

**REPORT TITLE**

REVENUE BUDGET AND LEVY 2005/06

**REPORT OF**

FINANCIAL ADVISER

**FOR SUBMISSION TO**

**DATE**

AUTHORITY MEETING

9 FEBRUARY 2005

**1. SUMMARY OF REPORT**

This report indicates that following a fourth review of the 2004/05 budget the Authority is currently estimated to have a revenue surplus of £4.767m at 31 March 2005. As a consequence, it shows that after use of forecast revenue balances the proposed net revenue budget for 2005/06 of £54.054m will require funding of £49.287m by constituent councils. It is proposed that the funding will comprise charges for non-household waste of £7.450m and a levy of £41.837m. This represents a total increase of £4.137m (9.16%) over the combined cost to constituent councils in 2004/05.

**2. RECOMMENDATIONS**

The Authority is requested to:-

- (i) Consider the 2004/05 revised budget and 2005/06 proposed budget.
- (ii) Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2005/06 budget.
- (iii) Note the medium term budget forecast for 2006/07, 2007/08 and 2008/09.
- (iv) Agree the 2005/06 charge for non-household waste at £44.21, and in so doing, agree to give further consideration over the coming year to the merit of introducing a supplementary LATS charge and possibly a targeted reward scheme for Biodegradable Municipal Waste diversion in 2006/07.
- (v) Determine the levy for 2005/06.
- (vi) Agree the basis for apportioning the levy.
- (vii) Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for non-household waste.
- (viii) Approve the Prudential Indicators as set out at paragraph 8.

Signed by the Financial Adviser: .....

Date: .....

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

- 3.1 At its meeting on 15 December 2004 Members were provided with an up to date assessment of the Authority's financial position, including an assessment of the budget and resource requirements for 2005/06.
- 3.2 Allowing for the use of forecast balances at 31 March 2005 of £3.612m, it was estimated that the total net cost to constituent councils in 2005/06 could be in the order of £50.570m, an increase of £5.420m (12.01%) over the total cost to boroughs in 2004/05 (£45.150m). The third review drew attention to the budget pressures which the Authority was likely to encounter in the year ahead.
- 3.3 This report provides an up to date assessment of the 2004/05 budget and presents for consideration a draft budget for 2005/06.
- 3.4 Having taken account of the relevant factors the Authority must:-
- (i) be satisfied that the proposed budget will be sufficient to meet the net expenditure requirements for the year;
  - (ii) determine the levy.
- 3.5 Details of the approved budget and levy for 2005/06 must be notified to constituent councils for inclusion in their Council Tax charge before 15 February 2005.

### 4. **Review of the 2004/05 Revenue Budget**

- 4.1 At its meeting on 11 February 2004 the Authority agreed an original budget of £49.917m to be financed by estimated 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 revenue balances brought forward from 2003/04 (- £1.313m) and the impact of changes in the waste stream and the costs of final disposal/treatment (-£1.990m). Allowance has also been made for a possible new legislative review claim by LondonWaste Ltd in respect of hazardous waste (+ £0.911m) and the write-back to revenue of an excess creditor provision (recycling credits) allowed for in the 2003/04 accounts (- £0.896m). Other changes reported include slippage of income from 2003/04 (- £0.350m), an increase in income arising from the investment of cash balances (- £0.110m), a reduction in non-household charges (+ £0.209m) and other minor changes (- £0.073m net).
- 4.3 A fourth review of the budget has identified a number of further changes, the net effect of which is estimated to increase the level of surplus revenue balances likely to be available at 31 March 2005 by £1.155m to £4.767m. This review will form the basis of the 2004/05 revised budget. Details of the most significant changes and issues identified by the fourth review are discussed below.

