

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2005/06 THIRD BUDGET REVIEW AND 2006/07 BUDGET FORECAST

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO**DATE**

AUTHORITY MEETING

7 DECEMBER 2005

1. SUMMARY OF REPORT

This report is the third 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 £5.079m at 31 March 2006. A further assessment of the budget and resource requirements for the year ahead indicates that the 2006/07 net budget requirement is currently estimated to be £57.102m, which after use of forecast revenue balances of £5.079m, will require funding of £52.023m by constituent councils. This represents an increase of £2.736m (5.55%) over the costs to constituent councils in 2005/06. This figure is £4.201m (8.55%) lower than previously forecast. These figures assume that there is no change to the default arrangements for apportioning the levy in 2006/07.

However, in order to illustrate the potential impact of a change in the levy apportionment arrangements to a tonnage-basis and cessation of the Authority's duty to pay recycling credits this report also provides an illustration of the 2006/07 budget forecast and levy prepared on the alternative basis. This would result in a net budget requirement of £48.137m and after use of forecast revenue balances (£5.079m) would require funding of £43.058m by constituent councils. This represents a reduction of £6.229m (12.6%) compared with the cost to constituent councils in 2005/06.

There remain a number of issues that need to be clarified and which could influence the final shape of the 2006/07 budget and levy. Further advice will be provided to Members at the budget meeting in February.

Members are also requested to consider the proposal to increase non-household charges in 2006/07 to reflect the opportunity cost to the Authority of using landfill allowances for the disposal of non-household waste, and to introduce a scheme to reward boroughs that divert the biodegradable fraction of their residual waste stream.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Note the third review of the 2005/06 revenue budget.
- (ii) Note the current assessment of the budget and resource requirements for 2006/07.
- (iii) Comment on the proposals to increase non-household charges in 2006/07 to reflect the opportunity cost to the Authority of using LATS allowances for non-household waste, and to introduce a scheme to reward boroughs that reduce the biodegradable fraction of their residual waste stream.
- (iv) Authorise the Head of Waste Strategy and Contracts and the Financial Adviser to conclude negotiations with LondonWaste Ltd to increase the incineration of NLWA waste, subject to their being a clear financial advantage for the Authority, with final terms to be agreed in consultation with the Chair.
- (v) Agree the arrangements set out at paragraph 6.1 for notifying the Authority of a voluntary agreement to apportion the levy in 2006/07 on a basis other than on the statutory default basis.
- (vi) Note the issues that will need to be addressed at the budget and levy meeting on 8 February 2006.

Signed by the Finance Officer :

Date:

3. **Review of the 2005/06 Revenue Budget**

3.1 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.

3.2 In subsequent reviews 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 (- £2.179m),
- 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),
- Other revisions to the waste stream (- £0.442m),
- Additional Landlord's costs of operating the Hornsey Street Waste Transfer Station (+ £0.577m),
- 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),
- Other miscellaneous changes (+ £0.074m).

3.3 At the October meeting Members were also advised of other possible budget pressures that could not be quantified at that time. The third review of the budget includes an assessment of these budget pressures and has identified a number of further variances, the net effect of which is estimated to increase the level of surplus revenue balances likely to be available at 31 March 2006 by £1.633m to £5.079m. Details of the most significant changes identified by the third review are shown below.

3.4 **Transport and Disposal (Including Civic Amenity Waste) (- £0.685m)**

3.4.1 In October Members were advised that based upon data available for the period April to August 2005 there had been a net reduction of 4.36% in the level of waste entering the residual waste stream over the same period in 2004/05. This represented a further reduction of 2.32% over the April to June forecast. On this basis, the 2005/06 residual waste stream was estimated to reduce by 35,987 tonnes to 790,015 tonnes.

