

REPORT TITLE

REVENUE BUDGET AND LEVY 2004/05

REPORT OF

FINANCIAL ADVISER

FOR SUBMISSION TO

DATE

AUTHORITY MEETING

11 FEBRUARY 2004

1. SUMMARY OF REPORT

This report indicates that following a fourth review of the 2003/04 budget the Authority is currently estimated to have a revenue surplus of £4.767m at 31 March 2004. As a consequence, it shows that after use of forecast revenue balances the proposed net revenue budget for 2004/05 of £49.917m will require funding of £45.150m by constituent councils. It is proposed that the funding will comprise charges for non-household waste of £6.776m and a levy of £38.374m. This represents a total increase of £3.664m (8.83%) over the combined cost to constituent councils in 2003/04.

2. RECOMMENDATIONS

The Authority is requested to:-

- (i) Consider the 2003/04 revised budget and 2004/05 proposed budget.
- (ii) Note the requirements of the Local Government Act 2003 and approve the amendments to the Authority's Financial Standing Orders (Appendix A).
- (iii) Having satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead agree the 2004/05 budget.
- (iv) Note the outlook for 2005/06, 2006/07 and 2008/09.
- (v) Agree the 2004/05 charge for non-household waste at £40.34.
- (vi) Determine the levy for 2004/05.
- (vii) Agree the basis for apportioning the levy.
- (viii) Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for non-household waste.

Signed by the Financial Adviser:

Date:

3. Introduction and Background

- 3.1 At its meeting on 17 December 2003 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 2004/05.
- 3.2 Allowing for the use of forecast balances at 31 March 2004 of £4.469m, it was estimated that the total net cost to constituent councils in 2004/05 could be in the order of £45.588m, an increase of £4.102m (9.9%) over the total cost to boroughs in 2003/04 (£41.486m). 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 2003/04 budget and presents for consideration a draft budget for 2004/05.
- 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 2004/05 must be notified to constituent councils for inclusion in their Council Tax charge before 15 February 2004.

4. Review of the 2003/04 Revenue Budget

- 4.1 At its meeting on 5 February 2003 the Authority agreed an original budget of £43.994m to be financed by estimated 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 (-£1.022m), and a net increase in the cost of handling civic amenity waste (+ £0.127m). Also, an increase in the value of likely recycling credit payment (£0.294m) and slippage into 2003/04 of the treatment and final disposal of fridges 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 (+ £0.193m 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), a write-back to revenue of an excess creditor provision allowed for in the 2002/03 accounts (-£0.150m), slippage of income from 2002/03 (- £0.350m), a reduction in non-household charges (+£0.468m) and other minor changes (- £0.021m 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 2004 by £0.298m to £4.767m. This review will form the basis of the 2003/04 revised budget. Details of the most significant changes and issues identified by the fourth review are discussed below.

4.4 **Transport and Disposal (- £0.06m)**

4.4.1 In December Members were advised that based upon data available for the period April to October 2003 there had been a net reduction of 0.82% in the level of waste entering the Authority's waste stream over the same period in 2002/03. 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 863,724 tonnes. The boroughs, however, had advised the Authority of their intention to increase their recycling activity during the second half of 2003/04. This was estimated to reduce the residual waste stream by at least a further 24,609 tonnes by the year-end. However, Members were also advised that if the boroughs were to achieve their 2003/04 statutory recycling targets the residual waste stream would reduce by a further 17,908 tonnes, i.e. a total additional reduction of 42,517 tonnes. Allowing for the latter the 2003/04 residual waste stream was estimated to reduce to 821,207 tonnes (compared with the original budget assumption of 850,200 tonnes).

4.4.2 Data now available for the period up to December 2003 continues to show a net reduction of 0.82%. Although there has been no overall change in the total waste entering the Authority's waste stream 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 increase by 4.54% for the year, whilst the Camden waste stream is currently forecast to reduce by 3.05%. Allowing for a 1% increase in the waste stream for the closing months of the year and achievement by the boroughs of their statutory recycling targets, the residual waste stream for the year is now estimated to be 819,853 tonnes.

4.4.3 Although based upon information gathered from the boroughs it is clear that increased recycling activity is having a beneficial impact on the residual waste stream, it is also evident that the total waste stream (before allowing for borough recycling activity) is continuing to rise at about 1.6% per annum. 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 2004/05. Further consideration on this matter is given at paragraph 4.11 in respect of 2003/04 and paragraphs 5.4 and 5.14 in respect of 2004/05.

