

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: 2018/19 THIRD BUDGET REVIEW AND 2019/20 BUDGET FORECAST

REPORT OF: THE FINANCIAL ADVISER

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 6 DECEMBER 2018

This report is the third in the current year on the Authority's finances. It concludes that the Authority is currently forecast to have a revenue surplus of £4.519m at 31 March 2019, i.e. an increase of £1.126m compared with the second budget review.

A bottom-up assessment of the budget and resource requirements for 2019/20 indicates that on a like-for-like basis, the net budget requirement might increase by 4.46%. However, including the financing costs relating to the commencement of works for the North London Heat & Power Project, the net budget requirement is £71.166m, an increase of 6.61%

Balances forecast to be available at 31 March 2019 that might be used to support the 2019/20 levy are forecast to be £4.519m. This is £3.500m less than the balances that were available for to reduce the 2018/19 levy.

Taking the balances into account, the total levy for 2019/20 is currently forecast to be £55.574m consisting of a base element of £50.409m and a Reuse and Recycling Centre (RRC) element of £5.165m. This represents an increase of 14.56% on 2018/19.

The Members' Finance Working Group will have an opportunity to examine the assumptions underpinning the current budget forecast and the levy options at its meeting in January 2019. The outcome of this review together with up-to-date advice on the Authority's budget and resource requirements for 2019/20 will be reported to the budget and levy setting meeting in February 2019. Borough Finance Directors were briefed on this paper at their meeting on 22 November and in keeping with established practice, it is proposed to liaise with them again in January to seek their views on the application of balances and to report back to the Authority at the budget and levy setting meeting in February.

NORTH LONDON WASTE AUTHORITY

RECOMMENDATIONS:

The Authority is recommended to:

- A. Note the third review of the 2018/19 revenue budget.
- B. Note the current assessment of the budget and resource requirements for 2019/20 and the factors that could affect the level of the 2019/20 levy.
- C. Note the issues that will need to be addressed in setting the budget and levy for 2019/20 at the Authority meeting on 7 February 2019.

SIGNED: Mike O'Donnell, Financial Adviser

DATE: 26 November 2018

1. INTRODUCTION

- 1.1. This report contains the third budget review for 2018/19. It also sets out the current assessment of the levy requirement for 2019/20, the anticipated levy arrangements based on that current assessment, and a note of the issues to be addressed at the Authority meeting in February 2019 when the levy will be set.
- 1.2. Tables detailing the 2018/19 forecast outturn and 2019/20 budget forecast are set out in Appendices A and B respectively. The Appendices also contain analyses of some key budget elements including the forecast balances. The background and supporting notes are provided in the body of the report.

2. REVIEW OF THE 2018/19 REVENUE BUDGET

- 2.1. At its meeting on 8 February 2018 the Authority agreed a budget of £66.752m to be financed by using balances of £8.019m, charges to boroughs for non-household waste and chargeable household waste of £8.510m and £1.712m respectively, and a levy of £48.511m.
- 2.2. In subsequent reviews Members have been advised of the following changes to outturn compared to the budget:

Table 1	£m
Higher level of balances brought forward from 2017/18	(3.943)
Residual Waste Treatment Contracts	1.425
Electricity Income Claim	(1.460)
Landfill Tax	(0.320)
Contaminated dry recyclable waste	0.342
New contracts for treatment of organic waste	(0.696)
Slippage from 2017/18 of NLHPP costs	0.396
Deterioration in sales prices of recyclable material	1.056
Increase in chargeable waste income	(0.106)
Other	(0.087)
Total	<u>(3.393)</u>

- 2.3. A further detailed review of the budget has identified a number of other changes, the net effect of which is estimated to increase the level of surplus revenue balances likely to be available at 31 March 2019 by a further £1.126m to £4.519m. An analysis of the 2018/19 budget and forecast outturn is shown in Table A1 in appendix A. Tables A2 and A3 show the impact on balances held by the Authority on behalf of the boroughs and tables A4 and A5 provide an analysis by borough breakdown of chargeable waste income. Details of the most significant changes identified by the third review are shown in paragraphs 2.4 to 2.11 below. The numbers in brackets in the following paragraph titles show the effect that the variance has on net

expenditure compared to the second budget review through increased expenditure and decreased income (+) or decreased expenditure and increased income (-).

2.4. Transport, Disposal and Landfill Tax: (- £0.171m)

2.4.1. The 2018/19 budget was based on tonnage data to November 2017, an assessment of historical trends and an allowance for possible tonnage growth. All boroughs were given the opportunity to comment on the Authority's forecasts and to provide alternative data during the compilation of the report.

