

NORTH LONDON WASTE AUTHORITY

REPORT TITLE

2003/2004 REVENUE AND CAPITAL BUDGETS FINAL OUTTURN AND 2004/05 FIRST BUDGET REVIEW

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

7th JULY 2004

1. SUMMARY OF REPORT

This report provides details of actual expenditure and income for 2003/04 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 £1.563m at 31 March 2005. A review of the outlook for the period 2005/06 to 2007/08 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 2003/04 final outturn (subject to audit).
- (ii) Note the under and over payment by boroughs in respect of non-household waste in 2003/04 and the arrangements for collection from and repayment to boroughs as appropriate.
- (iii) Approve the 2003/04 draft Statement of Accounts.
- (iv) Note the first review of the 2004/05 budget.
- (v) Note that a second review of the 2004/05 budget will be submitted to the Authority in October.
- (vi) Note the outlook for 2005/06, 2006/07 and 2007/08 and likely budget pressures.

Signed by the Finance Adviser:

Date:

3. **Introduction**

- 3.1 At its meeting on the 11 February 2004 the Authority was provided with an up-to-date assessment of its financial position. This included the fourth review of the 2003/04 budget. The latter formed the basis of the 2003/04 approved revised budget and provided guidance on the level of surplus resources available to assist with funding of the 2004/05 budget.
- 3.2 The accounts for 2003/04 are now closed and therefore the main purpose of this report is to provide details of the 2003/04 final outturn (subject to audit) and to seek approval of the 2003/04 draft Statement of Accounts. The opportunity is also taken to provide details of the 2004/05 first budget review and to briefly comment on the outlook for future years.

4. **2003/04 Final Outturn**

- 4.1 At its meeting on 5 February 2003 the Authority agreed an original budget of £43.994m to be financed by estimated revenue balances of £2.508m, charges to boroughs for non-household waste of £6.392m and a levy of £35.094m.
- 4.2 In subsequent reviews Members have been advised of the higher level of revenue balances brought forward from 2002/03 (- £1.441m), the impact of changes in the waste stream (-£0.640m), a net increase in the cost of handling civic amenity waste (+ £0.127m), and an increase in the value of likely recycling credit payment (£0.209m). Allowance has also been made for slippage into 2003/04 of the treatment and final disposal of fridges and freezers stored by the Authority at 31 March 2003, however, this cost has been partly offset by a reduction in the costs of dealing with new appliances entering the waste stream in 2003/04 (+ £0.276m net). Other variations reported include, slippage of the Arsenal Football Club's redevelopment programme and the delayed opening of the Hornsey Street replacement facility (- £0.900m), the benefit of rating reviews for the Hendon Waste Transfer Station (- £1.667m), and a write-back to revenue of an excess creditor provision allowed for in the accounts of previous years (-£0.381m). The Authority has also been advised of income slippage from 2002/03 into 2003/04 (- £0.350m), an increase in the level of investment income obtained by the Authority during the year (- £0.323m) a reduction in non-household charges (+£0.468m), a reduction in the 2003/04 contingency provision (- £0.200m) and other minor changes (+ £0.055m net).
- 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 2004 could be taken into account when considering its budget and levy requirements for 2004/05.
- 4.4 The actual revenue surplus at 31 March 2004 is £6.080m, i.e. an increase of £1.313m.
- 4.5 In addition, the Authority holds an earmarked reserve of £1.152m 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	2003/04 Original Budget	2003/04 Revised Budget	2003/04 Final Outturn	Variance between Revised Estimate & Outturn £'000
Expenditure	£'000	£'000	£'000	£'000
Borough Waste (Ex. CA Waste)				
- Main Waste Disposal Contract	25,836	25,217	25,912	695
- Clinical Waste	184	175	172	(3)
Civic Amenity Waste	2,204	2,411	2,160	(251)
Fridges and Freezers	1,687	1,963	1,872	(91)
Landfill Tax	5,527	5,435	5,484	49
Hendon Rail Transfer Station	692	(823)	(823)	
Hornsey Street Transfer Station	900	0	0	
Recycling Credits	6,096	6,305	5,088	(1,217)
Other Recycling Initiatives	0	45	3	(42)
Agency Services	369	372	325	(47)
Waste Strategy and Contracts Group	349	341	344	3
Annual Compensation	30	30	30	
Provision for Litigation Costs	50	50	0	(50)
Contribution to Earmarked Reserve	20	35	39	4
Excess Creditors (Previous Years)	<u>0</u>	<u>(381)</u>	<u>(589)</u>	<u>(208)</u>
	43,944	41,175	40,017	(1,158)
Less				
Income				
Rents	(75)	(75)	(74)	1
Interest on Balances	(375)	(1,200)	(951)	249
Dividends (LWL)	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	
	(450)	(1,275)	(1,025)	250
Net Expenditure	43,494	39,900	38,992	(908)
Contingency	<u>500</u>	<u>300</u>	<u>0</u>	<u>(300)</u>
Total Net Expenditure 2003/04	43,994	40,200	38,992	(1,208)
	=====	=====	=====	=====
Financed By :-				
Revenue Balances b/fwd	(2,508)	(3,949)	(3,949)	
Charges to Boroughs (Non-household waste)	(6,392)	(5,924)	(6,029)	(105)
2003/04 Levy	(35,094)	(35,094)	(35,094)	
Balances c/fwd as at 31 March 2004:				
General Balances		(4,767)	(6,080)	(1,313)
Earmarked Reserve (Recycling)	(1,133)	(1,148)	(1,152)	(4)