#### 4.4 **Transport and Disposal (- £0.192m)**

- 4.4.1 In December Members were advised that based upon data available for the period April to October 2004 there had been a net reduction of 2.42% in the level of waste entering the Authority's waste stream over the same period in 2003/04. Allowing for a 1% increase in the waste stream for the remainder of the year, and current levels of recycling activity, the residual waste stream for the year was estimated to be 843,610 tonnes. The boroughs, however, had advised the Authority of their intention to increase their recycling activity during the second half of 2004/05. Based upon the boroughs' original estimates of their recycling activity in 2004/05 the residual waste stream was estimated to reduce by a further 32,153 tonnes by year-end. Allowing for the latter the 2004/05 residual waste stream was estimated to reduce to 815,677 tonnes (compared with the original budget assumption of 819,823 tonnes).
- 4.4.2 Data now available for the period up to December 2004 indicates a net reduction of 2.35% in the residual waste stream, i.e. broadly in line with the previous forecast. The figures at paragraph 4.4.6 below show that the annual rate of change in the waste streams of individual boroughs is not uniform and that some boroughs have experienced some upward movement since the last review. At one extreme, the Waltham Forest waste stream is currently forecast to reduce by 6.18% for the year, whilst the Camden waste stream is currently forecast to increase by 0.03%. Whilst no specific allowance has been made for a possible further increase in the waste stream during the remainder of the year – the underlying growth in the waste stream (before recycling) during the first half of the year was 2.9% - the current forecast assumes that the boroughs will achieve their original 2004/05 recycling/composting targets. On this basis the residual waste stream for the year is now estimated to be 811,457 tonnes.
- 4.4.3 Although based upon information gathered from the boroughs for the first six months of the year (and by some boroughs for the period to November/December) it is clear that increased recycling activity is having a beneficial impact on the residual waste stream. However, the absence of up-to-date recycling/composting data from all boroughs means that it is not possible to provide an update on any recent movements in the total waste stream (before allowing for borough recycling activity). In view of current uncertainties about the rate of change in the waste stream careful consideration must be given to the waste stream assumptions for both the remainder of the year and 2005/06. Further consideration on this matter is given at paragraph 4.10 in respect of 2004/05 and paragraphs 5.3 and 5.15 in respect of 2005/06.
- 4.4.4 Compared with an original budget assumption of 2.5%, the provisional increase in the Retail Price Index for the year to December 2004 is 3.5% (3.4% - November), i.e. a increase of 1%.
- 4.4.5 Allowing for these changes and also changes in the waste flows of different waste disposal contracts the transport and disposal budget is estimated to reduce by a further £0.192m in 2004/05.

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

		October Forecast (2nd Review)	December Forecast (3rd Review)	Current Forecast (4th Review)	Variance between 3rd & 4th Reviews
		<i>(April to August)</i>	<i>(April to October)</i>	<i>(April to December)</i>	
Barnet	-	- 1.38%	- 1.86%	- 1.07%	+ 0.79%
Camden	-	+ 0.90%	+ 0.53%	+ 0.03%	- 0.50%
Enfield	-	- 3.21%	- 3.32%	- 2.76%	+ 0.56%
Hackney	-	- 1.16%	- 1.28%	- 1.57%	- 0.29%
Haringey	-	- 0.84%	- 2.17%	- 2.43%	- 0.26%
Islington	-	- 1.33%	- 2.82%	- 2.78%	+ 0.04%
Waltham Forest	-	- 5.19%	- 6.12%	- 6.18%	- 0.06%

#### 4.5 **Legislative Review – Hazardous Waste**

4.5.1 In December Members were advised that in view of new rules to end the co-disposal of hazardous and non-hazardous waste, officers had been given to understand that LondonWaste Ltd would seek to make a claim under the Legislative Review clause. LondonWaste Ltd has now written to advise the Authority of its intention to make a claim and officers have begun to examine the merit of their claim. The fourth review continues to allow for the estimated cost of the claim.

#### 4.6 **Landfill Tax (- £0.250m)**

4.6.1 The fourth review allows for a further reduction in the volumes of residual waste, including ash residues, to be landfilled in 2004/05.

#### 4.7 **Recycling Credits (- £0.071m)**

4.7.1 The 2004/05 original budget assumed that boroughs would achieve their 2004/05 recycling and composting targets. Although up-to-date information from all boroughs is limited it is known that at least three boroughs have been performing particularly well and that after 6 months all boroughs had achieved at least 62% of their 2003/04 actual recycling levels. The residual waste stream has also reduced in the 3<sup>rd</sup> quarter of 2004/05. Allowing for the roll-out of further recycling initiatives during the remainder of the year the fourth review continues to assume that the boroughs will achieve their original recycling and composting targets. The review allows for an estimated recycling credit payment of £57.08. This figure has reduced from £57.17 and reflects the net change in the average cost of disposal at the Hendon Waste Transfer Station, i.e. because of the impact of waste flows and price inflation. This accounts for a small reduction of £0.014m.

4.7.2 This budget also allows for the payment of recycling credits for borough hardcore recycling (although outside the Government's statutory recycling targets the recycled waste is eligible to receive a recycling credit payment). The estimated volumes of hardcore recycling have been reduced in the fourth review resulting in a budget saving of £0.057m.