2.4.2. Based on April to September 2018 data and after making certain assumptions about growth in the remainder of the year, 2018/19 forecast residual tonnage compared with budget for each borough may be summarised as follows:

Table 2	2017/18 Actual Tonnes	2018/19 Budget Tonnes	2018/19 Forecast Tonnes	Change %
Barnet	101,059	105,010	105,540	+0.50
Camden	77,512	75,284	77,160	+2.49
Enfield	87,279	90,418	90,809	+0.43
Hackney	91,155	93,918	88,704	-5.55
Haringey	73,441	75,486	72,857	-3.48
Islington	80,670	83,837	79,802	-4.81
Waltham Forest	71,679	72,577	71,424	-1.59
Total	582,795	596,530	586,296	-1.72

2.4.3. The figures in Table 2 prepared by Authority officers are based on data for the first six months of 2018/19 and indicate a reduction in total residual tonnage delivered by boroughs compared to budget (although the forecast points to year on year growth in the residual waste stream). This is a continuation of the trend in 2018/19 discussed in earlier reviews. Within this overall picture, both the second and this third review reveal some significant variances for some boroughs. Although the main purpose in preparing tonnage forecasts is to underpin the Authority's budget cost calculations, tonnage variations for individual boroughs in 2018/19 will be reflected in the forecast balances at 31 March 2019 that will be available to support the levy for each borough in 2019/20.

2.4.4. As well as variations in total residual tonnage, there are also variations in the tonnes delivered by the boroughs to Hendon, Hornsey Street and Edmonton and the amount of waste LondonEnergy Ltd is able to divert to Edmonton for processing from

the more expensive Hendon route. Data to September suggests that compared to the second review there is an increase in the tonnage of borough waste received at Hendon. The financial impact is mitigated to some extent by an increase in the waste transported by road to Edmonton for processing.

- 2.4.5. The overall forecast position for the cost of transport and treatment of non-RRC residual waste is £31.720m. This is £0.259m lower than the second review forecast.
- 2.4.6. The contract with LondonEnergy Ltd (LEL) provides for an element of risk sharing between the Authority and the company in relation to the prices achieved for the electricity the company generates and sells. The latest forecast of tonnages and forecast electricity prices indicate that the value of this claim payable to LEL is estimated to have increased by £0.060m.
- 2.4.7. Prices in the Authority's waste contracts including its contract with LEL are linked to changes in the Retail Price Index (RPI). The 2018/19 budget allowed for an increase of 3.2% at the relevant review date (1 January for most LEL prices) for these contracts. RPI is currently rising at an annual rate of 3.3% (October index published 14 November). The Authority's practice is use HM Treasury's summary of independent forecasts, for the relevant budget figures in this report and the October report put the December RPI increase at 3.4%. Actual December year-on-year inflation will be known by the time of the February budget and levy meeting, and the fourth budget review will contain the actual rate of change.
- 2.4.8. Allowing for all of the above changes and a minor landfill tax saving, the net effect of these changes is forecast to reduce the cost to the Authority by £0.171m in 2018/19 compared with the second budget review.

2.5. Biodegradable and MRF Services: (-£0.476m)

- 2.5.1. Based on forecast data prepared in consultation with the boroughs, the Authority is expecting to deliver 117,339 tonnes of dry recyclable waste to its MRF providers in 2018/19. It is estimated however that 3,473 tonnes of this will not be processed because of contamination so this third budget review is based on a total tonnage of 113,866. The cost of processing the contaminated tonnage is included in the residual waste budgets discussed above. Compared with the second review which was based on a tonnage of 120,447 expenditure on transporting and processing 2018/19 mixed dry recyclable waste is estimated to decrease by £0.445m to £7.301m.

Table 3	2017/18	2018/19	2018/19	Change Tonnes	Change %
	Actual Tonnes	Budget Tonnes	Forecast Tonnes		
Barnet	27,096	29,457	27,634	-1,823	-6.19
Camden	18,754	24,834	20,517	-4,317	-17.38
Enfield	0	0	0	+0	+0.00
Hackney	17,311	17,578	17,335	-243	-1.38
Haringey	16,581	16,829	16,849	+20	+0.12
Islington	14,070	14,536	14,515	-21	-0.14
Waltham Forest	17,186	18,185	17,016	-1,169	-6.43
Total	110,998	121,419	113,866	-7,553	-6.22

2.5.2. Latest Borough estimates for compostable waste total 49,045 tonnes compared with 51,802 reported in the second review. There is a reduction in the advised food waste tonnage primarily arising from Barnet's decision to cease collecting food waste. The overall reduction in tonnage has been partially offset by an increase in green waste. Consequently, expenditure on the composting service is forecast to be £0.031m less than forecast in the second review.

Table 4	2017/18	2018/19	2018/19	Change Tonnes	Change %
	Actual Tonnes	Budget Tonnes	Forecast Tonnes		
Barnet	19,375	20,017	17,470	-2,547	-12.72
Camden	3,943	4,674	4,464	-210	-4.49
Enfield	0	0	0	+0	+0.00
Hackney	6,869	6,660	6,950	+290	+4.35
Haringey	6,820	5,230	6,893	+1,663	+31.80
Islington	4,092	4,548	4,548	+0	+0.00
Waltham Forest	9,004	9,600	8,720	-880	-9.17
Total	50,103	50,729	49,045	-1,684	-3.32

2.6. Transfer stations and Other sites (+£0.061m)

2.6.1. The Authority has recently been invoiced by LB Islington for the first three quarters of the year for its share of the operating costs at Hornsey Street. These were higher than budgeted and the forecast has been increased to reflect this.