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

4.7 Transport and Disposal : (+ £0.441m)

4.7.1 In February Members were advised that the rate of change in the waste streams of individual boroughs had again been variable during 2003/04 with changes of between + 4.54% and – 3.05% when compared with 2002/03 tonnage levels. This equated to a net reduction of 0.82% for the period to December. Allowing for a small margin of safety of a 1% increase in the waste stream for the closing months of the year and achievement by the boroughs of their recycling targets, the 2003/04 total residual waste stream was estimated to be 819,853 tonnes.

4.7.2 The actual residual waste stream for the year is 855,833 tonnes, i.e. an increase of 35,980 tonnes. Whilst it is clear that the boroughs have been active in developing their recycling initiatives and that borough recycling levels are expected to increase in 2003/04, it would appear that the levels of recycling activity envisaged at the start of the year have not been achieved. Details of actual recycling activity will not be finally determined until the 2003/04 recycling credit claims are received and audited by the Authority. The resulting net additional cost of disposal (£0.601m) will be offset by the saving on recycling credit payments.

4.7.3 Details of the percentage movement in 2003/04 tonnage levels for each borough compared with 2002/03 tonnages may be summarised as follows:-

	February Forecast	2003/04 Actual	Variance
Barnet	- 0.96%	- 1.14%	- 0.18%
Camden	- 3.05%	- 2.35%	+ 0.70%
Enfield	- 3.01%	- 5.39%	- 2.38%
Hackney	- 2.08%	- 1.99%	+ 0.09%
Haringey	+ 0.31%	- 1.34%	- 1.65%
Islington	- 0.91%	- 0.40%	+ 0.51%
Waltham Forest	+ 4.54%	+ 4.16%	- 0.38%

4.7.4 Although Barnet, Enfield, Haringey and Waltham Forest experienced downward movement in their waste streams during the closing months of the year, the waste streams from Camden, Hackney, and Islington increased.

4.7.5 Also include under this budget head is the payment made to LondonWaste Ltd (LWL) under the Compensation Price Review clause contained in the Authority's contract with LWL. Due to an improvement in electricity income levels obtained by LWL the Company's 2003 claim is lower than that allowed for in the Authority's budget and has resulted in a saving of £0.160m.

4.8 **Fridges and Freezers : (-£0.091m)**

4.8.1 A total of 50,472 appliances were treated and recycled in 2003/04 compared with a budget assumption of 60,000. However, the resulting saving has been partially offset by the cost of additional storage time of appliances held in store at 31 March 2003 for final disposal in 2003/04.

4.9 **Landfill Tax : (+ £0.049m)**

4.9.1 Despite the increase in residual waste referred to at paragraph 4.7.2 the associated increase in the cost of landfill tax (£0.693m) has been substantially offset by a significant improvement in the volumes of bottom ash that have been recycled by LWL. In view of the previous problems that had been experienced by LWL the Authority's budget assumed that c. 60,000 tonnes of bottom ash might have to be landfilled during 2003/04. The 2003/04 landfill tax claim indicates that LWL landfilled only 18,815 tonnes of bottom ash and this has resulted in a saving of £0.577m to the Authority. Miscellaneous other volume changes in relation to civic amenity wastes and the disposal of other residuals by LWL have resulted in a further saving of £0.067m.

4.10 **Recycling Credits : (- £1.217m)**

4.10.1 Borough recycling credit claims for 2003/04 have yet to be received and audited by the Waste Strategy and Contracts Group. As final details of borough recycling activity in 2003/04 will not be reported to the Authority until October it has been necessary to close the 2003/04 accounts based upon an estimate of the likely level of borough recycling activity, i.e. 107,300 tonnes. Any budget variance therefore will be reported to the Authority at the same time. The proposed value of the recycling credit payment for 2003/04 is £47.33 per tonne.