4.7.3 As the value of the recycling credits paid by the Authority are determined by the Authority's most expensive disposal route it is necessary for the Authority to ensure that this budget is sufficiently robust to meet any likely increase in borough recycling activity. This is achieved by allowing for a recycling activity at the boroughs' 2004/05 previously stated recycling/composting target levels.

#### 4.8 Interest on Balances (- £0.400m)

4.8.1 The Authority continues to benefit from a favourable cash flow and the higher than budgeted interest rates, as a result it is anticipated that there should be additional interest income of £0.400m for the year.

#### 4.9 Charges to Boroughs for Non-Household Waste (- £0.013m)

4.9.1 In view of the changes both in the volume and make-up of the waste stream non-household tonnages for the year are currently estimated to reduce by 5,092 tonnes. Allowing for a small increase in the non-household charge per tonne to reflect the higher than previously estimated price inflation (increasing £40.34 to an estimated figure of £40.40) non-household charges are currently estimated to reduce by £0.196m (net) in 2004/05, i.e. an improvement of £0.013m compared with the third review.

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

	<b>2004/05 Original Estimate</b>	<b>2004/05 Current Estimate</b>	<b>Estimated Variance</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Barnet	765,411	750,874	- 14,537
Camden	1,438,282	1,413,435	- 24,847
Enfield	568,955	538,007	- 30,948
Hackney	1,023,345	976,347	- 46,998
Haringey	940,164	904,071	- 36,093
Islington	1,140,130	1,127,483	- 12,647
Waltham Forest	900,026	870,458	- 29,568
	<b>6,776,313</b>	<b>6,580,675</b>	<b>- 195,638</b>

4.9.3 The figures currently indicate that all boroughs could be entitled to a refund.

4.9.4 Constituent councils may wish to bear in mind the potential impact of the above changes in the context of their own budget process. The final charges will be calculated as part of the 2004/05 final accounts process and reported to the Authority in July 2005. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

#### 4.10 Contingency (- £0.200m)

4.10.1 Although individual budget heads have been reviewed in the light of the latest available information there is a risk that unforeseen costs, particularly as a result of changes in the waste stream, could arise during the closing months of the year. As a consequence, it is recommended that a contingency of £0.300m be retained in the 2004/05 revised budget. This will enable the contingency to be reduced by £0.200m.

#### 4.11 Overview of the 2004/05 Revised Budget

4.11.1 Allowing for the above factors, the proposed 2004/05 revised budget for the Authority is £46.267m. This represents a reduction of £1.155m when compared with the third budget review in December. The revenue surplus at 31 March 2005 is therefore estimated to increase to £4.767m.

4.11.2 Details of the variations, which have led to an increase in forecast revenue balances at 31 March 2005, may be summarised as follows:-

	<b>£'000</b>
Transport and Disposal	(192)
Fridges and Freezers	( 4)
Landfill Tax	(250)
Recycling Credits	(71)
Provision for Litigation Costs	(25)
Interest on Balances	(400)
Contingency	(200)
Non-household Charges	(13)
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Increase in Revenue Balances	(1,155)
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4.11.3 Table 1 below provides a summary of the current financial position:-

<b>Table 1</b>	<b>2004/05 Original Budget</b>	<b>2004/05 Third Review</b>	<b>2004/05 Fourth Review</b>	<b>Variance between 3rd &amp; 4th Reviews</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	27,002	26,872	(130)
- Clinical Waste	184	200	205	5
Civic Amenity Waste	2,774	1,870	1,803	(67)
Fridges and Freezers	1,072	974	970	(4)
Landfill Tax	6,360	5,762	5,512	(250)
LWL 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	9,198	9,127	(71)
Other Recycling Initiatives	100	100	100	
Agency Services	465	465	465	
Waste Strategy and Contracts Group	404	430	430	
Annual Compensation	30	30	30	
Provision for Litigation Costs etc	50	50	25	(25)
Contribution to Earmarked Reserve/Recycling	20	50	50	
Excess Creditor Provision (Previous Years)	0	(896)	(896)	
	<u>49,984</u>	<u>47,937</u>	<u>47,395</u>	<u>(542)</u>
<b>Less</b>				
<b>Income</b>				
Rents	(77)	(78)	(78)	
Interest on Balances	(490)	(950)	(1,350)	(400)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(567)	(1,028)	(1,428)	(400)
Net Expenditure	49,417	46,909	45,967	(942)
Contingency	<u>500</u>	<u>500</u>	<u>300</u>	<u>(200)</u>
<b>Total Net Expenditure 2004/05</b>	<b><u>49,917</u></b>	<b><u>47,409</u></b>	<b><u>46,267</u></b>	<b><u>(1,142)</u></b>
Financed By :-				
Balances b/fwd	(4,767)	(6,080)	(6,080)	
Charges to Boroughs (Non-household waste)	(6,776)	(6,567)	(6,580)	(13)
2004/05 Levy	(38,374)	(38,374)	(38,374)	
<b>Estimated Revenue Balances as at 31 March 2005 (Surplus)</b>		<b>(3,612)</b>	<b>(4,767)</b>	<b>(1,155)</b>