2.7. Corporate and Other Support Services: (-£0.366m)

2.7.1. The costs incurred in supporting the Authority's activities have been reviewed and the saving reflects staff vacancies, reductions to external support requirements and recycling initiatives.

2.8. Revenue Funding – Capital Programme: (- £0.178m)

2.8.1. This budget provides for the revenue cost of funding the Authority's capital programme. The savings arise because the Authority has been able to defer the need to borrow to fund the capital programme due to the timing of North London Heat & Power Project costs as well as having sufficient cash balances available to cover these costs in the short term.

2.9. Reuse and Recycling Centres (RRCs): (+ £0.127m)

2.9.1. This budget captures the operating costs of the RRCs, the costs and incomes arising from the transport and treatment of recyclable material and an element of staffing costs. Compared with the second review the third review allows for a net increase of £0.127m, based on expenditure and income thus far in 2018/19. This is largely due to an increase in the cost of transporting and treating recyclable waste compared to budget. These costs are being reviewed with LondonEnergy to better understand the increases and the effects in future years.

2.10. Income from Sale of Recyclates: (-£0.097m)

2.10.1. As discussed in paragraph 2.5.1, boroughs have informed the Authority that they expect to deliver 113,866 saleable tonnes of mixed dry-recyclates in 2018/19. This is 6,581 tonnes less than reflected in the second review. The Authority's share of the prices achieved in the market by the Authority's MRF contractors averaged £23.70 per tonne in 2017/18 but prices achieved in the first quarter of 2018/19 averaged £7.65. The reduction reflects the difficult market conditions largely resulting from import restrictions imposed by China and other Far East nations. There is however, evidence indicating that prices are picking up. This is reflected in the third review which allows for an average of £14.20 per tonne. Based on the tonnage and price forecasts, income is forecast to be £1.616m in 2018/19. There is also a small income reduction of £0.039m arising from 2017/18. Overall income is expected to be £0.097m greater than included in the second review.

2.11. Charges to Boroughs for Non-Household Waste: (- £0.006m)

2.11.1. In the light of borough tonnage declarations, non-household residual waste is currently forecast to be 95,653 tonnes, i.e. an increase of 297 tonnes compared with the second review figure of 95,356 tonnes. The declared 11,173 tonnes of recyclable waste represents a decrease of 1,001 tonnes compared with the second review figure of 12,174 tonnes. Based on the declarations it is estimated that income will be in line with the second review at £8.600m in 2018/19. Boroughs make on-account payments to the Authority during the year based on the original estimate. Any additional sums due or refunds are determined as part of the 2018/19 final accounts process. An analysis by borough is provided in table A4 in Appendix A. The table indicates that Haringey, Islington and Waltham Forest could receive a refund from the Authority; all other boroughs may have to make an additional payment.

2.12. Charges to Boroughs for Chargeable Household Waste: (- £0.005m)

2.12.1. The latest declarations by the boroughs indicate a small increase in residual tonnage and an increase in recyclable tonnages compared with the second review. Estimated charges are shown in table A5 in Appendix A. Hackney, Haringey and Islington could receive a refund and Barnet, and Camden could be required to make a small additional payment to the Authority.

2.13. Balances at 31 March 2019

2.13.1. The menu price based levy requires the Authority to apportion all of its costs to the boroughs based on the types of waste and the tonnage delivered by each borough and to hold borough specific balances. A positive balance for a borough can be used to support a future year's levy but if negative will be recovered through an additional share in the following year's levy, equal to the borough's balance.

2.13.2. Tables A2 and A3 in Appendix A show how in-year levy balances might be apportioned (based on current forecast) between the boroughs and used to reduce the levy when the Authority determines its 2019/20 levy in February 2019.

2.14. Overview

2.14.1. Allowing for the factors outlined above, the total net expenditure in 2018/19 for the Authority is estimated to be £66.293m. This represents a decrease of £1.115m compared with the second budget

review in October. Taking into account an increase in non-household and household charges since October of £0.011m, the net revenue surplus at 31 March 2019 is currently forecast to be £4.519m, i.e. an increase of £1.126m since the second review.