3.4.2 Allowing for recycling and composting data provided by the boroughs for the period April to June the underlying growth in the waste stream for this period was estimated to be 2.8%. Although actual borough recycling data was not available for this period at the time of the October meeting, up-to-date full year projections of borough recycling activity had been provided by the boroughs. These figures suggested that the significant reduction in the waste stream in July and August was unlikely to have been caused solely by an increase in recycling activity and that some reduction in the underlying waste stream was most likely but could not be quantified at that stage. This has proven to be the case.

3.4.3 Tonnage data now available for the period up to October 2005 indicates a net reduction of 4.02% in the residual waste stream. Allowing for recycling data provided by the boroughs (most) for the period April to September the underlying growth in the waste stream appears to have reduced to an annual rate of 1.1% compared with the April to June forecast of 2.8%. Nevertheless, despite the reduction in the rate of growth in the underlying waste stream, the reduction in the residual waste stream for 5 boroughs has been checked. For budget purposes the third review allows for a 2% growth in the underlying waste stream together with the latest forecasts of borough recycling activity. As a consequence the 2005/06 residual waste stream is estimated to reduce by 20,241 tonnes to 805,763 tonnes (826,004 tonnes in 2004/05).

3.4.4 Allowing for these changes the cost of transport and disposal is estimated to reduce by £0.685m.

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

Table 1		October Forecast (April to August)	December Forecast (April to October)	Variance (October to December)
Barnet	- 4.97%	- 5.90%	- 4.88%	+ 1.02%
Camden	- 2.20%	- 3.64%	- 3.16%	+ 0.48%
Enfield	- 4.29%	- 4.88%	- 6.04%	- 1.16%
Hackney	+ 2.11%	- 2.05%	- 0.83%	+ 1.22%
Haringey	- 1.47%	- 2.11%	- 3.09%	- 0.98%
Islington	+ 2.89%	- 3.66%	- 3.34%	+ 0.32%
Waltham Forest	- 5.15%	- 7.92%	- 6.45%	+ 1.47%
Overall Position	- 2.04%	- 4.36%	- 4.02%	

3.4.6 The increase in recycling activity is having a significant effect on waste stream forecasts. Members will be aware that arrangements have been made with the boroughs for monthly recycling data to be made available to the Authority as soon as it is available. This information, together with tonnage data to be collected for November and December, will help inform the decisions which must be made on the 2005/06 revised budget and 2006/07 draft budget at the Authority meeting in February.

3.4.7 Under the Compensation Review clause in the contract with LondonWaste Ltd the Authority is required 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). LondonWaste Ltd's Compensation Review claim for 2005/06 is now expected to be lower than that assumed in the original budget. Although an allowance had been made for an increase in the price obtained by the Company for the sale of its electricity during the current year, and a reduction in incineration levels whilst the Company undertakes the WID refurbishment

works at the Edmonton Energy-from-Waste (EfW) facility, actual tonnages incinerated have been lower and electricity prices higher. The claim for 2005/06 is currently estimated to be £3.140m and should result in a saving of c. £0.856m. This figure may improve further but this will depend upon the outcome of negotiations with LondonWaste Ltd to increase the level of NLWA waste incinerated at the Edmonton facility (see also paragraph 3.11 below).

3.5 Landfill Tax (- £0.755m)

3.5.1 LondonWaste Ltd has been successful in reducing the volumes of bottom ash that are rejected from its ash recycling operations. This is expected to have a direct financial benefit for the Authority and should result in a landfill saving of c. £0.306m. Allowing for other changes to the waste stream (see paragraph 3.4 above) LondonWaste Ltd's total landfill tax claim for 2005/06 should reduce by a total of £0.755m when compared with the second review.

3.6 Legislative Review – Hazardous Waste (- £0.594m)

3.6.1 The Authority's budget allows 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 arise from the incineration process at the Edmonton facility. The increased cost 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.

3.6.2 It had been the intention to submit a detailed report to this meeting on the merit of the LondonWaste Ltd proposal, however, as information is still being gathered from LondonWaste Ltd this has not been possible. LondonWaste Ltd has, however, advised that in view of the actions it has taken to limit the financial impact of the new regulations on the Company, the value of the Company's potential claim can be reduced by £0.594m in 2005/06.