5. **2005/06 Revenue Budget**

5.1 Further to my assessment of the 2005/06 budget and resource requirements in December I have undertaken a further review of the assumptions that supported this forecast. The results of this review are reflected in table 2 below:-

<b>Table 2</b>	<b>2005/06 December Forecast £'000</b>	<b>2005/06 Proposed Budget £'000</b>
<b>Expenditure</b>		
Borough Waste (Ex. CA Waste)		
- Main Waste Disposal Contract	27,135	27,216
- Clinical Waste	222	217
Civic Amenity Waste	1,904	1,833
Fridges and Freezers	1,006	1,004
Landfill Tax	6,663	6,591
LWL Legislative Review – Hazardous Waste	1,668	1,668
LWL Legislative Review – Edmonton Rating Review	47	47
Hendon Rail Transfer Station	405	406
Hornsey Street Transfer Station	1,965	1,969
Recycling Credits	12,052	11,986
Other Recycling Initiatives	100	100
Agency Services	476	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>
	54,322	54,194
<b>Less</b>		
<b>Income</b>		
Rents	(80)	(80)
Interest on Balances	(560)	(560)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>
	(640)	(640)
Net Expenditure	53,682	53,554
Contingency	<u>500</u>	<u>500</u>
<b>2005/06 Proposed Budget</b>	<b>54,182</b>	<b>54,054</b>
	=====	=====
<b>To be financed by :-</b>		
<b>Estimated Balances b/fwd</b>	<b>(3,612)</b>	<b>(4,767)</b>
<b>Charges to Boroughs (Non-household waste)</b>	<b>(7,397)</b>	<b>(7,450)</b>
<b>2005/06 Proposed Levy</b>	<b>(43,173)</b>	<b>(41,837)</b>
<b>Total proposed funding by Boroughs – 2005/06</b>	<b>(50,570)</b>	<b>(49,287)</b>
<b>Percentage increase over 2004/05</b>	<b>(12.01%)</b>	<b>(9.16%)</b>



5.1.1 The figures in table 2 show that the net budget requirement for 2005/06 of £54.054m has reduced by £0.128m compared with the December forecast. Allowing for the use of forecast revenue balances of £4.767m at 31 March 2005 – an increase of £1.155m compared with the December forecast, the net cost to constituent councils in 2005/06 is estimated to be £49.287m; comprising charges for non-household waste of £7.450m and a levy of £41.837m in respect of household waste and the core costs of operating the Authority. This represents a total increase of £4.137m (9.16%) over the combined cost to boroughs in 2004/05 (£45.150m).

5.1.2 The following factors have been taken into account:-

## 5.2. **Inflation**

5.2.1 A general allowance for inflation of 2.5% on the anniversary of the relevant price review date.

## 5.3 **Transport and disposal**

5.3.1 The transport and disposal budget has been based upon a total residual waste stream of 805,190 tonnes, i.e. a net reduction of 6,267 tonnes over the 2004/05 projected outturn. This reflects the requirement for boroughs to continue to make significant stepped changes in recycling activity in order to meet the Government's statutory recycling targets in 2005/06, i.e. an additional 35,167 tonnes. However, despite the increase in recycling by boroughs the total waste stream continues to rise and therefore an increase of 3% has been allowed in this projection to reflect the underlying increase in the waste stream for 2005/06, i.e. an additional 28,900 tonnes.

## 5.4 **Fridges and Freezers**

5.4.1 The proposed budget allows for the treatment and disposal of c. 58,000 appliances.

## 5.5 **Landfill Tax**

5.5.1 The standard rate of landfill tax is due rise from £15 to £18 per tonne on 1 April 2005. The proposed budget allows for this increase.

5.5.2 The budget continues to allow for the higher volumes of the Authority's waste that will be sent to landfill during the construction phase of the WID refurbishment works at the Edmonton energy-from-waste facility. The Authority is responsible for any increased landfill tax as a result of a reduction in the incineration capacity of the facility down to a floor of 475,000 tonnes (LondonWaste Ltd will be responsible for any additional transport, disposal and landfill tax charges when the incineration capacity falls below the floor).