3. 2019/20 BUDGET FORECAST

- 3.1. At the Authority meeting in February 2018, Members were provided with an early forecast of the budget and resource requirements for 2019/20. This indicated a net budget requirement of £69.212m. The latest forecast has increased the estimate for 2019/20 by £1.954m to £71.166m. This is £4.414m (6.61 %) greater than the 2018/19 budget. Part of the reason for the increase is the interest on borrowing required to fund the North London Heat and power project. If this was excluded (for a year-on year comparison with a like-for-like basis) the increase would be 4.46%. The changes from the 2017/18 budget are discussed in section 5 below.
- 3.2. In setting the levy for 2018/19, no balances were forecast as being available to support the 2019/20 budget and levy. Taking this into account, the levy was forecast to increase by 20.88% in 2019/20. Since then, revenue balances at 31 March 2018 improved by £3.943m. In addition, reviews of the 2018/19 budget reveal that revenue balances at 31 March 2019 could increase by a further £0.576m to £4.519m. The balance available is lower than it has been in previous years. The fact that lower balances are available to reduce the levy leads to a higher increase in the headline levy.
- 3.3. The projected year on year change to the levy and charges is summarised in table 5:

Table 5	2018/19	2019/20	Variance	Variance
	Budget	Forecast		
	£'000	£'000	£'000	%
Charges - non-household	8,510	9,206	696	8.18
Charges - household	1,712	1,867	155	9.05
Levy	48,511	55,574	7,063	14.56
Total	58,733	66,647	7,914	13.47

- 3.4. As per table 5 above, there is a forecast increase in the headline levy of 14.56%. Although as noted above the Authority's net budget requirement is forecast to increase in 2019/20 by £4.414m (6.61%) compared to the 2018/19 budget, the lower value of balances available compared with 2018/19, results in a larger forecast levy increase.

4. 2019/20 BUDGET FORECAST ASSUMPTIONS

4.1. The Authority's full budget forecast is included at table B1 in Appendix B and include the following factors: -

4.2. Inflation

4.2.1. The majority of the Authority's contracts are linked to changes in the Retail Price Index (RPI) with the most significant of these linked to the December Index. The summary of independent forecasts published by HM Treasury in October 2018 puts the December 2018 annual RPI increase at 3.4% and the budget forecast currently reflects this level of increase in the relevant costs plus a further 3.0% inflation increase in December 2019. Other categories of expenditure have been increased by 3.0%. Inflation assumptions will be reviewed and updated for the February budget and levy meeting.

4.3. Transport and Disposal

4.3.1. The 2019/20 transport and disposal budget forecast has been based upon a residual waste stream of 590,842 tonnes, i.e. a net increase of 4,544 tonnes over the 2018/19 forecast outturn. The increase is based on a 1% growth in the total waste stream. It also reflects information on service changes and other assumptions provided by boroughs. The tonnage forecast allows for a reduction of 1,849 tonnes to reflect the boroughs' planned increase in recycling and composting over the coming year. In accordance with the Inter Authority Agreement, the Authority will work with the boroughs to calculate the tonnage forecasts that will inform the 2019/20 budget and levy proposals.

4.3.2. The overall increase in this budget of £2.294m is due to a number of factors:

4.3.2.1. A forecast increase in overall residual waste tonnage and a change in the relative tonnages expected to be delivered to Edmonton and the Hendon transfer station.

4.3.2.2. A decrease (compared to the 2018/19 budget) in the estimated amount of waste transferred from Hendon for processing at the Edmonton facility.

4.3.2.3. Estimated RPI price increase of 3.2% from 1 January 2019 and a further 3.0% from 1 January 2020.

4.3.2.4. A forecast decrease in the anticipated electricity price achieved in 2019, based on information provided by LEL.

4.4. Landfill Tax

4.4.1. The Government have advised that the standard rate of landfill tax will rise from £88.95 to £91.35 per tonne on 1 April 2019 and to £94.15 on 1 April 2020.

4.5. Biodegradable and MRF Services

4.5.1. After taking account of the Authority's estimate of the tonnage delivered but which cannot be processed due to contamination, Borough officers have indicated that they will require treatment capacity for 117,109 tonnes of dry recyclable material in 2018/19, an increase of 3,243 tonnes from the latest forecast for 2018/19.

4.5.2. The Authority's current MRF contracts expire in December 2019. For the purposes of this report, Authority officers have made certain assumptions about the prices contained in the new contract(s) that will come into effect in the final quarter of 2019/20.

4.5.3. The budget forecast reflects the intention of the constituent boroughs to deliver 47,603 tonnes of organic waste to the Authority in 2018/19. Compared with the latest forecast for 2018/19 this represents a reduction of 1,442 tonnes and is primarily due to the full year effect of the decision by Barnet to cease food waste collection in 2018.

4.6. Waste Prevention Programme - New Initiatives

4.6.1. 2019/20 is the final year of the current two-year programme approved by the Authority in February 2018.

4.7. Recycling Initiatives

4.7.1. The Authority has the power to pay third party re-use and recycling credits. The budget forecast includes a provision of £0.212m for these payments and £0.062m to support the Real Nappy Campaign.