4.10.2 As indicated at paragraphs 4.7.2 and 4.9.1 above the saving on recycling credit payments is available to offset the increased cost of disposal and landfill tax.

4.11 **Other Recycling Initiatives : (- £0.42m)**

4.11.1 There has been a low level of activity in 2003/04.

4.12 **Agency Services : (- £0.047m)**

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 expected use of the external advisers accounts for most of the saving (£0.040m).

4.13 **Provision for Possible Litigation Costs : (- £0.050m)**

4.13.1 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 2003/04.

4.14 **Contingency : (- £0.300m)**

4.14.1 Although individual budget heads were reviewed in the light of the latest available information, it was considered prudent for the 2003/04 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.

4.15 **Excess Creditor Provision (previous years) : (-£0.208m)**

4.15.1 The increased write back to revenue arises in the main from a review of the Authority's liability in respect of the Compensation Review payments that are due to be paid to LondonWaste Ltd and determination of the final costs of the Waste Strategy and Contracts Group in 2002/03.

4.16 **Interest on Balances : (+ £0.249m)**

4.16.1 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 2003/04. Although the formalities of the land transfer are progressing completion has yet to take place. The income from this source, estimated to be at least £0.350m, will therefore slip into 2004/05. However, general improvements in the Authority's cash flow in the last 3 months of the year has enabled a higher level of income to be obtained from this source (£0.101m) and therefore has the effect of partially reducing the income shortfall for the year.

4.17 **Dividend Income (LondonWaste Ltd)**

4.17.1 At the Annual General Meeting of LondonWaste Ltd on 23 April 2004 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 and to invest in the EcoPark projects.

4.18 **Charges to Boroughs for Non-Household Waste : (- £0.105m)**

4.18.1 At the budget meeting in February I provided an up to date assessment of the estimated cost to boroughs of non-household waste in 2003/04 (in accordance with the Authority's charging arrangements for this category of waste under section 52 (9) of the Environmental Protection Act 1990).

4.18.2 I also reminded the meeting that the final charges will be calculated as part of the 2003/04 final accounts process and that this would be reported to the Authority in July 2004. Any under or over payment by boroughs would be collected from or repaid to boroughs at that time.

4.18.3 Although compared with the 2003/04 revised budget the income due to the Authority has increased by £0.105m, a net repayment of £0.363m 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. £6.393m in 2003/04. Based upon 2003/04 outturn tonnages six boroughs will receive a refund and only Waltham Forest will be required to pay an additional sum.

4.18.4 Compared with the original budget assumptions there has been a tonnage reduction of 610,976 tonnes and a price increase of £0.24 per tonne.

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

Table 2	(1)	(2)	(3)	(4)
	2003/04 Original Estimate	2003/04 Revised Estimate	2003/04 Actual Cost	(Repayment to) or, amount now due from Boroughs (Column 3 - 1)
Cost per tonne	£36.68	£36.15	£36.92	
	£	£	£	£
Barnet	742,880	669,173	682,466	(60,414)
Camden	1,395,527	1,257,442	1,290,538	(104,989)
Enfield	555,959	497,424	502,001	(53,958)
Hackney	974,808	894,676	915,284	(59,524)
Haringey	893,562	821,979	832,952	(60,610)
Islington	1,080,556	996,800	1,025,121	(55,435)
Waltham Forest	749,482	786,877	781,006	31,524
	6,392,774	5,924,371	6,029,368	(363,406)

5. Capital Budget 2003/04

5.1 There have been no capital transactions in 2003/04. At 31 March 2004 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 2003/04. 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 2003/04 accounts must be approved by the Authority by 31 August. 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. 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 30 November 2004. 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 2004/05 Revenue Budget**

7.1 At its meeting on 11 February 2004 the Authority agreed the 2004/05 budget at £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.

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 2004/05. 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. This will be reported to the October meeting of the Authority.

7.3 **Waste Strategy and Contracts Group : (+ £0.100m)**

7.3.1 A report elsewhere on this agenda makes recommendations to strengthen the strategy and contracts team in order to implement the Municipal Joint Waste Strategy. The first review allows for an estimated additional cost of £0.100m in 2004/05.

7.4 **Interest on Balances : (- £0.350m)**

7.4.1 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 2004/05. An amount of £0.350m has been allowed for in the first review.