## **5.6. Legislative Review – Hazardous Waste**

5.6.1 The budget forecast allows for a potential claim by LondonWaste Ltd for the additional cost of disposing of hazardous waste. Assuming a price increase from £110 to £150 in July 2005, when the full impact of the Hazardous Waste Regulations come into effect, there could be an additional cost to the Authority of c. £1.668m in 2005/06. As indicated at paragraph 3.7.1 LondonWaste Ltd has now written to advise of its intention to make a legislative review claim for this increase. Work has begun to review the merit of the claim. The 2005/06 draft budget allows for the estimated value of the LondonWaste Ltd claim.

## **5.7 Legislative Review – Edmonton Rating Revaluation**

5.7.1 LondonWaste Ltd has also notified the Authority of its intention to make a legislative review claim in respect of the Edmonton Rating Revaluation that will take effect on 1 April 2005. LondonWaste Ltd advises that Section 69 of the Local Government Act 2003 removed the power to prescribe rateable values by order. As a consequence, for the revaluation due on 1 April 2005 for Edmonton will be valued by the Valuation Office on a conventional commercial basis. LondonWaste Ltd advise that this will have the effect of significantly increasing the Edmonton rating valuation from 446,476 to 2,200,000 (provisional) and increase the annual charge from c. £0.204m to c. £1.030m. However, assuming transitional arrangements that normally apply in such circumstances the cost would rise to the new level over a period of 5 years; on this basis the potential claim in 2005/06 is estimated to be in the order of £0.047m and has been allowed for in the draft budget.

5.7.2 Work has begun to examine the merit of a potential claim from LondonWaste Ltd.

## **5.8 Ashburton Grove Transfer Station/Hornsey Street Replacement**

5.8.1 The 2005/06 proposed budget allows for the full year additional cost of operating the new waste transfer station at Hornsey Street. The budget is based the original cost assumptions provided by LondonWaste Ltd updated to 2005/06 prices.

## **5.9 Hendon Rail Transfer Station**

5.9.1 The new charges for waste sent to the Hendon rail waste transfer station come into effect on 1 January 2004. The proposed budget allows for a full year cost.

## **5.10 Recycling Credits**

5.10.1 The proposed budget provides for the Authority to fund a further significant stepped change in borough recycling activity next year, i.e. an additional 35,167 tonnes over 2004/05 projected tonnages. The budget allows for an estimated recycling credit payment of £61.45 per tonne, i.e an increase of £4.37 to reflect, in the main, the proposed increase in landfill tax rates and an allowance for inflation.

## 5.11 Contribution to Earmarked Reserve (Recycling)

5.11.1 The proposed budget assumes that a further contribution will be made to the earmarked reserve, i.e. by making a contribution to the fund equivalent to the interest on the balances that are held in the fund. The budget assumes a contribution of £0.025m but in practice will depend upon cash flow, interest rates and the extent to which the fund is used.

## 5.12 Dividend Income (LondonWaste Ltd)

5.12.1 In view of the funding arrangements for the Waste Incineration Directive refurbishment works no income is expected from this source.

## 5.13 Non-household Charges

5.13.1 As previously agreed, the proposed budget assumes the continued use of the existing trade waste charging scheme and waste survey data for calculating non-household waste charges in 2005/06.

5.13.2 Based upon estimated non-household tonnages of 168,521 tonnes and a cost per tonne of £44.21 the total cost to boroughs in 2005/06 is currently estimated to be £7.450m. The cost per tonne has increase by £3.81 to reflect the proposed increase in landfill tax rates and an allowance for inflation. The cost for individual boroughs is estimated to be:-

	<b>2005/06 Estimated Tonnes</b>	<b>2005/06 Estimated Cost £</b>
Barnet	19,229	850,114
Camden	36,196	1,600,225
Enfield	13,777	609,081
Hackney	25,003	1,105,383
Haringey	23,152	1,023,550
Islington	28,873	1,276,475
Waltham Forest	22,291	985,485
	<b>168,521</b>	<b>7,450,313</b>

5.13.3 At the October meeting Members were advised that AEA Technology had completed an interim report advising of the results of its survey to quantify the waste generated by households and the waste compostion across the seven constiuent councils. Although the intention remains to use this information to review the arrangements for determining the non-household charges in the future, wide variations between the data collected for some boroughs necessitated some further work before the results could be discussed with the constituent councils. In the light of this Members have previously acknowleged that it would not be possible to develop an alternative non-household charging arrangement which could be consulted upon and agreed for 2005/06. The updated interim report is now

with borough technical officers for consultation and the outcome of the review will be the subject of a future report to the Authority.