4.8. North London Heat & Power Project

4.8.1. The budget forecast includes the ongoing feasibility and design costs for the North London Heat and Power Project that cannot be capitalised. All costs that can be capitalised will be funded by borrowing and the cost of borrowing is included in the Revenue Funding of the Capital Programme (paragraph 4.9)

4.9. Revenue Funding of the Capital Programme

4.9.1. The budget forecast provides for the financing costs of:

4.9.1.1. The Authority's investment in LondonEnergy Ltd

- 4.9.1.2. Pinkham Way
- 4.9.1.3. RRC site at Western Road
- 4.9.1.4. Lease of laydown area and preparatory works at the EcoPark, including the diversion of the Angel and Chingford Sewers to facilitate construction of the new Resource Recovery Facility and Energy Recovery Facility.
- 4.9.1.5. The possible acquisition of an additional RRC site and the refurbishment of other RRC sites

4.9.2. The Authority also makes a Minimum Revenue Provision (MRP). This represents the minimum amount that must be set aside in the Authority's revenue account each year, to repay the borrowing necessary to finance the asset acquisitions listed above.

4.10. Reuse and Recycling Centres

4.10.1. The budget provides for the operation of seven Re-use and Recycling Centres at a cost of £4.828m. A reduction in the cost of residual waste is offset by increased recycling and additional operational costs. As noted in para 2.9.1, RRC costs are being reviewed with LondonEnergy to better understand the increases and the effects in future years. The amounts charged to the relevant boroughs through the 2018/19 levy will also allow for the change in balances that arose from the closure of the 2017/18 accounts and forecast changes in balances from 2018/19. An analysis by borough of these costs is provided in table B2 in Appendix B

4.11. Income from the Sale of Recyclates

4.11.1. In view of recent sale prices and the possible new contractual arrangements that will take effect in December 2019, the 2019/20 budget forecast includes assumptions about both the current and new arrangements and is based on an average per tonne income of £19.61

4.12. Non-Household Waste Charges

- 4.12.1. Based upon estimates provided by the boroughs the Authority is expecting to receive 106,947 tonnes in 2019/20 comprising 94,810 tonnes of residual waste, 10,506 tonnes of dry recyclable waste and 1,631 tonnes of food waste.
- 4.12.2. The Authority has estimated charges for the treatment of such waste to be £90.12 per tonne for residual waste, £58.87 for dry-recyclable waste and £26.66 for food waste. The charge for dry recyclable

waste is inclusive of the income the Authority receives through the income sharing arrangements with its MRF providers.

4.12.3. Based on the advised tonnages the estimated cost to the boroughs is £8.545m for residual waste, £0.618m for dry recyclable waste and £0.043m for food waste. This is analysed by borough in table C4 in appendix C.

4.13. Chargeable Household Waste

4.13.1. Boroughs have advised the Authority that they will collect 22,418 tonnes of chargeable household waste comprising 18,684 tonnes of residual waste, 2,596 tonnes of dry recyclable waste and 1,138 tonnes of food waste.

4.13.2. The Authority has calculated the estimated charges for the treatment of chargeable household waste as £90.12 for residual waste, £58.87 for dry-recyclable waste and £26.66 for food waste. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with its MRF providers.

4.13.3. Based on the advised tonnages the estimated cost to the boroughs is £1.684m for residual waste, £0.153m for dry recyclable waste and £0.030m for food waste. The cost is analysed by borough in table B5 in Appendix B.

4.14. Efficiency Savings and Other Cost Reductions

4.14.1. Members will be aware that given the demand-led nature of the service provided by the Authority to the constituent boroughs and the long-term contracts that it has for the majority of these services, that the scope to make savings is limited. Despite these limitations, the officers are reviewing costs to identify savings within the budget and medium term forecast.

4.15. Contingency

4.15.1. There is a high degree of uncertainty about the scale of a number of budget pressures in the coming year. This is particularly the case for the NLHPP budget. It is proposed that a contingency of £1m be reserved for this budget and related matters in addition to a 2% operational base contingency provision of £1.376m. This is consistent with previous years. This budget cannot be used without further Authority approval

5. LEVY APPORTIONMENT ARRANGEMENTS

5.1. All boroughs formally agreed to adopt a menu price based levy for 2016/17 onwards

- 5.2. Table 3 on the following page, summarises the estimated levy impact for each council (further details of the calculation for 2019/20 can be found in tables B2 and B3 in Appendix B):

Table 6	2018/19 Levy			2019/20 Forecast Levy			Total estimated levy change (Column 6 minus Column 3)	
	Base	RRC	Total	Base	RRC	Total		
	(1)	(2)	(3)	(4)	(5)	(6)		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	%
Barnet	9,859	1,180	11,039	10,476	1,319	11,795	756	6.85
Camden	4,611	551	5,162	5,176	428	5,604	442	8.56
Enfield	6,485	32	6,517	7,526	42	7,568	1,051	16.13
Hackney	6,500	265	6,765	6,419	270	6,689	(76)	(1.12)
Haringey	5,527	228	5,755	7,583	739	8,322	2,567	44.60
Islington	5,014	780	5,794	5,337	815	6,152	358	6.18
Waltham Forest	6,418	1,061	7,479	7,892	1,552	9,444	1,965	26.27
Total	44,414	4,097	48,511	50,409	5,165	55,574	7,063	14.56

- 5.3. The increase in the levy is in part driven by an increase in the net expenditure requirement (6.61%) and a lower availability of balances arising in year.