3.7 Hornsey Street Waste Transfer Station (+ £0.349m)

3.7.1 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.

3.7.2 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.

3.7.3 At the last meeting Members were advised of the additional landlord costs that were being incurred by Islington. LondonWaste Ltd has now completed a review of their 2004 costs and have advised the Authority that in view of the operational requirements of the new facility that this was likely to add £0.111m to LondonWaste Ltd's 2004/05 claim for additional operational costs and £0.219m for 2005/06. Allowing also for a re-calculation of the estimated increase in landlord costs – resulting in an increase of £0.019m – the third review allows for an increased cost of £0.349m in 2005/06.

3.8 Recycling Credits (+ £0.419m)

3.8.1 The third review allows for an up-to-date forecast of borough and third party recycling activity.

3.9 Waste Strategy and Contracts Team (+ £0.054m)

3.9.1 The increase represents the additional cost of operating the new officer support arrangements in 2005/06.

3.10 Charges to Boroughs for Non-Household Waste (+ £ 0.381m)

3.10.1 In view of the changes both in the volume and make-up of the waste stream non-household tonnages are currently estimated to reduce by 8,573 tonnes for the year. Charges are currently estimated to reduce from £44.21 to £44.20 per tonne. The overall effect of these changes is to reduce the estimated income from non-household charges by £0.381m for the year. The potential financial effect on boroughs varies.

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

Table 2	2005/06 Original Estimate £	2005/06 Current Forecast £	Estimated Variance £
Barnet	850,114	879,756	+ 29,642
Camden	1,600,225	1,546,470	- 53,755
Enfield	609,081	568,324	- 40,757
Hackney	1,105,383	1,021,374	- 84,009
Haringey	1,023,550	962,234	- 61,316
Islington	1,276,475	1,213,953	- 62,522
Waltham Forest	985,485	877,591	- 107,894
	7,450,313	7,069,702	- 380,611

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

3.11 Landfill Allowance Trading Scheme

3.11.1 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 2009/10 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 allowances to sell in 2005/06 and as reported at the last meeting 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.

3.11.2 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 is currently estimated to exceed its 2005/06 LATS allowance of 312,933 tonnes by about 12,600 tonnes. This figure is by no means certain and could deteriorate further. The Authority is currently in discussion with LondonWaste Ltd to see if and how the volume of NLWA waste incinerated can be increased by the end of the financial year. As this may result in a cost to the Authority and given the likely need to make a commitment prior to the next Authority meeting, Members are requested to authorise 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. If LondonWaste Ltd cannot remedy the shortfall, the LATS scheme allows the Authority to 'borrow' to 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.

3.12 Contingency

3.12.1 It would not be prudent, at this stage of the budget process to reduce the 2005/06 contingency provision (£0.500m). Further advice on this will be provided at the budget and levy meeting in February.