5.13.4 In December Members were asked to consider the merit of making a supplementary charge for non-household waste to reflect the potential opportunity costs that may arise under the Landfill Allowance Trading Scheme (LATS) which is due to come into effect from April 2005. In view of the uncertainties regarding the value of allowances, the trading and accounting arrangements, and the potential impact on borough trade waste and street scene services, Members expressed strong reservations about making a supplementary charge in 2005/06; particularly as LATS applied only to the municipal sector. It was felt that to add a charge prematurely would potentially drive the borough's trade waste customers into the 'uncontrolled' private sector or lead to waste being collected as fly-tipped household waste and paid for from the levy. This Authority is not alone in having reservations about making a supplementary charge in 2005/06. At a recent officer meeting of the statutory joint waste disposal authority's the general view expressed was that although there would be no increase in 2005/06 the aim would be to review and develop arrangements for 2006/07 by which time the LATS process should be better informed. Members are requested to confirm that they wish to proceed on this basis.

5.13.5 Following the last Authority meeting borough finance and technical officers were invited to comment on the proposals however no responses have been received.

#### **5.14. Landfill Allowance Trading Scheme**

5.14.1 The issue of the Landfill Allowances Trading Scheme also has the potential to create considerable financial uncertainty. The Authority has still not been advised of its final allocation of allowances, and the precise scope of the scheme remains unclear (due to the conflicting definitions of 'municipal waste'). Nevertheless, the Authority is very likely to be in an increasingly favourable position within the scheme for at least the first four years. The LATS Member Working Group will be considering this matter in more detail before this Authority meeting, and an oral update will be given. Members should note however that because of the loss of energy-from-waste capacity during 2005 as a result of the on-going boiler refurbishment works to comply with the Waste Incineration Directive, the Authority does not expect to sell any allowances in 2005/06. If there are any surpluses, they can be banked and the financial value brought into the 2006/07 budget.

#### **5.15 Contingency**

5.15.1 Previous sections of this report have advised Members of the robustness of individual budget heads to meet the Authority's statutory waste disposal obligations. Whilst I believe that these budgets are soundly based, the Authority needs to consider how it would fund any additional costs. In particular, if there are issues concerning the level of the waste stream in the year ahead.

- 5.15.2 In coming to a view on this, Members should bear in mind that it is currently envisaged that forecast balances at 31 March 2005 will be fully utilised during the course of 2005/06, and that by law, the Authority is not able to make a substitute levy. Additionally, following divestment of the Authority's operations in accordance with the Environmental Protection Act 1990, the Authority now has very little scope to make compensating savings for costs which may arise in meeting its waste disposal obligations. Similarly, although the Authority has responsibility for the disposal of the waste arisings from its constituent councils, it has no direct control over the volumes of waste entering the waste stream.
- 5.15.3 Members will also be aware that the Local Government Act 2003 places a formal duty on the Financial Adviser to report to Members on the adequacy of its reserves.
- 5.15.4 My December forecast allowed for a contingency of £0.5m. In view of the foregoing, and allowing also for the retention of a contingency in 2004/05, my advice is that a contingency of £0.5m is retained in the 2005/06 proposed budget.

## 6. **Apportionment of the Levy**

- 6.1 Members will be aware that the Authority must notify its decision on the 2005/06 budget and levy to constituent councils before 15 February 2005. In this regard it is for Members to decide the basis for apportioning the levy. Unless all seven boroughs can agree unanimously on the way the levy is to be apportioned, the levy will be calculated in accordance with the Levying Bodies (General) Regulations 1992, i.e. in proportion to each council's Council Tax base.
- 6.2 Members will also be aware that a decision by the Government to change the default basis for apportioning the levy has been mooted for some time. At this time last year the Government indicated it was proposing to consult with joint waste disposal authorities and their constituent waste collection authorities in the first half of 2004 with a view to changing the levy apportionment basis to a tonnage based charge from the start of the 2005/06 financial year. Although there has been some fact gathering by DEFRA the consultation is not now expected to take place until later this year (Elliott Morley MP, Minister of State for the Environment – 20th January 2005). For the time being the current default arrangements for apportioning the levy remain unaltered. Thus, if the seven constituent boroughs wished to move to a tonnage basis for apportioning the levy in 2005/06 there would need to be unanimous agreement by all seven boroughs.
- 6.3 To assist Members with their decision, details of each council's share of the levy based upon a range of possible options are set out at Appendix B. Members should note that at the time of finalising this report a number of constituent councils have yet to formally advise the Authority of their Council Tax Base figures for 2005/06. The options set in appendix B should be viewed as provisional and are subject to possible change.