6. MEDIUM TERM BUDGET FORECAST FOR 2020/21 TO 2022/23

- 6.1. Assuming that no balances are available to support budgets for these years, net expenditure and levies are forecast as follows:

Table 7	Net Expenditure	Base Levy	RRC Levy	Total	Increase
	£'000	£'000	£'000	£'000	%
2020/21	72,470	55,966	5,100	61,066	9.88
2021/22	75,466	58,382	5,223	63,605	4.16
2022/23	93,922	73,185	5,349	78,534	23.47

7. CONCLUSION

- 7.1. This third review indicates that the 2018/19 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year and balances at 31 March 2019 are likely to be £4.519m higher than was assumed when the budget was set in February 2018. There is no certainty that any further balances will emerge in 2018/19 and the forecast levy for 2020/21 to 2022/23 includes no allowance for them. Officers are however reviewing costs to identify opportunities to reduce costs and will keep Borough Directors of Finance informed of progress.

- 7.2. In February it will be necessary for Members to take decisions to ensure that the 2019/20 budget is sufficient to meet the Authority's statutory obligations in the year ahead. To assist with this process, the Member Finance Working Group will meet in January 2019 to review the assumptions underpinning the 2019/20 budget forecast and to consider levy options. The outcome from this review together with up-to-date advice on the Authority's budget and resource requirements for 2019/20 will be reported to the budget and levy setting meeting in February.

8. COMMENTS OF THE LEGAL ADVISER

- 8.1. The Authority may in accordance with Regulation 3(1) of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006, issue levies on its constituent councils to meet all liabilities falling to be discharged by it for which no provision is otherwise made.
- 8.2. The amount to be levied by the Authority in respect of any financial year from each of its constituent councils is determined in accordance with Regulation 4 by apportioning the total amount to be levied either in such proportions as all the constituent councils may agree or in absence of such agreement, by a combination of:
- 8.2.1. apportioning costs in proportion to the tonnage of household waste delivered by each of council; and
- 8.2.2. for non-household waste and other costs, apportioning costs on the basis of the council tax base.
- 8.3. The constituent councils have agreed that alternative levy apportionment arrangements will apply as set out in the Inter Authority Agreement. This sufficiently meets the requirements of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006

8.4. List of documents used:

Report to the Authority 8 February 2018 – Revenue Budget and Levy 2018/19

Report to the Authority 21 June 2018 – 2017/18 Revenue and Capital Budgets Final Outturn and 2018/19 First Budget Review

Report to the Authority 4 October 2018 – 2018/19 Second Budget Review

2018/19 budgetary control and 2019/20 budget working papers

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APPENDIX A

FINANCIAL TABLES TO SUPPORT THE REPORT

Table A1 Shows the Variance Between the Second & Third Review

Table A1	2018/19 Budget	2018/19 Second Review	2018/19 Third Review	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Main Waste Disposal Contract (ex RRC Waste)	35,457	35,328	35,162	(166)
Landfill Tax	1,822	1,502	1,497	(5)
Composting Services	2,546	1,850	1,819	(31)
MRF Services	7,310	7,746	7,301	(445)
Transfer Stations and Other Sites	1,520	1,535	1,596	61
Corporate and other Support Service Costs	2,836	2,827	2,461	(366)
Strategy and Services Team	522	457	447	(10)
Waste Reduction Programme – New Initiatives	480	480	480	0
Joint Communications Initiative	305	305	305	0
Recycling Initiatives	235	235	235	0
North London heat and Power Project	2,500	2,896	2,896	0
Revenue Funding – Capital Programme	7,026	7,026	6,848	(178)
	62,559	62,187	61,047	(1,140)
Reuse and Recycling Centres				
Residual Waste	1,102	901	894	(7)
Landfill Tax	162	122	122	0
Operating Costs	3,332	3,545	3,679	134
	4,596	4,568	4,695	127
Total Expenditure	67,155	66,755	65,742	(1,013)
Income				
Rents	(115)	(115)	(115)	0
Sale of Recyclates	(2,537)	(1,481)	(1,578)	(97)
Other Income	0	0	(5)	(5)
Interest on Balances	(40)	(40)	(40)	0
	(2,692)	(1,636)	(1,738)	(102)
Net Expenditure	64,463	65,119	64,004	(1,115)
Contingency	2,289	2,289	2,289	0
Total Net Expenditure	66,752	67,408	66,293	(1,115)
Financed By				
Use of Balances	(8,019)	(11,962)	(11,962)	0
Charges to Boroughs (Non-household waste)	(8,510)	(8,594)	(8,600)	(6)
Charges to Boroughs (Chargeable Household Waste)	(1,712)	(1,734)	(1,739)	(5)
2017/18 Levy - Base Element	(44,414)	(44,414)	(44,414)	0
- HWRC Element	(4,097)	(4,097)	(4,097)	0
Total Levy	(48,511)	(48,511)	(48,511)	0
Total Resources Available	(66,752)	(70,801)	(70,812)	(11)
Estimated Additional Revenue Balances at 31 March 2019	0	(3,393)	(4,519)	(1,126)

