

**NORTH LONDON WASTE AUTHORITY**

**REPORT TITLE**

2004/2005 REVENUE AND CAPITAL BUDGETS FINAL OUTTURN AND 2005/06 FIRST BUDGET REVIEW

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO**

**DATE**

AUTHORITY MEETING

6<sup>th</sup> JULY 2005

**1. SUMMARY OF REPORT**

This report provides details of actual expenditure and income for 2004/05 and briefly comments on the current financial position and outlook for future years. Based upon current information the Authority is forecast to have a revenue surplus of £2.137m at 31 March 2006. A review of the outlook for the period 2006/07 to 2008/09 reaffirms the likelihood that waste management costs will continue to rise significantly over this period. A further review of the financial position will be reported to the Authority meeting in October.

**2. RECOMMENDATIONS**

The Authority is requested to:-

- (i) Note the 2004/05 final outturn (subject to audit).
- (ii) Note the over payment by boroughs in respect of non-household waste in 2004/05 and the arrangements for repayment to boroughs.
- (iii) Approve the 2004/05 draft Statement of Accounts.
- (iv) Note the first review of the 2005/06 budget.
- (v) Note that a second review of the 2005/06 budget will be submitted to the Authority in October.
- (vi) Note the outlook for 2006/07, 2007/08 and 2008/09 and likely budget pressures.
- (vii) Note the current position on LATS.
- (viii) Note the proposed actions to identify efficiency gains for the inclusion in borough Annual Efficiency Statements.

Signed by the Finance Adviser: .....

Date: .....

### 3. **Introduction**

3.1 At its meeting on the 9 February 2005 the Authority was provided with an up-to-date assessment of its financial position. This included the fourth review of the 2004/05 budget. The latter formed the basis of the 2004/05 approved revised budget and provided guidance on the level of surplus resources available to assist with funding of the 2005/06 budget.

3.2 The accounts for 2004/05 are now closed and therefore the main purpose of this report is to provide details of the 2004/05 final outturn (subject to audit) and to seek approval of the 2004/05 draft Statement of Accounts. The opportunity is also taken to provide details of the 2005/06 first budget review and to briefly comment on the outlook for future years.

### 4. **2004/05 Final Outturn**

4.1 At its meeting on 11 February 2004 the Authority agreed an original budget of £49.917m to be financed by estimated revenue balances of £4.767m, charges to boroughs for non-household waste of £6.776m and a levy of £38.374m.

4.2 In subsequent reviews Members have been advised of:

- The higher level of balances brought forward from 2003/04 (-£1.313m),
- The impact of changes in the waste stream and the costs of final disposal (-£2.436m),
- The possibility of a new legislative review claim by LondonWaste Ltd in respect of hazardous waste (+£0.911m),
- The write-back to revenue of an excess creditor provision allowed for recycling credits in the 2003/04 accounts (-£0.896m),
- Slippage of income from 2003/04 (-£0.350m),
- An increase in income arising from the investment of cash balances (-£0.510m),
- A reduction in the 2004/05 contingency (-£0.200m),
- A reduction in non-household charges (+£0.196m),
- A number of other minor changes (-£0.169m).

4.3 As a consequence the Authority was advised that it would be reasonable to assume that forecast revenue balances of £4.767m at 31 March 2005 could be taken into account when considering its budget and levy requirements for 2005/06.

4.4 The actual revenue surplus at 31 March 2005 is £6.354m, i.e. an increase of £1.587m.

4.5 In addition, the Authority holds an earmarked reserve of £1.204m for the funding of future recycling initiatives.

4.6 Comparison of the revised budget and final outturn is shown in Table 1 followed by a commentary on the most significant changes and issues arising.