3.14 Overview

3.14.1 An assessment of the current financial position is summarised in Table 3 on the following page.

Table 3

	2005/06 Original Budget	2005/06 Second Review	2005/06 Third Review	Variance between 2nd & 3rd Reviews
	£'000	£'000	£'000	£'000
Expenditure				
Borough Waste (Ex. CA Waste)				
- Main Waste Disposal Contract	27,216	27,883	26,600	(1,283)
- Clinical Waste	217	217	225	8
Civic Amenity Waste	1,833	1,833	1,567	(266)
Fridges and Freezers	1,004	522	532	10
Landfill Tax	6,591	7,049	6,294	(755)
LWL Legislative Review – Hazardous Waste	1,668	1,668	1,074	(594)
LWL Legislative Review – Edmonton Rating Review	47	47	47	
Hazardous Waste – TV and Computer Screens	0	41	59	18
Hendon Transfer Station	406	406	407	1
Hornsey Street Transfer Station	1,969	2,546	2,895	349
Recycling Credits	11,986	9,807	10,226	419
Other Recycling Initiatives	100	100	100	
Agency Services	478	478	477	(1)
Waste Strategy and Contracts Team	574	574	628	54
Annual Compensation	30	30	31	1
Provision for possible Litigation Costs	50	50	50	
Contribution to Earmarked Reserve	25	25	50	25
Excess Creditor Provision (Previous Years)	0	(391)	(391)	
	54,194	52,885	50,871	(2,014)
Less				
Income				
Rents	(80)	(80)	(80)	
Interest on Balances	(560)	(1,110)	(1,110)	
Estimated Dividend Stream	(0)	0	(0)	
	(640)	(1,190)	(1,190)	
Net Expenditure	53,554	51,695	49,681	(2,014)
Contingency	500	500	500	
Total Net Expenditure 2005/06	54,054	52,195	50,181	(2,014)
	=====	=====	=====	=====
Financed By :-				
Balances b/fwd	(4,767)	(6,354)	(6,354)	
Charges to Boroughs (Non-household waste) *	(7,450)	(7,450)	(7,069)	381
2005/2006 Levy *	(41,837)	(41,837)	(41,837)	
Total Resources Available	54,054	55,641	55,260	381
	=====	=====	=====	=====
Estimated Revenue Balances as at 31 March 2006 (Surplus)		(3,446)	(5,079)	(1,633)
Total cost to Boroughs in 2005/06 *	49,287			

4. **2006/07 Budget Forecast**

- 4.1 At the Authority meeting in July I provided Members with a further assessment of the budget and resource requirements for 2006/07. This indicated that the net budget requirements for the year ahead were estimated to be in the order of £58.361m. Allowing for the use of estimated revenue balances of £2.137m at 31 March 2006, the cost to constituent councils in 2006/07 was estimated to rise by £6.937m (14.1%) to £56.224m. This compared with an increase of 18.41% provided as an early forecast at the February meeting of the Authority. The reduction was due to the improvement in revenue balances at 31st March 2006.
- 4.2 Allowing for the estimated full year effect of known and potential changes the cost to constituent councils in 2006/07 is now estimated to rise by £2.736m (5.55%) to £52.023m. This represents a reduction of £4.201m (8.55%) over the July forecast and reflects the results of a detailed assessment of the potential costs of waste disposal in both 2005/06 and 2006/07.
- 4.3 Details of the 2006/07 budget forecast are summarised in Table 4 (Version A), however, in view of the Government's intention to amend the default arrangements for apportioning the levy in time for 2006/07 the opportunity is also taken to illustrate the effect on the 2006/07 budget forecast of the Government's proposals coming into effect in 2006/07 (Version B). Members will recall from the October meeting of the Authority that a key consequence of the Government's proposals is to remove the duty of the Authority to pay recycling credits to its constituent boroughs. Members will see that if the new levy apportionment arrangements come into effect for 2006/07 the recycling credits budget is significantly reduced (an allowance is only made for the payment of third party recycling credits). Two other adjustments also need to be made to the budget forecast. The first is a reduction in the level of income from interest on balances, and the second is an increase in the contingency. As a consequence this would result in a net budget requirement of £48.137m and after use of forecast revenue balances (£5.079m) would require funding of £43.058m by constituent councils. This represents a reduction of £6.229m (12.6%) compared with the cost to constituent councils in 2005/06 and a reduction of £8.965m compared with Version A of the 2006/07 budget forecast.
- 4.4 Further information on the budget forecast assumptions can be found at paragraph 5.
- 4.5 Table 4 provides a summary of the 2006/07 budget forecast:-