Re-use and Recycling Centre (RRCs) Balances at 31 March 2019

Under the menu price based levy, the net costs of operating each RRC is attributed to boroughs in accordance with a visitor survey. Under or over spends continue to be attributable to individual sites and are carried forward to the levy calculation in the following year so the net cost to each borough in any year also reflects the changes in its balance position.

In setting the budget and levy for 2018/19, the Authority estimated that it would have balances of £0.356m to offset the cost of RRCs in 2018/19. The 2017/18 outturn produced balances at 31 March 2016 of £0.220m, a decrease of £0.136m.

Table A2 below provides a summary of the current financial position for each borough:

Table A2	Change in RRC Balances at 1 April 2018 (As reported in June)	Total Operating Costs – 2018/19 Original Budget	Total Operating Costs - 2018/19 Third Budget Review	Change in 2018/19 Total Operating Costs	Estimated RRC Balances at 31 March 2019 (Column 1 plus 4)
	£'000	£'000	£'000	£'000	£'000
Barnet	75	1,180	1,175	(5)	70
Camden	(31)	551	509	(42)	(73)
Enfield*	4	32	34	2	6
Hackney	9	265	281	16	25
Haringey	0	228	294	66	66
Islington	19	779	796	17	36
Waltham Forest	60	1,061	1,229	168	228
Total	136	4,096	4,318	222	358

* The Authority does not manage Enfield's RRC; the cost of disposing of this site's residual waste is included in Enfield's base levy.

Subject to final review in February, RRC balances of £0.358m will be taken into account in calculating the RRC element of the 2019/20 levy.

The 2019/20 RRC portion of the levy will be set using the outcome of the 2018 visitor survey.

Base Levy Balances at 31 March 2019

The menu price based levy requires the authority to attribute all of its costs to the boroughs and to hold borough specific balances. A positive balance for a borough can be used to support a future year's levy but if negative will be recovered through an addition to the levy. Table A3 sets out the forecast balance position excluding RRCs. It should be noted the costs in columns 2 and 3 are those that are attributable to the levy; they do not include the costs of processing non-household and chargeable household waste. The 2018/19 levy included estimated balances of £7.663m which enabled the Authority to set a levy of £44.414m. Since the levy is fixed for the year, the additional balances arising from the 2017/18 outturn feed into the estimated balance at 31 March 2019 and can be taken into account together with any in-year savings when the Authority determines its 2019/20 levy.

Table A3	Additional 2018/19 balance at Budget 1 April 2018 (reported In June)	2018/19 Levy Costs - Third Budget Review	2018/19 Levy Costs - Third Budget Review	Forecast Change in 2018/19 Levy Costs	Estimated Balance at 31 March 2019 (Column 1 plus 4)
	1	2	3	4	
	£'000	£'000	£'000	£'000	£'000
Barnet	(901)	9,859	9,760	(99)	(1,000)
Camden	(624)	4,611	4,427	(184)	(808)
Enfield	(488)	6,485	6,599	114	(374)
Hackney	(632)	6,500	5,983	(517)	(1,149)
Haringey	(463)	5,527	5,596	69	(394)
Islington	(532)	5,014	4,832	(182)	(714)
Waltham Forest	(439)	6,418	6,419	1	(438)
Total	(4,079)	44,414	43,616	(798)	(4,877)

Charges to Boroughs for Non-Household Waste:

Although charges for non-household waste must be separate from the levy, the calculation methodology for these charges is set out in the provisions of the menu price based levy.

Forecast charges to boroughs for the disposal of non-household waste in 2018/19 compared with the original budget assumptions are shown in the table below:

Table A4	2018/19 Original Estimate £'000	2018/19 Third Review £'000	Estimated Variance £'000
Barnet*	947	1,014	67
Camden*	2,191	2,236	45
Enfield	771	803	32
Hackney*	1,752	1,774	22
Haringey *	316	280	(36)
Islington *	2,394	2,389	(5)
Waltham Forest	139	104	(35)
Total	8,510	8,600	90

* Including income from non-household recyclable wastes.