**Table 1**

	<b>2004/05 Original Budget</b>	<b>2004/05 Revised Budget</b>	<b>2004/05 Final Outturn</b>	<b>Variance between Revised &amp; Outturn</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	27,408	26,872	27,337	465
- Clinical Waste	184	205	203	(2)
Civic Amenity Waste	2,774	1,803	1,766	(37)
Fridges and Freezers	1,072	970	918	(52)
Landfill Tax	6,360	5,512	5,690	178
Legislative Review – Hazardous Waste	0	911	911	
Hendon Rail Transfer Station	417	386	386	
Hornsey Street Transfer Station	1,405	1,405	1,405	
Recycling Credits	9,295	9,127	7,262	(1,865)
Other Recycling Initiatives	100	100	16	(84)
Agency Services	465	465	391	(74)
Waste Strategy and Contracts Group	404	430	468	38
Annual Compensation	30	30	30	
Provision for Litigation Costs	50	25	0	(25)
Contribution to Earmarked Reserve	20	50	52	2
Excess Creditors (Previous Years)	0	(896)	(1,076)	(180)
	49,984	47,395	45,759	(1,636)
<b>Less</b>				
<b>Income</b>				
Rents	(77)	(78)	(76)	2
Interest on Balances	(490)	(1,350)	(1,088)	262
Dividends (LWL)	(0)	(0)	(0)	
	(567)	(1,428)	(1,164)	264
Net Expenditure	49,417	45,967	44,595	(1,372)
Contingency	500	300	0	(300)
<b>Total Net Expenditure 2004/05</b>	<b>49,917</b>	<b>46,267</b>	<b>44,595</b>	<b>(1,672)</b>
Financed By :-				
Revenue Balances b/fwd	(4,767)	(6,080)	(6,080)	
Charges to Boroughs (Non-household waste)	(6,776)	(6,580)	(6,495)	85
2004/05 Levy	(38,374)	(38,374)	(38,374)	
<b>Balances c/fwd as at 31 March 2005:</b>				
<b>General Balances</b>		<b>(4,767)</b>	<b>(6,354)</b>	<b>(1,587)</b>
<b>Earmarked Reserve (Recycling)</b>	<b>(1,152)</b>	<b>(1,202)</b>	<b>(1,204)</b>	<b>(2)</b>

4.7 Details of the most significant variances that have occurred since the budget meeting in February are set out below.

4.8 **Transport and Disposal : (+ £0.604m)**

4.8.1 In December Members were advised that based upon data available for the period April to October there had been a net reduction of 2.42% in the level of residual waste entering the Authority's waste stream over the same period in 2003/04. Allowing, however, for estimated recycling tonnages provided by constituent boroughs for the first six months of the year the overall growth in the total waste stream (before allowing for borough recycling activity) was 2.9%. At that time the boroughs had advised the Authority of their intention to increase their recycling activity during the second half of the year. As a consequence, based upon the borough's original estimates of their recycling activity in 2004/05 the residual waste stream was estimated to reduce by a further 32,153 tonnes by the year-end.

4.8.2 Subsequently in February, Members were advised that based upon data available for the period up to December 2004, there had been a net reduction of 2.35% in the residual waste stream, i.e. broadly in line with the previous forecast. Although up-to-date recycling activity had been provided by two boroughs (both of which are currently estimated to come close to meeting their original recycling target for the year), it was not possible to provide an update on the underlying growth in the total waste stream. The Authority therefore had little option but to continue to budget on the assumption that the total waste stream was continuing to rise at 2.9% and that all boroughs would achieve their original 2004/05 recycling and composting targets.

4.8.3 The actual residual waste stream for the year is 826,004 tonnes, i.e. a reduction of 29,829 tonnes compared with 2003/04 actual tonnages but an increase of 14,547 tonnes compared with the revised budget assumption of 811,457 tonnes. Whilst, based upon the boroughs latest outturn recycling figures for 2004/05 it would appear that there has been some increase in the second half of the year, the overall level of recycling activity for 2004/05 has fallen significantly short of the borough's original assumptions. The resulting net additional cost of disposal (£0.604m) is therefore offset by the saving on recycling credit payments.

4.8.4 Current extrapolation of the residual waste stream and provisional borough recycling figures indicates that the 2004/05 total waste stream appears now to have increased by only 0.9% over the 2003/04 total waste stream compared with the revised budget assumption of 2.9%, i.e. a reduction of 2%. Given, however, that the transport and disposal budget assumed a higher than actual level of recycling activity (current estimate – the audited figures will be reported to the Authority later in the year) the reduction in the waste stream appears as a significant additional saving on the recycling credit budget. Set against the Government's expectation of significant year-on-year increases in recycling and composting activity the outcome for 2004/05 illustrates the importance of the Authority having access to up-to-date and timely information about borough activity. The need for this information cannot be over emphasised. Indeed, the importance is even greater now that the Landfill Allowance

Trading Scheme (LATS) came into effect in April 2005. Whilst the Authority should enjoy a favourable LATS trading position in the period up to 2010/11 the introduction of LATS coincides with a significant reduction in energy-from-waste capacity in 2005 whilst the Edmonton facility is refurbished to meet the requirements of the Waste Incineration Directive. 2005/06 is likely to be a challenging year and therefore it is important that boroughs are in a position to provide the Authority with up-to-date and timely information. Boroughs have been reminded of this requirement.