7.4.2 LondonWaste Ltd has approached the Authority and has asked if the contractual sums due to be paid to the Company under the Legislative and Compensation price reviews could in future be paid by monthly instalments over the course of the year rather than at year-end. The Finance Officer is currently considering a proposal from LWL which is intended to improve on the interest that the Authority would otherwise obtain by investing these monies and continuing to make payment at year-end. The outcome will be reported to the next meeting of the Authority.

7.5 **Overview**

7.5.1 After allowing for the foregoing changes and the higher level of balances brought forward from 2003/04 Table 3 provides a summary of the current financial position:-

Table 3	2004/05	2004/05	
Expenditure	Original	First	Variance
	Budget	Review	£'000
	£'000	£'000	£'000
Borough Waste (Ex. CA Waste)			
- Main Waste Disposal Contract	27,408	27,408	
- Clinical Waste	184	184	
Civic Amenity Waste	2,774	2,774	
Fridges and Freezers	1,072	1,072	
Landfill Tax	6,360	6,360	
Hendon Transfer Station	417	417	
Hornsey Street Transfer Station	1,405	1,405	
Recycling Credits	9,295	9,295	
Other Recycling Initiatives	100	100	
Agency Services	465	465	
Waste Strategy and Contracts Group	404	504	100
Annual Compensation	30	30	
Provision for Possible Litigation Costs	50	50	
Contribution to Earmarked Reserve/Recycling	<u>20</u>	<u>20</u>	<u>100</u>
	49,984	50,084	
Less			
Income			
Rents	(77)	(77)	
Interest on Balances	(490)	(840)	(350)
Estimated Dividend Stream	<u>0</u>	<u>0</u>	<u>(350)</u>
	(567)	(917)	
Net Expenditure	49,417	49,167	(250)
Contingency	<u>500</u>	<u>500</u>	<u>---</u>
Total Net Expenditure 2004/05	49,917	49,667	(250)
	=====	=====	=====
Financed By :-			
Balances B/fwd	(4,767)	(6,080)	(1,313)
Charges to Boroughs (Non-household waste)	(6,776)	(6,776)	
2004/05 Levy	(38,374)	(38,374)	
Estimated Revenue Balances			
as at 31 March 2005		(1,563)	(1,563)
(Surplus)			

8. **Review of Outlook for 2005/06 and for 2006/07 and 2007/08**

- 8.1 At the Authority Meeting in February I advised that assuming the full use of forecast revenue balances in 2004/05, the increase in the cost to constituent councils in 2005/06 could be in the region of 18.22%, a further 6.5% in 2006/07 and a further 8% in 2007/08. These forecasts assumed further year-on-year increases in the waste stream of 2.5% 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 a possible increase in landfill tax costs which may arise in respect of the WID refurbishment works at the Edmonton energy-from-waste facility.
- 8.2 Although the current budget allows for the cost of developing a 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 2004/05. It is intended that an up-to-date report on the Joint Waste Strategy including an update on the potential cost implications will be submitted to the next Authority meeting.
- 8.3 Members will also be aware that the Landfill Allowance Trading Scheme (LATS) is due to come into effect in 2005/06. Although the Authority's initial view has been 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, it will be necessary to review the position in the light of the allowances that are due to be announced later this year. It is hoped that the Authority will have further information by the time of the next Authority meeting.
- 8.4 As a consequence, Table 4 provides only a partial update of the Authority's medium term budget and resource requirements.

Table 4	2005/06 £'000	2006/07 £'000	2007/08 £'000
Estimated net expenditure (February 2004)	53,377	56,848	61,370
Add cost of WS&CG Staff Review	+300	+320	+340
	-----	-----	-----
	53,677	57,168	61,710
Less estimated revenue balances @ 31/3/05	- 1,563		

Net expenditure to be funded by Constituent Councils	52,114	57,168	61,710
Less cost to Constituent Councils:			
2004/05 (actual)	45,150		
2005/06 (Estimate)		52,114	
2006/07 (Estimate)			57,168
	-----	-----	-----
Estimated increase in cost to Constituent Councils	6,964	5,054	4,542
Percentage increase over the cost in previous year	15.4%	9.7%	7.9%

8.5 Table 4 indicates that the cost to constituent councils could rise by up to 15.4% in 2005/06, a further 9.7% in 2006/07 and by a further 7.9% in 2007/08. 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.

9. **Conclusion**

9.1 On the basis of current information, and allowing for the improvement in revenue balances brought forward from 2003/04, the 2004/05 budget should remain sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year.

9.2 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.

10. **Comments of the Legal Adviser**

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

Local Government Act 1972 - Section 100 as amended

Documents used in the preparation of this report:-

Report to the Authority 11 February 2004 – Revenue Budget and Levy 2004/05
2003/04 Final Account Working Papers

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