Table 4

	2006/07 Budget Forecast (Including Recycling Credits)	2006/07 Budget Forecast (Excluding Recycling Credits)
	(A)	(B)
Expenditure		
Borough Waste (Ex CA Waste)	£ '000	£'000
- Main Waste Disposal Contract	29,955	29,955
- Clinical Waste	236	236
Civic Amenity Waste	1,696	1,696
Fridges and Freezers	521	521
Landfill Tax	6,635	6,635
LWL Legislative Review – Hazardous Waste	1,336	1,336
LWL Legislative Review – Edmonton Rating Review	97	97
Hazardous Waste – TV and Computer Screens	99	99
WEEE Directive	750	750
Hendon Transfer Station	414	414
Hornsey Street transfer Station	2,652	2,652
Recycling Credits	9,780	65
Other Recycling Initiatives	100	100
LATS Incentive Scheme	947	947
Agency Services	487	487
Waste strategy – Consultants	500	500
Waste Strategy and Contracts Team	846	846
Annual Compensation	32	32
Provision for Possible Litigation Costs	50	50
Contribution to Earmarked Reserve	<u>50</u>	<u>50</u>
	57,183	47,468
Less		
Income		
Rents	(81)	(81)
Interest on Balances	(750)	(600)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>
	(831)	(681)
Net Expenditure	56,352	46,787
Contingency - General	750	750
Contingency - Reserve	<u>0</u>	<u>600</u>
2006/07 Budget Forecast	<u>57,102</u>	<u>48,137</u>
	=====	=====
To be financed by :-		
Estimated Balances b/fwd	(5,079)	(5,079)
Charges to Boroughs (Non-household waste)	(8,772)	(8,772)
2006/07 Forecast Levy	(43,251)	(34,286)
Estimated Total Resources Available	57,102	48,137
Increased/(Reduced) cost to boroughs over 2005/06	2,426 (+ 5.55%)	(6,229m) (- 12.6%)

5. **2006/07 Budget Assumptions**

5.1 The following factors have been taken into account:-

5.2 **Inflation**

5.2.1 A general allowance for inflation of 2.5%.

5.3 **Transport and disposal**

5.3.1 The transport and disposal budget has been based upon a total residual waste stream of 801,858 tonnes, i.e. a net reduction of 3,905 tonnes over the 2005/06 projected outturn. This reflects the requirement for boroughs to continue to make significant stepped changes in recycling activity in order to meet the requirements of the Landfill Directive and the Government's statutory recycling targets (see consultation document elsewhere on this agenda). Although 2006/07 is not a statutory target year the boroughs have advised the Authority that in aggregate they intend to increase their recycling and composting levels by a further 27,242 tonnes over their 2005/06 target of 165,322 tonnes, i.e. to a total of 192,564 tonnes. However, despite the increase in recycling by boroughs the total waste stream continues to rise and therefore an increase of 2% has been allowed in this projection to reflect a continuation of the underlying increase in the waste stream projected for 2005/06 (19,422 tonnes). An allowance has also been made for the full year effect of new civic amenity sites which became operational in 2005/06 (3,915 tonnes).

5.3.2 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 £1.710m (30,000 tonnes) and also operation of the bulking arrangement for dry recyclable waste a cost of £1.200m (30,000 tonnes) – also at Edmonton. These arrangements are cost neutral for the NLWA budget (Version A) if there is no change to the default arrangements for apportioning the levy as the cost is offset by an adjustment to the recycling credits budget (see paragraph 5.10 below).

5.4 **Compensation Review**

5.4.1 Based upon information received from LondonWaste Ltd the 2006/07 budget forecast allows for the full year effect of the significant improvement that the Company has obtained for the sale of its electricity and a return to incineration levels nearer to those achieved prior to the Waste Incineration Directive refurbishment works. The 2006/07 forecast allows for a claim of £3.25m, i.e. a reduction of c. £0.750m compared with the 2005/06 original budget assumptions.

5.5 **Fridges and Freezers**

5.5.1 The budget forecast continues to allow for the treatment and disposal of c. 58,000 appliances.

5.6 **Landfill Tax**

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

5.6.2 The forecast also allows for the effect of the Edmonton EfW facility returning to incineration levels nearer to those achieved prior to the Waste Incineration Directive refurbishment works. Although prior to undertaking the WID works the Company has previously achieved incineration levels approaching 555,000 tonnes per annum, the Company has advised that an incineration level 518,000 tonnes would be more prudent until the operation of the Edmonton facility post-WID has fully settled.