4.8.5 Details of the percentage movement in 2004/05 tonnage levels for each borough compared with 2003/04 tonnages may be summarised as follows:-

	<b>February Forecast</b>	<b>2004/05 Actual</b>	<b>Variance</b>
Barnet	- 1.07%	- 1.95%	- 0.88%
Camden	+ 0.03%	- 1.20%	- 1.23%
Enfield	- 2.76%	- 3.68%	- 0.92%
Hackney	- 1.57%	- 2.97%	- 1.40%
Haringey	- 2.43%	- 3.03%	- 0.60%
Islington	- 2.78%	- 3.75%	- 0.97%
Waltham Forest	- 6.18%	- 8.17%	- 1.99%

4.8.6 All boroughs experienced downward movement in their residual waste streams during the closing months of the year.

4.9 **Fridges and Freezers : (-£0.052m)**

4.9.1 A total of 53,682 appliances were treated and recycled in 2004/05 compared with a budget assumption of 58,000 and this has resulted in a saving of £0.052m.

4.10 **Recycling Credits : (- £1.865m)**

4.10.1 Borough recycling credit claims for 2004/05 have not all been received by the Waste Strategy and Contracts Group, which must then be audited by them. However, provisional figures provided by the boroughs indicate that recycling credit claims for 2004/05 are likely to total in the order of 127,000 tonnes, i.e. an increase of c. 38,500 tonnes compared with 2003/04. The 2004/05 final accounts have therefore been closed on this basis. Any budget variance will be reported when the borough credit claims are submitted for approval later in the year.

4.10.2 As indicated at paragraph 4.8.3 the saving on recycling credit payments is more than sufficient to offset the increased cost of disposal and landfill tax (£0.604m). Also, and as explained at paragraph 4.7.4, the remaining saving arises from the lower than expected increase in the boroughs 2004/05 recycling activity.

4.11 **Other Recycling Initiatives : (- £0.084m)**

- 4.11.1 There has been a low level of activity in 2004/05.
- 4.12 **Agency Services : (- £0.074m)**
- 4.12.1 Expenditure on most services provided under this category have been broadly in line with the budget assumptions except in the case of external technical and corporate financial support to the Authority. Here, lower than budgeted use of the external advisers accounts for most of the saving (£0.056m). A further saving of £0.010m has arisen in respect of legal support services and miscellaneous other savings of £0.008m.
- 4.13 **Waste Strategy and Contracts Group : (+ £0.038m)**
- 4.13.1 The increase relates in part to the increased costs of recruitment advertising and personnel services provided by Haringey to support the recruitment of staff to the new staff structure approved by the Authority in July 2004 (some posts have proved difficult to fill) but also higher than expected IT and other setting-up costs in the Group's move to new office accommodation.
- 4.14 **Provision for Possible Litigation Costs : (- £0.025m)**
- 4.14.1 In addition to the cost of legal support services contained within the Agency Services budget a separate budget provision is held to meet the potential costs of litigation with third parties. This provision was not called upon in 2004/05.
- 4.15 **Contingency : (- £0.300m)**
- 4.15.1 Although individual budget heads were reviewed in the light of the latest available information, it was considered prudent for the 2004/05 revised budget to retain a contingency of £0.300m to accommodate possible unforeseen additional costs in the closing months of the year. Outturn figures show that it has not been necessary to make a call on the contingency.
- 4.16 **Excess Creditor Provision (previous years) : (-£0.180m)**
- 4.16.1 The increased write back to revenue arises in the main from a reduction in the Authority's actual liability for the treatment/disposal cost of fridges and freezers in 2002/03 and 2003/04.
- 4.17 **Interest on Balances : (+ £0.262m)**
- 4.17.1 The revised budget assumed that interest relating to the outstanding compensation payment due to be paid by the Highways Agency for land acquired at the frontage to the Edmonton Plant would be paid in 2004/05. The income from this source, estimated to be at least £0.350m, will now slip into 2005/06.

