridges and Freezers: (- £0.482m)**

4.2.1 The Authority has been successful in renegotiating the terms of its contract with LondonWaste Ltd for the safe treatment and disposal of fridges and freezers. As more treatment facilities have become available to treat the appliances the market price for the cost of treatment is reducing. The Authority has therefore secured a price reduction of c. 50% as from the 1 April 2005. The second review therefore allows for a reduction of £0.515m.

4.2.2 During the audit of the 2004/05 accounts it was established that some invoices for the treatment and disposal of fridges and freezers received after the closure of the accounts had not been taken into account when calculating the year-end creditor. As a consequence expenditure of £0.033m will now count as a cost in 2005/06.

4.2.3 A net saving of £0.482m has therefore been allowed in the second review.

#### 4.3 **Hazardous Waste – Television and Computer Screens: (+ £0.041m)**

4.3.1 A report elsewhere on this agenda advises of further changes to the hazardous waste regulations in July 2005 and the additional responsibility now placed on the Authority to arrange for the safe disposal of this category of waste. The cost in 2005/06 is estimated to be £0.041m and has been allowed for in the second review.

#### 4.4 **LWL Legislative Review – Hazardous Waste (APC)**

4.4.1 The Authority's budget allows for a possible payment to LondonWaste Ltd for the additional costs incurred by the Company for the disposal of hazardous waste. The requirement arises from new rules to end the co-disposal of hazardous and non-hazardous waste which came into effect in July 2004. The Company has previously indicated its intention to submit a claim and has now submitted a partial claim for 2004/05 (covering the period from July 2004 to December 2004). The Company has been requested to substantiate the merit of its claim, to provide further information about costs, and to justify a payment by the Authority which would be outside the payment arrangements set out in the Deed of Variation to the Acquisition and Collaboration Agreement. This document governs how the Authority's contribution towards the Company's costs of meeting environmental requirements as a result of legislative change should be determined, and how the monies should be paid. In particular, the Deed of Variation specifies that the Authority's payment in respect of a contribution in any year is limited to the dividend payment that it receives from LondonWaste Ltd. There is no prospect of a dividend payment in the medium term. The first call, in any event, would be committed to the Authority's contribution towards the Company's costs of meeting the requirements of the Waste Incineration Directive. A full report will be submitted to the Authority in December.

#### 4.5 **Hornsey Street Waste Transfer Station: ( + £0.577m)**

4.5.1 The Authority, LB Islington and ICSL Accord occupy the new building at Hornsey Street. LB Islington acts as landlord for the building and is responsible for looking after the fabric and common parts of the building, including maintenance and security. The waste transfer station is leased by the Authority to LondonWaste Ltd as a replacement for the Ashburton Grove Waste Transfer Station.

4.5.2 The Authority's budget allows for the estimated additional cost of operating the new waste transfer station at Hornsey Street and comprises two elements, a share of the LB Islington's landlord's cost, and secondly, the additional operational costs incurred by LondonWaste Ltd above those which were necessary to operate the former Ashburton Grove Transfer Station.

4.5.3 The Authority has recently received notification of the costs incurred by Islington in 2004/05 together with a revised budget forecast for 2005/06. Officers have requested a line by line explanation for the costs which have been incurred for 2004/05 and which are proposed for 2005/06 in order to see what can be suggested to contain costs in the future. Although officers have yet to complete their review the second review allows for the prospect of potential additional landlord costs above those allowed for in the Authority's 2004/05 accounts and 2005/06 budget.

4.5.4 LondonWaste Ltd has also indicated that the Company's operational costs are likely to be higher than originally envisaged. The Company has been requested to provide the

Authority with details but at the time of writing this information is not available. This information will be available for the Authority's December meeting.

**4.6 Recycling Credits: ( - £2.179m)**

4.6.1 As indicated at paragraph 4.1.5 above constituent boroughs have provide the Authority with up-to-date projections of their recycling and composting activity for 2005/06. The tonnage forecasts are lower than that assumed in determining the 2005/06 recycling credit budget and reflect in part the ongoing effect of a reduction in the level of waste that has been entering the waste steam over the past one to two years. The boroughs are currently projecting a recycling and composting level of c. 160,000 tonnes in 2005/06 (119,983 tonnes in 2004/05). If waste is not recycled the budget assumes that it will enter the residual waste stream and therefore the transport and disposal and landfill tax budgets referred to above have been increased in aggregate by £1.567m. As recycling credit payments are paid at the Authority's highest cost of disposal the projected net saving is estimated to be £0.612m. The net saving represents the additional cost avoided by the Authority for paying boroughs the highest cost of disposal for all tonnages claimed under the recycling credit scheme.

**4.7 Excess Creditor Provision: ( - £0.391m)**

4.7.1 A report elsewhere on this agenda recommends the payment of audited recycling credit claims for 2004/05. Although in closing the 2004/05 accounts a creditor provision was allowed based upon provisional recycling credit claim figures provided by the boroughs, actual recycling credit claims submitted to the Authority have been lower. As a consequence there is a saving of £0.391m which can be written back to revenue in 2005/06.