5.7. **Legislative Review – Hazardous Waste (APC)**

5.7.1 As indicated above at paragraph 3.6 LondonWaste Ltd has significantly reduced the estimated of the cost of disposing of this category of hazardous waste. Nevertheless the merit of London Waste Ltd's potential claim has yet to be fully evaluated.

5.8 **Legislative Review – Edmonton Rating Revaluation**

5.8.1 LondonWaste Ltd has previously notified the Authority of its intention to make a legislative review claim in respect of the Edmonton Rating Revaluation that took effect on 1 April 2005. To date no formal claim has been received, however, the budget forecast continues to allow for a possible claim.

5.9 **Ashburton Grove Transfer Station/Hornsey Street Replacement**

5.9.1 The 2006/07 budget forecast allows for a continuation of the increased landlord and operational costs as advised by the Islington and LondonWaste Ltd respectively.

5.10 **Recycling Credits**

5.10.1 Assuming there is no change to the default arrangements for apportioning the NLWA levy and a continuation of the duty to pay recycling credits to constituent boroughs Version A of the 2006/07 Budget Forecast allows for the payment of recycling credits under the statutory scheme of £8.691m to boroughs and £0.066m for the payment to third parties. In addition the forecast also allows for a payment to the boroughs representing 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 dry recyclable waste also through LondonWaste Ltd (£0.767m). The recycling credit payment is estimated to be £65.56 per tonne but this could reduce to c. £64 per tonne if changes currently proposed by the Government for 2006/07 are implemented.

5.10.2 If the Government decide to change the default arrangements for apportioning the levy in 2006/07 and remove the duty for the NLWA to pay recycling credits the budget for

recycling credits reduces to £0.066m as indicated in version B of the 2006/07 Budget Forecast, i.e. payments to the third parties only.

5.11 WEEE Directive

5.11.1 Although the WEEE Directive is scheduled to come into force in June 2006 the implementation has already been delayed by a year. 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 full year budget for 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 but may reduce if producer responsibility comes into effect in June 2006. Further advice will be given on this matter at the budget and levy meeting in February.

5.12 Waste Strategy and Contracts Team

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

5.13 Implementation of the North London Joint Waste Strategy – Consultants

5.13.1 The procurement report, elsewhere on this agenda, recommends an approach to taking the Authority forward in meeting the requirements of the North London Joint Waste Strategy. As this is likely to involve the need to engage external support across a wide range of professional disciplines the 2006/07 budget forecast allows a provision of £0.5m for this purpose.

5.13.2 No allowance has been made for the potential capital cost of implementing the Joint Waste Strategy in 2006/07 as no capital expenditure is planned before next year.

5.14 Dividend Income (LondonWaste Ltd)

5.14.1 No income is anticipated from this source.

5.15 Interest on Balances

5.15.1 A forecast of the income expected from the temporary investment of monies held by the Authority is included in Versions A and B of the budget forecast. If the recycling credit budget is eliminated from the budget forecast as in Version B income from this source is estimated to reduce by £0.150m in 2006/07.