4.17.2 A general improvements in the Authority's cash flow in the last 3 months of the year (£0.038m) and an omission from the revised budget of a payment in lieu of interest due from LondonWaste Ltd (£0.050m) has partially reduced the income shortfall for the year. The payment by LondonWaste Ltd compensates the NLWA – on favourable terms - for the earlier than required payments on account made to LondonWaste Ltd in respect of the Company's estimated landfill tax and compensation review claims due to be paid by the Authority.

4.18 **Dividend Income (LondonWaste Ltd)**

4.18.1 At the Annual General Meeting of LondonWaste Ltd on 22 April 2005 the Directors recommended that no dividend should be paid to shareholders as it was necessary for the Company to make an investment in the Edmonton energy-from-waste plant to meet the requirements of the Waste Incineration Directive. This is in line with the Authority's budget assumptions.

4.19 **Charges to Boroughs for Non-Household Waste : (- £0.085m)**

4.19.1 At the budget meeting in February I provided an up-to-date assessment of the estimated cost to boroughs of non-household waste in 2004/05 (in accordance with the Authority's charging arrangements for this category of waste under section 52 (9) of the Environmental Protection Act 1990).

4.19.2 I also reminded the meeting that the final charges will be calculated as part of the 2004/05 final accounts process and that this would be reported to the Authority in July 2005. Any under or over payment by boroughs would be collected from or repaid to boroughs at that time.

4.19.3 Although compared with the 2004/05 revised budget the income due to the Authority has reduced by £0.085m, a net repayment of £0.281m is now due to be repaid to boroughs. This is because under the Authority's charging arrangements for non-household waste, boroughs are required to make payments on account throughout the year on the basis of the original approved estimate for the year in question, i.e. £6.776m in 2004/05. Based upon 2004/05 outturn tonnages all seven boroughs will receive a refund.

4.19.4 Compared with the original budget assumptions there has been a tonnage reduction of 7,165 tonnes and a price increase of £0.05 per tonne.

4.19.5 Details of the original, revised and actual costs of non-household waste are shown in table 2 below.

<b>Table 2</b>	(1)	(2)	(3)	(4)
	<b>2004/05 Original</b>	<b>2004/05 Revised</b>	<b>2004/05 Actual</b>	<b>(Repayment due to</b>

	<b>Estimate</b>	<b>Estimate</b>	<b>Cost</b>	<b>Boroughs (Column 3 - 1)</b>
Cost per tonne	£40.34	£40.40	£40.39	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	765,411	750,874	751,739	(13,672)
Camden	1,438,282	1,413,435	1,401,695	(36,587)
Enfield	568,955	538,007	531,734	(37,221)
Hackney	1,023,345	976,347	933,009	(90,336)
Haringey	940,164	904,071	901,707	(38,457)
Islington	1,140,130	1,127,483	1,124,013	(16,117)
Waltham Forest	900,026	870,458	851,421	(48,605)
	<b>6,776,313</b>	<b>6,580,675</b>	<b>6,495,318</b>	<b>(280,995)</b>

5. **Capital Budget 2004/05**

- 5.1 Members will be aware that the Authority, in conjunction with LondonWaste Ltd, were successful in securing financial support of £1.7m from the London Recycling Fund to assist with the funding of the new In-vessel Composting facility at the Edmonton Eco-Park. A sum of £1.7m was paid to LondonWaste Ltd in March 2005 and this has been offset by the payment of a grant from the London Recycling Fund.
- 5.2 In July 2004 the Authority completed formal transfer of Ashburton Grove to Ashburton Properties Limited and in return received two 999-year leasehold interests in the new waste transfer station and yard at Hornsey Street. The transactions are of a capital nature but are considered de minimis and therefore do not impact on the Authority's Prudential Indicators which were revised downwards as a consequence in February 2005.
- 5.3 At 31 March 2005 the Authority holds usable capital receipts of £0.621m.