6.4 The options include, apportionment of the levy:-

- (i) Based upon the 2005/06 Council Tax base as notified by constituent councils;
- (ii) Based upon the estimated household tonnage for each constituent council (using tonnage data for the period to December 2004, i.e. before increased recycling during the fourth quarter of 2004/05 and 2005/06);
- (iii) A combination of 50% Council Tax base and 50% tonnage base;
- (iv) A transition from Council Tax to a tonnage base over a period of four years, i.e. a transition rate of 25% per year. However, Members should note that they cannot take a decision at this meeting in relation to the 2006/07 budget, i.e. that next year's levy will be apportioned 50:50 Council Tax base and tonnage base. Such a decision would need to be made in February 2006.

## 7. **Medium Term Budget Forecast for 2006/07 and for 2007/08 and 2008/09**

- 7.1 Assuming full utilisation of revenue balances by 31 March 2006 and further year-on-year increases in the waste stream of 3% per annum (as adjusted for further stepped increases in recycling), the percentage increase in the cost to constituent councils is estimated to be 18.41% in 2006/07, a further 8.98% in 2007/08 and a further 9.11% in 2008/09. Further information can be found at Appendix A.
- 7.2 This forecast is based upon known and proposed changes to the landfill tax rates during this period (the standard rate of tax is expected to rise annually by £3 per tonne).
- 7.3 Although the current budgets allow for the cost of developing a joint waste strategy with its constituent councils no specific allowance has been made for the costs of delivering the strategy. The recent report by AEA Technology which was prepared to help inform choices on the Joint Waste Strategy indicated that waste management costs (including the impact on constituent councils) could rise in real terms by 22% between 2005/06 and 2010/11 and by a further 38% by 2020/21. The Partner Authorities have agreed to determine their medium term facility requirements by September 2005 in order that the necessary resources and planning consents can be programmed/obtained to ensure achievement of the Government's targets for reducing waste. This will be the subject of a detailed report in the coming year.
- 7.4 It is currently envisaged that the combined effect of recycling, composting and use of the Edmonton energy-from-waste facility should obviate the need for the Authority to buy allowances before 2010/11. The Authority should find itself with a favourable trading position during this period and therefore any sale proceeds will be available to assist with the costs of meeting the joint waste strategy or as directed by the Authority.

## 8. Capital Programme – Prudential Indicators

8.1 Members will recall that the new prudential code (the Code) of borrowing came into effect on 1 April 2004. At its meeting on 11 February 2004 the Authority agreed its first prudential indicators. Although the Authority did not at that time have any capital expenditure proposals for the initial three year period of the prudential code (2004/05 to 2006/07) it did need to account for the Ashburton Grove/Hornsey Street waste transfer replacement facility. Subsequently, following agreement with Deloitte & Touche - the Authority's external auditor – as to the correct accounting treatment of the replacement facility in the Authority's accounts a number of the approved prudential indicators were set higher than necessary.

8.2 The Authority is required to agree new indicators for the period to 2007/08. Other than a need to account for the proposed in-vessel composting facility, the facility needs of the Joint Waste Strategy have yet to be determined over this period. Accordingly, it may be necessary to review the prudential indicators during the course of 2005/06. The Authority is therefore requested to approve the following indicators:

<b>Capital Expenditure</b>					
	<b>2003/04 Actual</b>	<b>2004/05 Estimate</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>
NLWA	Nil	£2.000m	Nil	Nil	Nil

8.3 The Authority has no outstanding debt. Also, the Authority currently has no new plans that will involve external borrowing. As a consequence, the following ratio of financing costs to net revenue stream are recommended for approval:-

<b>Ratio of Financing Costs to Net Revenue Stream</b>					
	<b>2003/04 Actual</b>	<b>2004/05 Estimate</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>
NLWA	Nil	Nil	Nil	Nil	Nil

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

<b>Capital Financing Requirement</b>					
	<b>31.03.04 Actual</b>	<b>31.03.05 Estimate</b>	<b>31.03.06 Estimate</b>	<b>31.03.07 Estimate</b>	<b>31.03.08 Estimate</b>
NLWA	Nil	Nil	Nil	Nil	Nil

- 8.5 In order to ensure that over the medium term borrowing will only be for a capital purpose, the Authority will need to ensure that net external borrowing does not, except in the short term, exceed the total of the Capital Financing requirement in the previous year plus estimates of any additional Capital Financing Requirement for the budget year and the next two years. As the Authority does not have any capital expenditure plans that involve borrowing the authorised limit for external debt for this period is nil. The following authorised limits for external debt are recommended for approval: -