4.4.4 Compared with an original budget assumption of 2.9%, the provisional increase in the Retail Price Index for the year to December 2003 is 2.8% (2.5% - November), i.e. a reduction of 0.1% compared with the Authority's base budget assumption.

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 £0.006m in 2003/04.

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

		September Forecast (2nd Review)	December Forecast (3rd Review)	Current Forecast (4th Review)	Variance between 3rd & 4th Reviews
Barnet	-	- 1.88%	- 1.42%	- 0.96%	+ 0.46%
Camden	-	- 3.21%	- 3.02%	- 3.05%	- 0.03%
Enfield	-	- 1.21%	- 2.07%	- 3.01%	- 0.94%
Hackney	-	- 1.93%	- 2.24%	- 2.08%	+ 0.16%
Haringey	-	+ 3.03%	+ 0.78%	+ 0.31%	- 0.47%
Islington	-	+ 0.20%	- 0.58%	- 0.91%	- 0.33%
Waltham Forest	-	+ 3.87%	+ 3.36%	+ 4.54%	+ 1.18%

4.5 **Fridges and Freezers (+ £0.088m)**

4.5.1 During the period January 2002 to April 2003 the Authority arranged for the storage of 66,647 appliances pending a suitable safe disposal route becoming available. The disposal of the stored appliances is now complete, however, due to a longer than anticipated storage time in 2003/04 some additional storage costs have been incurred. This will add £0.088m to costs in 2003/04.

4.6 **Landfill Tax (+ £0.388m)**

4.6.1 The quantities of bottom ash recycled by LondonWaste Ltd have reduced during 2003 with the result that the volume of residual ash sent to landfill by the Company for final disposal has increased from 40,000 tonnes to 60,000 tonnes in 2003. The fourth review therefore allows for a likely increase in the Company's legislative review claim for 2003/04. Allowance has also been made for a small reduction in the incineration capacity during the closing months of the year.

4.7 **Recycling Credits (- £0.085m)**

4.7.1 The 2003/04 original budget assumed that boroughs would achieve their 2003/04 statutory recycling target levels. The fourth review continues to assume this and allows for an estimated recycling credit payment of £47.72 to reflect the higher costs of waste disposal at the Hendon rail transfer station from 1 January 2004.

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 has been reduced in the fourth review resulting in a budget saving of £0.085m

4.7.2 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 2003/04 statutory recycling target levels.

4.8 **Excess Creditor Provision – Previous Years (- £0.231m)**

4.8.1 At the October meeting of the Authority Members approved the recycling credit payments for 2002/03. A final audit of the claims has confirmed that the Enfield claim presented was erroneously overstated. Allowing for other minor changes to the claims submitted by Barnet, Islington and Waltham Forest a further provision of £0.123m, which had been allowed for in the 2002/03 accounts can be written back to revenue in 2003/04.

4.8.2 Similarly, the LondonWaste Ltd landfill tax credit claim for 2002/03 was lower than allowed for in the 2002/03 accounts and therefore a further sum of £0.108m can also be written back to revenue in 2003/04.

4.9 **Interest on Balances (- £0.250m)**

4.9.1 The Authority continues to benefit from a favourable cash flow and, as a result, is estimated to generate additional interest income of £0.250m for the year.

4.10 **Charges to Boroughs for Non-Household Waste**

4.10.1 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 10,402 tonnes. Allowing also for a reduction in the non-household charge per tonne (reducing from £36.68 to an estimated figure of £36.15) non-household charges are currently estimated to reduce by £0.468m in 2003/04, i.e. no change since the third review.

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

	2003/04 Original Estimate £	2003/04 Current Estimate £	Estimated Variance £
Barnet	742,880	669,173	- 73,707
Camden	1,395,527	1,257,442	- 138,085
Enfield	555,959	497,424	- 58,535
Hackney	974,808	894,676	- 80,132
Haringey	893,562	821,979	- 71,583
Islington	1,080,556	996,800	- 83,756
Waltham Forest	749,482	786,877	+ 37,395
	6,392,774	5,924,371	- 468,403

4.10.3 The figures currently indicate that all boroughs other than Waltham Forest could be entitled to a refund. Waltham Forest may be required to make an additional payment.

4.10.4 Constituent councils will need 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 2003/04 final accounts process and reported to the Authority in July 2004. Any under or over payment by boroughs will be collected from or repaid to boroughs at that time.

4.11 **Contingency (- £0.200m)**

4.11.1 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 2003/04 revised budget. This will enable the contingency to be reduced by £0.200m.