6. **Accounts and Audit Regulations 1996**

- 6.1 This report has provided details of the final outturn of the Authority's expenditure and income for 2004/05. In addition the Accounts and Audit Regulations 1996 also require the Authority to formally approve the supporting annual statement of accounts for audit.
- 6.2 The responsible officer, which in the case of the NLWA is the Financial Adviser, is required to sign and date the statement of accounts and for the 2004/05 accounts must be approved by the Authority by 31 July. The responsible officer is also required to report back to the Authority on any material amendments made as a result of the audit.
- 6.3 The draft statement is attached as an appendix to this report (to be circulated separately). Once the Statement has been approved, it will be formally presented for



audit, with a view to publication of the final audited statement of accounts by 31 October 2005. Deloitte & Touche, the Authority's external auditor, is scheduled to report on the key findings of its audit to the Authority at its October meeting. Once published, the final Statement will be circulated to all Members of the Authority. Members will be informed of any material changes arising from the audit.

**7. First Review of the 2005/06 Revenue Budget**

7.1 At its meeting on 9 February 2005 the Authority agreed the 2005/06 budget at £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.

**7.2 Transport and Disposal**

7.2.1 At this early stage in the year, data collected about the waste stream for April and May does not at present warrant a change to the budget assumptions for the cost of transport and disposal in 2005/06. A greater appreciation of any trends that may be developing should become apparent when data is available for the period up to and including August. As indicated at paragraph 4.8.4 above, up-to-date information on borough actual and projected recycling activity is also needed in order that a meaningful assessment of waste stream trends can be presented. It should be noted that if the total waste stream reduction experienced during the second half of 2004/05 continues into 2005/06 there is likely to be a saving on this budget. The outcome of this review will be reported to the October meeting of the Authority.

**7.3 Interest on Balances : (- £0.550m)**

7.3.1 Interest relating to the outstanding compensation payment due to be paid by the Highways Agency for land acquired at the frontage to the Edmonton Plant should now be paid in 2005/06. An amount of £0.350m has been allowed for in the first review.

7.4.2 The omission of budgetted income due from LondonWaste Ltd referred to at paragraph 4.17.2 above also applies for 2005/06 and an income of c. £0.200m can be expected from this source.

**7.5 Overview**

7.5.1 After allowing for the foregoing changes and the higher level of balances brought forward from 2004/05 Table 3 provides a summary of the current financial position:-

**Table 3**

<b>Expenditure</b>	<b>2005/06 Original Budget £'000</b>	<b>2005/06 First Review £'000</b>	<b>Variance £'000</b>
Borough Waste (Ex. CA Waste)			
- Main Waste Disposal Contract	27,216	27,216	

- Clinical Waste	217	217	
Civic Amenity Waste	1,833	1,833	
Fridges and Freezers	1,004	1,004	
Landfill Tax	6,591	6,591	
LWL Legislative Review – Hazardous Waste	1,969	1,969	
LWL Legislative Review – Edmonton Rating Review	47	47	
Hendon Transfer Station	406	406	
Hornsey Street Transfer Station	1,668	1,668	
Recycling Credits	11,986	11,986	
Other Recycling Initiatives	100	100	
Agency Services	478	478	
Waste Strategy and Contracts Group	574	574	
Annual Compensation	30	30	
Provision for Possible Litigation Costs	50	50	
Contribution to Earmarked Reserve/Recycling	<u>25</u>	<u>25</u>	—
	54,194	54,194	
<b>Less income:</b>			
Rents	(80)	(80)	
Interest on Balances	(560)	(1,110)	(550)
Dividends (LWL)	<u>0</u>	<u>0</u>	—
	(640)	(1,190)	(550)
Net Expenditure	53,554	53,004	(550)
Contingency	<u>500</u>	<u>500</u>	—
<b>Total Net Expenditure 2005/06</b>	<b><u>54,054</u></b>	<b><u>53,504</u></b>	<b><u>(550)</u></b>
Financed By :-			
Balances B/fwd	(4,767)	(6,354)	(1,587)
Charges to Boroughs (Non-household waste)	(7,450)	(7,450)	
2005/06 Levy	(41,837)	(41,837)	
	—	—	—
<b>Total Resources Available 2005/06</b>	<b><u>54,054</u></b>	<b><u>55,641</u></b>	<b><u>(1,587)</u></b>
<b>Estimated Revenue Balances</b>			
<b>as at 31 March 2006 (Surplus)</b>		<b>(2,137)</b>	<b>(2,137)</b>

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

- 8.1 At the Authority meeting in February Members were advised that LATS has the potential to create considerable financial uncertainty. Although the Authority should enjoy an increasingly favourable position within the scheme for at least the first four years the first year could prove challenging. This is because of the loss of energy-from-waste capacity in 2005 as a result of the ongoing boiler refurbishment works to comply with the Waste

Incineration Directive. The Authority does not therefore expect to sell any allowances in 2005/06. If there are any surpluses these can be banked as an asset in the Authority's accounts. There is, however no authoritative guidance on how local authorities should account for LATS. As this is likely have a significant bearing on the use of any income, early guidance is required.