5.16 Non-household Waste Charges

- 5.16.1 As previously proposed at the October meeting, the budget forecast 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.
- 5.16.2 Members will also recall that in setting the budget and levy for 2005/06 it was agreed to give further consideration during the course of this year to 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.
- 5.16.3 The Head of Waste Strategy and Contracts and the Finance Officer met with borough technical officers on 17th November to discuss the rationale and proposals for introducing a supplementary LATS charge in 2006/07. All boroughs were represented, and although NLWA officers fielded a number questions about the proposals there was no outright opposition to the principle or the scale of the proposed increase for 2006/07.
- 5.16.4 Allowances that are issued to the Authority relate to both household and non-household waste. 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%). Given that non-household tonnages for 2006/07 are currently forecast to be in the order of 163,870 tonnes and every allowance used is the use of an asset, particularly for tonnages above the non-household deemed share of allowances, consideration needs to be given to 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).
- 5.16.5 For 2006/07 it is proposed that the total volume of biodegradable non-household waste (111,432 tonnes) above the deemed LATS allowance for non-household waste (64,984 tonnes) is set at 46,448 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 £0.929m, i.e. (46,448 tonnes at £20. It is proposed that this cost is spread across all 2006/07 non-household tonnages (163,870 tonnes) resulting in a supplementary charge of £5.67 per tonne. Details of the background papers presented to the Technical Officer Group, updated for the 2006/07 budget forecast data, can be found at Appendix A.
- 5.16.6 Based upon estimated non-household tonnages of 163,870 tonnes and a cost per tonne of £47.86 the total cost to boroughs in 2006/07 is currently estimated to be £7.843m if no allowance is made for a Landfill Allowance Trading Scheme (LATS) supplementary charge.

5.16.7 If an allowance is made for a supplementary LATS charge of £5.67 per tonne the total proposed charge for 2006/07 increases to £53.53 per tonne and the total cost to boroughs in 2006/07 rises to £8.772m, i.e. an additional charge of £0.929m. This is included in the 2006/07 budget forecast.

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

Table 5	2006/07 Estimated Tonnes	2006/07 Estimated Cost (No LATS Charge) £	2006/07 Estimated Cost (including LATS Charge) £
Barnet	20,379	975,339	1,090,888
Camden	35,925	1,719,370	1,923,065
Enfield	13,166	630,125	704,776
Hackney	23,660	1,132,368	1,266,520
Haringey	22,289	1,066,751	1,193,130
Islington	28,122	1,345,919	1,505,371
Waltham Forest	20,329	972,946	1,088,211
Total	163,870	7,842,818	8,771,961

5.17 Reward Scheme for the Diversion of Bio-degradable Municipal Waste (BMW)

5.17.1 At its meeting with borough officers on 17th November 2005 NLWA officers also explored the possibility of introducing a BMW diversion incentive payment which would reward boroughs for increasing the tonnages for all BMW diverted from the residual waste stream, i.e. for both household and non-household waste.

5.17.2 Two options were offered. 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 if the default arrangements are amended in time for next year. 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.

5.17.3 Assuming a notional value of £10 per tonne, equivalent to 50% of the estimated current value of a LATS allowance, the cost of option 1 is currently estimated to be in the region of £0.466m and £0.947m for option 2. Although option 2 has been allowed for in the 2006/07 budget forecast Members may wish to consider opting for option 1 which could enable a further reduction in 2006/07 levy, or, enable the Authority to adopt a more prudent approach by establishing a reserve to fund the future purchase of allowances or to assist with the funding of new facilities.

5.17.4 The Authority's response to DEFRA on the review of the levy apportionment arrangements asked DEFRA officials to clearly identify the legal powers under which the Authority can introduce such a new incentive payment for the diversion of biodegradable municipal waste. Their response is awaited.

5.18 Landfill Allowance Trading Scheme (LATS)

5.18.1 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. In addition the Authority may have to use up to 5% of its 2006/07 allowances (16,031 tonnes) in 2005/06. As a consequence no allowance is currently made for any trading surpluses in the 2006/07 budget forecast.

5.18.2 The February meeting of the Authority will include an update on LATS trading and the administrative arrangements that may need to be put in place.

5.19 Contingency

5.19.1 A general contingency of £0.750m is included in both Version A and B of the 2006/07 budget forecast. This is because both the 2005/06 third budget review and the 2006/07 budget forecast allows for a year-on-year increase of only 2% per annum in the underlying waste stream. Allowing for a 1% adverse variance in the waste stream and some headroom for other costs not specifically allowed for in the budget it is considered prudent to raise the general contingency to £0.750m.