4.12 **Overview of the 2003/04 Revised Budget**

4.12.1 Allowing for the above factors, the proposed 2003/04 revised budget for the Authority is £40.200m. This represents a reduction of £0.298m when compared with the third budget review in December. The revenue surplus at 31 March 2004 is therefore estimated to increase to £4.767m.

4.12.2 Details of the variations, which have led to an increase in forecast revenue balances at 31 March 2004, may be summarised as follows:-

	£'000
Transport and Disposal	(6)
Fridges and Freezers	83
Landfill Tax	388
Recycling Credits	(85)
Agency Services	3
Interest on Balances	(250)
Contingency	(200)
Excess Creditor Provision (Previous Years)	(231)

Increase in Revenue Balances	(298)

4.12.3 Table 1 below provides a summary of the current financial position:-

Table 1	2003/04 Original Budget	2003/04 Third Review	2003/04 Fourth Review	Variance between 3rd & 4th Reviews
	£'000	£'000	£'000	£'000
Expenditure				
Borough Waste (Ex. CA Waste)				
- Main Waste Disposal Contract	25,836	25,300	25,217	(83)
- Clinical Waste	184	178	175	(3)
Civic Amenity Waste	2,204	2,331	2,411	80
Fridges and Freezers	1,687	1,880	1,963	83
Landfill Tax	5,527	5,047	5,435	388
Hendon Rail Transfer Station	692	(823)	(823)	
Hornsey Street Transfer Station	900	0	0	
Recycling Credits	6,096	6,390	6,305	(85)
Other Recycling Initiatives	0	45	45	
Agency Services	369	369	372	3
Waste Strategy and Contracts Group	349	341	341	
Annual Compensation	30	30	30	
Provision for Litigation Costs etc	50	50	50	
Contribution to Earmarked Reserve/Recycling	20	35	35	
Excess Creditor Provision (Previous Years)	<u>0</u>	<u>(150)</u>	<u>(381)</u>	<u>(231)</u>
	43,944	41,023	41,175	152
Less				
Income				
Rents	(75)	(75)	(75)	
Interest on Balances	(375)	(950)	(1,200)	(250)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>	<u>(0)</u>
	(450)	(1,025)	(1,275)	(250)
Net Expenditure	43,494	39,998	39,900	(98)
Contingency	<u>500</u>	<u>500</u>	<u>300</u>	<u>(200)</u>
Total Net Expenditure 2003/04	43,994	40,498	40,200	(298)
	=====	=====	=====	=====
Financed By :-				
Balances b/fwd	(2,508)	(3,949)	(3,949)	
Charges to Boroughs (Non-household waste)	(6,392)	(5,924)	(5,924)	
2003/04 Levy	(35,094)	(35,094)	(35,094)	
Estimated Revenue Balances as at 31 March 2004 (Surplus)		(4,469)	(4,767)	(298)

5. **2004/05 Revenue Budget**

5.1 Further to my assessment of the 2004/05 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:-

Table 2	2004/05 December Forecast £'000	2004/05 Proposed Budget £'000
Expenditure		
Borough Waste (Ex. CA Waste)		
- Main Waste Disposal Contract	27,479	27,408
- Clinical Waste	187	184
Civic Amenity Waste	2,697	2,774
Fridges and Freezers	1,103	1,072
Landfill Tax	6,331	6,360
Hendon Rail Transfer Station	406	417
Hornsey Street Transfer Station	1,690	1,405
Recycling Credits	9,235	9,295
Other Recycling Initiatives	50	100
Agency Services	378	465
Waste Strategy and Contracts Group	401	404
Annual Compensation	30	30
Provision for possible Litigation Costs	50	50
Contribution to Earmarked Reserve/Recycling	<u>20</u>	<u>20</u>
	50,057	49,984
Less		
Income		
Rents	(75)	(77)
Interest on Balances	(425)	(490)
Estimated Dividend Stream	<u>(0)</u>	<u>(0)</u>
	(500)	(567)
Net Expenditure	49,557	49,417
Contingency	<u>500</u>	<u>500</u>
2004/05 Proposed Budget	50,057	49,917
	=====	=====
To be financed by :-		
Estimated Balances b/fwd	(4,469)	(4,767)
Charges to Boroughs (Non-household waste)	(6,807)	(6,776)
2004/05 Proposed Levy	(38,781)	(38,374)
Total proposed funding by Boroughs – 2004/05	(45,588)	(45,150)
Percentage increase over 2003/04	(9.9%)	(8.83%)

5.1.1 The figures in table 2 show that the net budget requirement for 2003/04 of £49.917m has reduced by £0.140m compared with the December forecast. Allowing for the use of forecast revenue balances of £4.767m at 31 March 2004 – an increase of £0.298m compared with the December forecast, the net cost to constituent councils in 2004/05 is estimated to be £45.150m; comprising charges for non-household waste of £6.776m and a levy of £38.374m in respect of household waste and the core costs of operating the Authority. This represents a total increase of £3.664m (8.83%) over the combined cost to boroughs in 2003/04 (£41.486m).