- 8.2 In March 2005 DEFRA conducted a number of LATS Workshops and advised that accounting guidance should be available by June. At the time of writing, DEFRA advise that CIPFA is taking the lead to develop a Local Authority Accounting Practice guidance note, however, it is also understood that CIPFA, DEFRA and the Treasury have yet to reach a consensus on the most appropriate accounting treatment.

9. **Review of Outlook for 2006/07 and for 2007/08 and 2008/09**

- 9.1 At the Authority Meeting in February I advised that assuming the full use of forecast revenue balances in 2005/06, the increase in the cost to constituent councils in 2006/07 could be in the region of 18.41%, a further 8.98% in 2007/08 and a further 9.11% in 2008/09. These forecasts assumed further year-on-year increases in the waste stream of 3% per annum (as adjusted for further stepped increases in recycling) and known and proposed changes to landfill tax rates during this period (expected to increase by £3 per tonne per year). The forecasts also allowed for the expected reduction in landfill tax costs following a return to pre-WID levels of incineration after completion of the WID refurbishment works at the Edmonton energy-from-waste facility.
- 9.2 Although the 2005/06 budget allows for the cost of developing the North London Joint Waste Strategy with its constituent councils no specific allowance had been made for the costs of delivering the strategy in future years. In February Members were advised that this would be the subject of a future report to the Authority in 2005/06.
- 9.3 As indicated at paragraph 8 the Authority does not expect to sell any surplus LATS allowances in 2005/06. Also, in the absence of clear accounting advice it is not possible to provide any guidance on the use or scale of any sale proceeds. No allowance has therefore been made in the medium term forecast for any sale proceeds.
- 9.4 Members will also be aware from earlier comments in this report of the need to obtain up-to-date and timely recycling and composting data from constituent boroughs in order to provide a more accurate assessment of waste stream movements. As a consequence, Table 4 provides only a partial update of the Authority's medium term budget and resource requirements.

Table 4	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Estimated net expenditure (February 2005)	58,361	63,598	69,394
Less estimated revenue balances @ 31/3/06	- 2,137	0	0
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Net expenditure to be funded by Constituent Councils	56,224	63,598	69,394
Less cost to Constituent Councils:			
2005/06 (actual)	49,287		
2006/07 (Estimate)		56,224	
2007/08 (Estimate)			63,598
	-----	-----	-----
Estimated increase in cost to Constituent Councils	6,937	7,374	5,796
Percentage increase over the cost in previous year	14.1%	13.1%	9.1%

9.5 Table 4 indicates that the cost to constituent councils could rise by up to 14.1% in 2006/07, a further 13.1% in 2007/08 and by a further 9.1% in 2008/09. In addition, and as indicated above, the Authority is likely to encounter other budget pressures – which are not at present quantifiable, and will be the subject of future reports to the Authority.

#### 10. **Apportionment of the Levy**

10.1 Members will be aware that arising out of the development of the North London Waste Strategy that officers of the eight Partners (the seven Boroughs and the Authority) are examining the scope to develop a voluntary arrangement that would enable the boroughs to move to a tonnage based levy apportionment in 2006/07. Work on this is underway and a meeting with the seven Partner Authority Directors of Finance and Environment is scheduled for the 12th July 2005. The Strategy Implementation Board will also consider this matter on 21 July 2005.

10.2 Members will also be aware of the slippage in the Government's review of the Joint Waste Disposal Authority levy mechanism. A consultation paper was due to be published last autumn however recent advice from DEFRA suggests that a consultation paper that will pave the way for a change in the levy apportionment default arrangements in time for 2006/07 will now be circulated in July 2005.

#### 11. **Gershon – Efficiency Targets in Waste Management Services**

11.1 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.

11.2 A letter from the Office of the Deputy Prime Minister (ODPM) to council Chief Executives, dated 11 February, set out the basic arrangements that apply to efficiency gains. Joint Waste Disposal Authorities (JWDAs) were not specifically included in this circulation. Subsequently, on 26 April 2005, DEFRA and the ODPM wrote direct to

JWDAs to outline their obligations within the efficiency target regime. The particular issues addressed were:

- i) The calculation of efficiency targets for constituent councils that ‘purchase’ Authority services; and
- ii) The implications for Authority plans and measurement systems.