5.19.2 In the case of Version B, the 2006/07 budget forecast allows for an additional reserve contingency of £0.6m to provide the Authority with some protection if the boroughs projected recycling and composting targets for 2006/07 are not achieved (assumes an under achievement of 5%). This is because failure by the boroughs, in aggregate, to increase their recycling to the levels that have been notified to the Authority could result in a direct increase in the amount waste that the Authority has to process and for which there would be no budget provision. This would not happen if the recycling credit scheme were to continue as a saving on the recycling credit budget would become available to cover the additional cost of disposal. At this stage therefore an additional reserve contingency of £0.6m is proposed. This will be reviewed in the light of further developments at the budget and levy meeting in February.

6. Review of the Levy Arrangements

6.1 Members will be aware from the October meeting of the Authority that the Government has consulted on proposals for changing the default arrangements for apportioning the levy from a council tax basis to a tonnage basis in 2006/07. An announcement from DEFRA about the timing of any changes to the default arrangements is not expected until after the date of this meeting. If the changes are not to be implemented in time for 2006/07 this raises the possibility of a voluntary move towards a tonnage-based levy. This would need to be agreed unanimously by the constituent boroughs and is not a matter for the NLWA.

In order however to facilitate any proposed move it would be helpful if members wish to proceed down this route, for there to be agreement at this meeting about the nature of any proposed voluntary move. That proposal would then need to be discussed by each Council and formally agreed in order to take it forward. In such circumstances it is recommended that all constituent boroughs be advised that it will be necessary to formally advise the Authority in writing if the seven constituent boroughs have agreed unanimously on a basis, other than the default arrangements, for apportioning the levy in 2006/07. It is recommended that the Authority is notified no later than 31st January 2006.

- 6.2 An illustration of the levy apportionment of the 2006/07 budget forecast based upon both a council tax base (using 2005/06 council tax base figures – these will need to be substituted for 2006/07 figures when known) and the Government's proposed change to a tonnage based levy is attached at Appendix B.

7. **Conclusion**

- 7.1 On the basis of current information the third review indicates that the 2005/06 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year. The third review has identified a number of significant adverse and positive changes the net effect of which is to increase the level of forecast balances at 31 March 2006 to £5.079m. In the light of these changes and the higher level of balances expected to be available to assist with the funding of 2006/07 budget, the additional cost to boroughs in 2006/07 is currently estimated to be £2.736m, i.e. an increase of 5.55% over the equivalent cost in 2005/06. This is on the basis of Version A of the 2006/07 budget forecast which assumes a continuation of the recycling credit scheme for 2006/07. By implication this assumes that there has been no change to default arrangements for apportioning the levy. The report draws attention to the impact of recycling activity on the residual waste stream and the importance, particularly if there is a move to tonnage-based levy in 2006/07, that these forecasts are realistic.
- 7.2 In view of the Government's intention to amend the default arrangements for apportioning the levy in time for 2006/07 the opportunity has also been taken to illustrate the effect on the 2006/07 budget forecast of the Government's proposals coming into effect. Although under this scenario the Authority's levy is estimated to reduce from £43.251m to £34.286m boroughs will need to take into account the loss of recycling credit income in 2006/07.
- 7.2 This report has also discussed the merits of reviewing the Authority's charges for non-household waste in the light of the Landfill Allowance Trading Scheme and raises the possibility of rewarding boroughs that take steps to reduce the level of biodegradable municipal waste from entering the residual waste stream.
- 7.3 Members will be aware that the Authority is not able to make a substitute levy and therefore in February it will be necessary for Members take decisions to ensure that the 2006/07 budget is sufficient to meet the Authority's statutory obligations in the year ahead. Members will be provided with further advice at the budget meeting in February.

8. **Comments of the Legal Adviser**

8.1 The comments of the legal adviser have been incorporated in 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 and 19 October 2005
2005/06 budgetary control and 2005/07 budget working papers

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