<b>Authorised Limit for External Debt</b>					
	<b>2003/04 Actual</b>	<b>2004/05 Estimate</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>
Borrowing	Nil	Nil	Nil	Nil	Nil
Other long term liabilities	Nil	Nil	Nil	Nil	Nil

- 8.6 The following operational boundaries for external debt are recommended for approval-

<b>Operating Boundary for External Debt</b>					
	<b>2003/04 Actual</b>	<b>2004/05 Estimate</b>	<b>2005/06 Estimate</b>	<b>2006/07 Estimate</b>	<b>2007/08 Estimate</b>
Borrowing	Nil	Nil	Nil	Nil	Nil
Other long term liabilities	Nil	Nil	Nil	Nil	Nil

- 8.7 The above indicators may need to be reviewed in the light of the Joint Waste Strategy Implementation Board's deliberations on the new facility requirements.

## 9. **Conclusion**

- 9.1 Although there are a number of areas where there is a degree of uncertainty I am satisfied that the detailed budgets are soundly based. Allowing also for the inclusion of prudent levels of contingency in both the 2004/05 revised budget and 2005/06 proposed budget, the overall budget should be sufficiently robust to meet the Authority's expenditure requirements over this period. The medium term budget forecast indicates that the costs of the Authority will continue to rise significantly in response to fiscal and environmental pressures to reduce the volumes of waste that can be landfilled.
- 9.2 The decision on the level of the levy is one that only the Authority can make and in reaching its decision, Members should have regard to the advice contained in this report. Members are reminded that forecast revenue balances at 31 March 2005 are expected to be fully utilised in the coming year and therefore they must satisfy themselves that the proposed budget and levy is sufficient to meet the Authority's statutory obligations in the year ahead.



9.3 Compared with the December forecast increase of 12.01%, the proposed additional cost to constituent councils in 2005/06 has reduced by 2.85% to 9.16%. Although there have been a number of favourable changes since the last meeting the increase for the year ahead remains high. The significant upward trend in waste management costs is likely to continue.

10. **Comments of the Legal Adviser**

10.1 The Legal Adviser's comments are 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 11 February 2004, 7 July 2004, 15 October 2004 and 15 December 2004

Budget working papers

Notification letters from constituent councils in respect of their 2005/06 Council Tax base.

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This appendix provides further detail on the medium term budget forecasts for the period 2006/07 to 2008/09.

	<b>2006/07</b>	<b>2007/08</b>	<b>2008/09</b>
	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
<b>Expenditure</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borough Waste (Ex. CA Waste)			
- Main Waste Disposal Contract	27,561	27,818	27,802
- Clinical Waste	222	228	234
Civic Amenity Waste	1,879	1,926	1,974
Fridges and Freezers	1,029	1,054	1,081
Landfill Tax	6,658	7,302	7,640
LWL Legislative Review – Hazardous Waste	1,710	1,753	1,797
LWL Legislative Review – Edmonton Rating Review 99		172	286
Hendon Rail Transfer Station	417	426	437
Hornsey Street Transfer Station	2,018	2,069	2,121
Recycling Credits	15,478	19,546	24,705
Other Recycling Initiatives	100	100	100
Agency Services	489	502	514
Waste Strategy and Contracts Group	650	666	683
Annual Compensation	31	32	32
Provision for Litigation Costs etc	50	50	50
Contribution to Earmarked Reserve/Recycling	26	26	27
Excess Creditor Provision (Previous Years)			
	<u>58,417</u>	<u>63,670</u>	<u>69,483</u>
<b>Less</b>			
<b>Income</b>			
Rents	(82)	(84)	(86)
Interest on Balances	(574)	(588)	(603)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(656)	(672)	(689)
Net Expenditure	57,761	62,998	68,794
Contingency	<u>600</u>	<u>600</u>	<u>600</u>
<b>Estimated Total Net Expenditure</b>	<b><u>58,361</u></b>	<b><u>63,598</u></b>	<b><u>69,394</u></b>
Financed By :-			
Balances b/fwd			
Charges to Boroughs (Non-household waste)	(8,158)	(8,933)	(9,782)
Levy	(50,203)	(54,665)	(59,612)
<b>Estimated Revenue Balances</b>			
<b>as at 31 March</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>
<b>Percentage Increase</b>	<b>18.41%</b>	<b>8.98%</b>	<b>9.11%</b>