5.2 The following factors have been taken into account:-

5.3. **Inflation**

5.3.1 A general allowance for inflation of 2.5%.

5.4 **Transport and disposal**

5.4.1 The transport and disposal budget has been based upon a total residual waste stream of 819,823 tonnes, i.e. a net reduction of just 30 tonnes over the 2003/04 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. Although the next statutory target date is not until 2005/06 the boroughs are proposing to make further significant progress in the year ahead and are planning to increase their recycling activity by a further 26,660 tonnes over the statutory target levels for 2003/04. However, despite the increase in recycling by boroughs the total waste stream continues to rise and therefore an increase of 2.5% has been allowed in this projection to reflect the underlying increase in the waste stream for 2004/05, i.e. an additional 21,530 tonnes. The budget also allows for an increase of 3,800 tonnes in civic amenity waste which is expected to arise as a consequence of Islington's new civic amenity waste facility which is co-located, and therefore due to open, at the same time as the Ashburton Grove/ Hornsey Street replacement waste transfer station. The Authority has also been advised that Waltham Forest will be opening a new civic amenity/recycling facility later in the year and a further 1,300 tonnes has been allowed for additional waste that is likely to arise from this facility.

5.4.2 The budget forecast allows for the full year impact of the new civic amenity waste contract arrangements that came into effect on 1 September 2003.

5.5 **Fridges and Freezers**

5.5.1 The proposed budget allows for the treatment and disposal of 61,500 appliances.

5.6 Landfill Tax

5.6.1 The standard rate of landfill tax is due rise from £14 to £15 per tonne on 1 April 2004. The proposed budget allows for this increase.

5.6.2 The budget assumes that higher volumes of the Authority's waste will be sent to landfill when the Company begins the WID refurbishment works at the Edmonton energy-from-waste facility. The Authority will be 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).

5.7 Ashburton Grove Transfer Station/Hornsey Street Replacement

5.7.1 The 2004/05 proposed budget allows for nine months operation of the new facility at Hornsey Street.

5.8 Hendon Rail Transfer Station

5.8.1 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.

5.9 Recycling Credits

5.9.1 The proposed budget provides for the Authority to fund a further significant stepped change in recycling activity next year, i.e. an additional 26,660 tonnes over 2003/04 projected tonnages. In calculating the value of the recycling credit payment for each tonne of waste recycled allowance has also been made for the full year impact of the higher transport and disposal costs for waste passing through the Hendon rail transfer station. The budget allows for an estimated payment of £57.77 per tonne (see also paragraph 4.6 above).

5.10 Contribution to Earmarked Reserve (Recycling)

5.10.1 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 £0.020m but in practice will depend upon cash flow and the extent to which the fund is used.

5.11 Dividend Income (LondonWaste Ltd)

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

5.12 Non-household Charges

5.12.1 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 2004/05.

5.12.2 Based upon estimated non-household tonnages of 167,980 tonnes and a cost per tonne of £40.34 the total cost to boroughs in 2004/05 is currently estimated to be £6.776m. The cost for individual boroughs is estimated to be:-

	2004/05 Estimated Tonnes	2004/05 Estimated Cost £
Barnet	18,974	765,411
Camden	35,654	1,438,282
Enfield	14,104	568,955
Hackney	25,368	1,023,345
Haringey	23,306	940,164
Islington	28,263	1,140,130
Waltham Forest	22,311	900,026
	167,980	6,776,313

5.12.3 As agreed at the July meeting of the Authority, work is proceeding in the Strategy and Contracts Team with the waste survey and composition analysis to inform a possible new way of charging constituent boroughs for non-household waste delivered to the Authority for disposal. It is still expected that the work (a survey covering all four seasons is being undertaken by AEA Technology) will be completed in time for introduction into the 2005/06 budget setting process.