**4.8 Summary**

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

**Table 2**

	<b>2005/06 Original Budget</b>	<b>2005/06 First Review</b>	<b>2005/06 Second Review</b>	<b>Variance between 1st &amp; 2nd Review</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>				
Borough Waste (Ex. CA Waste)				
- Main Waste Disposal Contract	27,216	27,216	27,883	667
- Clinical Waste	217	217	217	
Civic Amenity Waste	1,833	1,833	1,833	
Fridges and Freezers	1,004	1,004	522	(482)
Landfill Tax	6,591	6,591	7,049	458
LWL Legislative Review – Hazardous Waste (APC)	1,668	1,668	1,668	
LWL Legislative Review – Edmonton Rating Review	47	47	47	
Hazardous Waste – TV and Computer Screens	0	0	41	41
Hendon Transfer Station	406	406	406	
Hornsey Street Transfer Station	1,969	1,969	2,546	577
Recycling Credits	11,986	11,986	9,807	(2,179)
Other Recycling Initiatives	100	100	100	
Agency Services	478	478	478	
Waste Strategy and Contracts Group	574	574	574	
Annual Compensation	30	30	30	
Provision for Possible Litigation Costs	50	50	50	
Contribution to Earmarked Reserve (Recycling)	25	25	25	
Excess Creditor Provision (Previous Years)	<u>0</u>	<u>0</u>	<u>(391)</u>	<u>(391)</u>
	54,194	54,194	52,885	(1,309)
<b>Less</b>				
<b>Income</b>				
Rents	(80)	(80)	(80)	
Interest on Balances	(560)	(1,110)	(1,110)	
Estimated Dividend Stream	<u>0</u>	<u>0</u>	<u>0</u>	
	(640)	(1,190)	(1,190)	
Net Expenditure	53,554	53,004	51,695	(1,309)
Contingency	<u>500</u>	<u>500</u>	<u>500</u>	
<b>Total Net Expenditure 2005/06</b>	<b>54,054</b>	<b>53,504</b>	<b>52,195</b>	<b>(1,309)</b>
	=====	=====	=====	=====
Financed By :-				
Balances b/fwd	(4,767)	(6,354)	(6,354)	
Charges to Boroughs (Non-household waste)	(7,450)	(7,450)	(7,450)	
2005/06 Levy	(41,837)	(41,837)	(41,837)	
<b>Total Resources Available</b>	<b>54,054</b>	<b>55,641</b>	<b>55,641</b>	
	=====	=====	=====	
<b>Estimated Revenue Balances as at 31 March 2006 (Surplus)</b>		<b>(2,137)</b>	<b>(3,446)</b>	<b>(1,309)</b>

## **5. Non-Household Charging Arrangement**

- 5.1 Members will be aware from previous reports to the Authority of the action that has been taken to review the arrangements for determining the non-household charges in future years. Although work to secure a consensus amongst the constituent boroughs for a new methodology for determining the non-household fraction of the waste stream has progressed, it has been superseded, firstly by work to develop a voluntary move towards a tonnage-based levy and more recently to respond to the Government's proposal for amending the default arrangements for apportioning the levy on a tonnage basis. The Authority's officers have discussed the situation with borough technical officers with the result that it is felt that there is more than sufficient difficulty in dealing with changes to the levy apportionment arrangements and that this should be the focus of attention. In any event, in view of the likely timescales and the need to ensure that borough finance directors are able to factor any changes into their respective budget planning processes, i.e. the balance between the levy and non-household charges might change – perhaps significantly - I do not believe that there is sufficient time for obtaining a consensus on an alternative charging arrangement in time for 2006/07. Accordingly, officers' advice is to continue to use the current methodology for calculating non-household charges in 2006/07 and aim to have a new arrangement in place for 2007/08.
- 5.2 In February the Authority decided to give further consideration in 2005/06 to the merit of introducing a supplementary Landfill Allowance Trading Scheme charge. This will be assessed and discussed with the borough Technical Officer Group with a view to reporting back to the next meeting of the Authority.

## **6. Landfill Allowance Trading Scheme (LATS)**

- 6.1 Members will be aware that the LATS scheme came into effect on 1st April 2005. Although the Authority should enjoy a favourable trading position in the period until 2011/12 the position for 2005/06 was always expected to be finely balanced. This is due to the loss of energy-from-waste capacity during 2005 as a result of the ongoing boiler refurbishment works at Edmonton to comply with the Waste Incineration Directive. The Authority did not envisage that it would have surplus allowance to sell in 2005/06 and as reported elsewhere on this agenda, it has taken longer than scheduled to complete the modification works on all boilers so far. Accordingly, less of the Authority's waste has been diverted from landfill than expected. Detailed projections and proposals are being sought from LWL to see if and how this shortfall can be remedied by the end of the financial year.
- 6.2 If LWL cannot remedy the shortfall, the LATS scheme includes the flexibilities of "borrowing" up to 5% of next year's allowances or buying surplus allowances from another waste disposal authority. One or both of these may be necessary.

6.3 Draft guidance on the accounting treatment of landfill allowances has very recently been received. This will be assessed and reported to a meeting of the LATS Member Working Group in the near future along with proposed strategies for trading and for incentivising constituent borough councils to divert biodegradable municipal waste.

6.4 More detailed financial implications can then be assessed for the next meeting of the Authority.

## 7. **Conclusion**

7.1 Although the second review indicates that there has been an improvement in forecast balances at 31 March 2005 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 2005/06.

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

8.1 The Legal Adviser 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 9 February 2005 and 6 July 2005  
2005/06 Budgetary Control Working Papers

Contact Officer: R A Bench  
Finance Officer to NLWA  
Finance Department  
London Borough of Camden  
Town Hall  
Argyle Street  
London WC1H 8NG

Tel: 020 7974 5945  
Fax: 020 7974 1948  
Email: [robert.bench@camden.gov.uk](mailto:robert.bench@camden.gov.uk)

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