11.3 The letter from DEFRA/ODPM stresses that JWDAs have not been set an efficiency target. While the target for local government is to achieve efficiency gains of 2.5% per annum, the decision as to whether it should be higher or lower for individual JWDAs is for the Authorities themselves.

11.4 The letter presumes that unless otherwise agreed by the Authority, any efficiency gains achieved should be apportioned among councils in a way proportionate to the 2004/05 levy. These proportions are shown in the table below and are revised from incorrect estimates initially provided by DEFRA/ODPM in their letter of 26 April. Officers have advised DEFRA/ODPM of the correct apportionments for 2004/05 and also of the apportionments for 2005/06, i.e.

<u>Constituent Council</u>	<u>2004/05</u>	<u>Share of</u>	<u>2005/06</u>	<u>Share of</u>
	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>	<u>Levy</u>
	£	%	£	%
Barnet	8,279,149	21.6	8,951,547	21.4
Camden	5,550,838	14.5	5,985,492	14.3
Enfield	6,537,458	17.0	7,078,278	16.9
Hackney	3,815,541	9.9	4,276,212	10.2
Haringey	4,998,276	13.0	5,509,957	13.2
Islington	4,721,096	12.3	5,212,433	12.5
Waltham Forest	4,471,642	11.7	4,823,082	11.5
Total Levy	38,374,000	100.0	41,837,000	100.0

11.5 For the purpose of calculating the efficiency target for each council, the Authority’s expenditure is also being apportioned among councils in proportion to the levy. The baseline expenditure figure in the letter of 26 April also appears overstated at £55,262m. This is being clarified with DEFRA/ODPM. However on the basis of the incorrect share of the levy and the Authority’s baseline expenditure of £55.262m boroughs have been asked to identify efficiency gains of 2.5% in 2005/06 of £1.381m, as follows:

<u>Constituent Council</u>	<u>Share of Levy</u>	<u>Allocated share of</u>	<u>2005/06</u>
	%	<u>baseline expenditure</u>	<u>2.5% saving</u>
		£’000	£’000
Barnet	21.5	11,870	297
Camden	13.2	7,285	182
Enfield	16.9	9,329	233
Hackney	10.7	5,934	148

Haringey	11.9	6,560	164
Islington	13.9	7,692	192
Waltham Forest	11.9	6,592	165
Total	100.0	55,262	1,381

11.6 The DEFRA/ODPM letter of 26 April suggested that the Authority should have in place plans for achieving efficiency gains in 2005/06, and be in a position to inform councils of these plans in time for them to produce forward and backward looks and mid-year updates in line with a prescribed timetable. Exactly what will count as efficiency savings is unclear. The single purpose nature of the Authority's role and its ability to influence spending is also constrained. The Authority has asked whether further specific guidance will be made available to JWDAs but has not received a response. The late receipt of the DEFRA/ODPM letter also has not been helpful. As a consequence, the Authority has not been able to identify specific backward looking efficiency gains for 2004/05, or forward looking gains for 2005/06 in time to communicate these to constituent boroughs for inclusion in their Annual Efficiency Statement returns. Officers will nevertheless explore in consultation with DEFRA/ODPM whether the Authority is in a position to declare some certain aspects of its budget as an efficiency gain, e.g. whether, and to what extent, can a reduction in the Authority's waste disposal costs, as a result of increased recycling activity by the boroughs, score as an efficiency saving where this is replaced by the payment of recycling credits to reward boroughs for their recycling activities.

## 12. **Conclusion**

12.1 On the basis of current information, and allowing for the improvement in revenue balances brought forward from 2004/05, the 2005/06 budget should remain sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year.

12.2 For reasons set out in this report waste disposal costs are likely to continue to rise significantly over the coming years. The Authority faces the prospect of a number of budget pressures in future years. Members will be kept informed of developments. A further review of the Authority's financial position will be submitted to the Authority in October.

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

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

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

Documents used in the preparation of this report:-  
 Report to the Authority 9 February 2005 – Revenue Budget and Levy 2005/06  
 2004/05 Final Account Working Papers

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