5.12.4 There is currently some discussion among the technical officers concerning the re-classification of those costs which the Authority has hitherto regarded as coming within the definition of 'household' waste, e.g. parks waste. Recent advice from DEFRA states that parks waste should be excluded from borough Best Value Performance Indicators. The implications of this have yet to be resolved and therefore the Authority's current classification of different waste streams between household and non-household will remain unchanged for 2004/05. A review of the Authority's waste classifications will be presented to the Authority at the same time as reporting the full year results of the waste survey and composition analysis.

5.13 Local Government Act 2003

- 5.13.1 The Local Government Act 2003 places a duty on local authority 'chief finance officers' to report on the robustness of the estimates and the adequacy of the proposed financial reserves. This is no more than good practice. Members will therefore be aware that it has been my practice at the budget and levy setting meeting each February to advise Members on the robustness of the proposed budget and in particular the sums that should be set aside as a contingency for potential unforeseen costs. Clearly, this practice will continue.
- 5.13.2 The Act also places a duty on a local authority to monitor its budget. Again, this is no more than good practice and the Authority's existing Standing Orders already requires me to report to Members at least four times a year on the financial position of the Authority.
- 5.13.3 The Authority's Financial Standing Orders, however, will need to be up-dated to reflect the new requirement placed on me to report on and monitor the adequacy of the Authority's proposed financial reserves (Section 27 Local Government Act 2003). Accordingly, I attach at Appendix A a copy of the Authority's Financial Standing Orders showing the proposed 'tracked' amendments at financial standing order 1 (a) (i) and 3 (a).
- 5.13.4 Appendix A also show the proposed 'tracked' amendments that flow from my earlier report today on the Prudential Code for Capital Finance in Local Authorities (financial standing order D6 (a) and Glossary. That report also asks Members to approve the Prudential Indicators for 2004/05 to 2006/07.

5.14 Contingency

- 5.14.1 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.
- 5.14.2 In coming to a view on this, Members should bear in mind that it is currently envisaged that forecast balances at 31 March 2004 will be fully utilised during the course of 2004/05, 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.
- 5.14.3 Members will also be aware that I now have a formal duty under the Local Government Act 2003 to report to Members on the adequacy of its reserves.
- 5.14.4 My December forecast allowed for a contingency of £0.5m. In view of the foregoing, my advice is that this sum be retained in the 2004/05 proposed budget.

6. **Apportionment of the Levy**

- 6.1 Members will be aware that the Authority must notify its decision on the 2004/05 budget and levy to constituent councils before 15 February 2004. 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 be aware that a decision by the Government to change the default basis for apportioning the levy has been on hold for some time. However, it is understood that the Government is currently 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. 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 2004/05 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.
- 6.4 The options include, apportionment of the levy:-
- (i) Based upon the 2004/05 Council Tax base as notified by constituent councils;
 - (ii) Based upon the estimated household tonnage for each constituent council;
 - (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 2005/06 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 2005.

7. **Outlook for 2005/06 and for 2006/07 and 2007/08**

- 7.1 Assuming full utilisation of revenue balances by 31 March 2005 and further year-on-year increases in the waste stream of 2.5% per annum (as adjusted for further stepped increases in recycling), the percentage increase in the cost to constituent councils is estimated to be 18.22% in 2005/06, a further 6.5% in 2006/07 and a further 8% in 2007/08.

- 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). Allowance has also been made 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.
- 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 could at least double in real term over the duration of the strategy (until 2020/21). This will be the subject of a detailed report in the coming year.
- 7.4 Members will also be aware that the commencement date for Landfill Allowance Trading Scheme (LATS) has been deferred until 2005/06. Although the Government has yet to announce its response to the recent consultation process current information suggests that landfill allocations in 2005/06 should be broadly similar to current landfill levels. It is also 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. As a consequence it is not currently envisaged that there should be any significant cost implications arising from LATS for the Authority in the period covered by this review. However, Members will be kept informed of any developments which may arise from the Government's response to the consultation process.

8. **Conclusion**

- 8.1 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 2003/04 revised budget and 2004/05 proposed budget, the overall budget should be sufficiently robust to meet the Authority's expenditure requirements over this period.
- 8.2 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 2004 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.
- 8.3 Compared with the December forecast increase of 9.9%, the proposed additional cost to constituent councils in 2004/05 has reduced by 1.07% to 8.83%. 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.

9. **Comments of the Legal Adviser**

9.1 The Legal Adviser has been consulted on 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:-

Reports to the Authority dated 5 February 2003, 11 July 2003, 1 October 2003 and 17 December 2003

Budget working papers

Notification letters from constituent councils in respect of their 2004/05 Council Tax base.

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