Charges to Boroughs for Chargeable Household Waste:

Forecast charges to Boroughs for the disposal of Chargeable household waste in 2018/19 compared with the original budget assumptions are shown in the table below:

Table A5	2018/19 Original Estimate £'000	2018/19 Third Review £'000	Estimated Variance £'000
Barnet*	189	190	1
Camden*	383	466	83
Enfield	119	119	0
Hackney*	513	508	(5)
Haringey *	233	230	(3)
Islington *	275	226	(49)
Waltham Forest	0	0	0
Total	1,712	1,739	27

* Including income from non-household recyclable wastes.

APPENDIX B

Calculations Supporting the Forecast Budget and Levy for 2019/20

Table B1 below provides a summary of the 2019/20 budget forecast

Table B1	2018/19 Budget £'000	2019/20 Budget Forecast £'000	Variance £'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	35,457	37,751	2,294
Landfill Tax	1,822	1,585	(237)
Biodegradable Waste Services	2,546	2,011	(535)
MRF Services	7,310	8,039	729
Transfer Stations and Other Sites	1,520	1,611	91
Corporate and other Support Service Costs	2,836	2,816	(20)
Strategy and Services Team	522	531	9
Waste Prevention Programme	480	500	20
Joint Communications Initiative	305	0	(305)
Recycling Initiatives	235	242	7
North London Heat and Power Project	2,500	2,563	63
Revenue Funding – Capital Programme	7,026	8,768	1,742
	62,559	66,417	3,858
Reuse and Recycling Centres			
Residual Waste	1,102	922	(180)
Landfill Tax	162	126	(36)
Operational Costs	3,332	3,780	448
	4,596	4,828	232
Total Expenditure	67,155	71,245	4,090
Income			
Rents	(115)	(119)	(4)
Sale of Recyclates	(2,537)	(2,296)	241
Interest on Balances	(40)	(40)	0
	(2,692)	(2,455)	237
Net Expenditure	64,463	68,790	4,327
Contingency	2,289	2,376	87
Total Net Expenditure	66,752	71,166	4,414
Financed By			
Use of Balances	(8,019)	(4,519)	3,500
Charges to Boroughs (Non-household waste)	(8,510)	(9,206)	(696)
Charges to Boroughs (Chargeable Household Waste)	(1,712)	(1,867)	(155)
Levy - Base Element	(44,414)	(50,409)	(5,995)
- RRC Element	(4,097)	(5,165)	(1,068)
Total Levy	(48,511)	(55,574)	(7,063)
Total Resources Available	(66,752)	(71,166)	(4,414)
Estimated Revenue Balances at 31 March	0	0	0

Reuse and Recycling Centre Levy

The amounts charged to the relevant boroughs through the 2019/20 levy allow for the additional balances that arose from the closure of the 2017/18 accounts and forecast additional balances from 2018/19.

Table B2	Forecast balances at 1 April 2019 £'000	2019/20 Estimated costs £'000	2019/20 Estimated Levy £'000
Barnet	70	1,250	1,320
Camden	(73)	502	429
Enfield	6	36	42
Hackney	25	245	270
Haringey	66	672	738
Islington	36	779	815
W. Forest	228	1,323	1,551
Total	358	4,807	5,165

Base Levy

The amounts charged to the relevant boroughs through the 2019/20 base levy allow for the additional balances that arose from the closure of the 2017/18 accounts and forecast additional balances from 2018/19.

Table B3	Forecast balances at 1 April 2019 £'000	2019/20 Estimated Levy Requirement £'000	2019/20 Estimated Levy £'000
Barnet	(1,000)	11,476	10,476
Camden	(808)	5,983	5,175
Enfield	(374)	7,900	7,526
Hackney	(1,149)	7,568	6,419
Haringey	(394)	7,978	7,584
Islington	(714)	6,052	5,338
W. Forest	(438)	8,329	7,891
Total	(4,877)	55,286	50,409

Non-household Waste Charges

The cost to boroughs in 2019/20 is estimated to be:

Table B4	2019/20 Estimated Tonnes	2019/20 Estimated Cost £'000
Barnet*	12,600	1,117
Camden*	27,930	2,344
Enfield	9,647	869
Hackney*	22,670	1,905
Haringey *	3,208	276
Islington *	29,645	2,582
Waltham Forest	1,247	113
Total	106,947	9,206

* Including tonnages and income from non-household recyclable wastes.

The final charges will be calculated as part of the 2018/19 final accounts process and reported to the Authority in June 2019. Any under or over payment by boroughs will be collected from or repaid to boroughs at the conclusion of the final accounts process.

Chargeable Household Waste

The cost to boroughs in 2019/20 is estimated to be:

Table B5	2019/20 Estimated Tonnes	2019/20 Estimated Cost £'000
Barnet	2,280	206
Camden	5,784	501
Enfield	1,431	129
Hackney	6,660	544
Haringey	3,089	246
Islington	3,174	241
Waltham Forest *	0	0
Total	22,418	1,867

* Waltham Forest has indicated that it does not collect such waste.

Arrangements for the settling of over or under payments by the boroughs are the same as for non-household waste.

REPORT ENDS