

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: 2019/20 BUDGET UPDATE

REPORT OF: THE FINANCIAL ADVISER

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 2 DECEMBER 2019

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 £5.250m at 31 March 2020, i.e. an increase of £1.389m compared with the October budget update.

A bottom-up assessment of the budget and resource requirements for 2020/21 indicates that on a like-for-like basis, the net budget requirement is £71.314m, an increase of 2.60%.

Balances forecast to be available at 31 March 2020 that might be used to support the 2020/21 levy are forecast to be £5.250m. Taking these balances into account, the total levy for 2020/21 is currently forecast to be £55.061m consisting of a base element of £50.087m and a Reuse and Recycling Centre (RRC) element of £4.974m. This represents an increase of 3.53% on 2019/20.

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 2020/21 will be reported to the budget and levy setting meeting in February 2020. Borough Finance Directors were briefed on the possible contents of this paper at their meeting on 19 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.

RECOMMENDATIONS:

The Authority is recommended to:

- A. Note this review of the 2019/20 revenue budget.
- B. Note the current assessment of the budget and resource requirements for 2020/21 and the factors that could affect the level of the 2020/21 levy.
- C. Note the issues that will need to be addressed in setting the budget and levy for 2020/21 at the Authority meeting on 13 February 2020.

SIGNED: Financial Adviser

DATE: 20 November 2019

1. INTRODUCTION

- 1.1. This report contains the third budget review for 2019/20. It also sets out the current assessment of the levy requirement for 2020/21, the anticipated levy arrangements based on that current assessment, and a note of the issues to be addressed at the Authority meeting in February 2020 when the levy will be set.
- 1.2. Tables detailing the 2019/20 forecast outturn and 2020/21 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 2019/20 REVENUE BUDGET

- 2.1. At its meeting on 7 February 2019 the Authority agreed a budget of £69.504m to be financed by using balances of £5.377m, charges to boroughs for non-household waste and chargeable household waste of £9.111m and £1.834m respectively, and a levy of £53.182m.
- 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 2018/19	(2.844)
Residual Waste Treatment Contracts	0.057
Electricity Income Claim	(0.937)
Landfill Tax	(0.026)
Organic and dry recyclable waste	0.153
Resuse and Recycling Centres	0.219
Slippage from 2018/19 of NLHPP costs	0.302
Revenue Funding - Capital Programme	(1.901)
Deterioration in sales prices of recyclable material	0.328
Decrease in chargeable waste income	0.705
Other	0.083
Total	<u>(3.861)</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 2020 by a further £1.389m to £5.250m. An analysis of the 2019/20 budget and forecast outturn is shown in Table A1 in appendix A. Tables A2 to A4 contain the latest tonnage forecasts for the current year, Tables A5 and A6 show the impact on balances held by the Authority on behalf of the boroughs and tables A7 and A8 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: (- £0.195m)

- 2.4.1. The 2019/20 budget was based on tonnage data to November 2018, 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 2019 data and after making certain assumptions about growth in the remainder of the year, 2019/20 forecast residual tonnage compared with budget for each borough is summarised in table A2 in appendix A. These figures indicate a small increase in total residual tonnage delivered by boroughs compared to budget and a small increase compared to the forecast presented to the October Authority meeting. Within this overall picture, there are 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 2019/20 will be reflected in the forecast balances at 31 March 2020 that could be available to support the levy for each borough in 2020/21.
- 2.4.3. Also impacting on the Authority's costs are changes in the proportion of the total tonnage delivered by the boroughs to Hendon and Edmonton and the tonnes delivered to Hendon that LondonEnergy Ltd (LEL) is able to transport to Edmonton for processing. Compared to the October update the forecast for tonnage delivered to Hendon has increased by some 1,400 tonnes. There is no change in the forecast for tonnes transported from Hendon to Edmonton. As reported elsewhere on this agenda the Authority has considered with LEL alignment of incentives between the company and the Authority. Consistent with this, the forecast assumes that the gate fee for tonnage that is delivered to Hendon and subsequently transferred to Edmonton will be increased from January 2020. Details of the changes are provided in the LEL Governance report. The financial effect of this decision would be to increase the cost to the Authority in 2019/20 by £0.266m and in 2020/21 by £1.557m. It remains cheaper to treat waste this way than to send it to third party facilities.
- 2.4.4. The contract with 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 sum payable to LEL will be £0.573m less than the amount included in the October budget review. This saving also includes a reduction relating to the 2018 Electricity Income claim which has recently been received.
- 2.4.5. Prices in the Authority's waste contracts including its contract with LEL are linked to changes in the Retail Price Index (RPI). The 2019/20 budget allowed for an increase of 2.9% at the relevant review date (1 January for most LEL prices) for these contracts. Inflation is lower than this, and using HM Treasury's summary of independent forecasts we are now forecasting

a December RPI increase at 2.5%. The February budget review will contain the actual rate of change.

- 2.4.6. 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 £0.067m in 2019/20 compared with the second budget review.

2.5. Organic Waste and MRF Services: (+£0.048m)

- 2.5.1. The Authority is expecting to deliver 114,131 tonnes of dry recyclable waste to its MRF providers in 2019/20. It is estimated however that 2,995 tonnes of this will not be processed because of contamination so this budget update is based on a total tonnage of 111,136. A breakdown of these tonnages by borough can be found in Appendix A at table A3. The cost of processing the contaminated tonnage is included in the residual waste budgets discussed above. Compared with the second review expenditure on transporting and processing mixed dry recyclable waste is estimated to increase by £0.096m to £8.150m.
- 2.5.2. In December new contracts for the treatment and sale of recyclable waste begin. The pricing and other contractual arrangements affecting the Authority's costs and incomes are reflected in this report.
- 2.5.3. Latest Borough estimates for organic waste total 43,303 tonnes compared with 43,917 reported in the October review. An analysis of these tonnages, by borough, is included in Appendix A at Table A4. Expenditure on the composting service is forecast to be £1.810m or £0.048m less than forecast in the October update.

2.6. Corporate and Other Support Services: (-£0.224m)

- 2.6.1. This budget update reflects the possible outcome of the rent review on the Authority's office premises at Berol House, the cost of reconfiguring the office space to provide for co-location between Authority staff and external consultants supporting the NLHPP project, and electrical works to mitigate the impact of future power outages and surges. It also includes the cost of a new van to replace the eleven-year-old vehicle and the trialling of an additional van. The Authority is also planning to increase its establishment to meet the additional demands presented by NLHPP and to increase the impact of waste prevention and communications activities. The NLHPP costs are being capitalised wherever possible. These cost increases have been mitigated by forecast savings in expenditure on non-NLHPP consultants and other external costs.

2.7. North London Heat and Power Project(-£1.137m)

- 2.7.1. A line by line review of the programme forecast for the year to review capitalisation has identified additional costs that are capital in nature. These have been transferred to the capital budget, but the overall programme cost remains unchanged.

2.8. Revenue Funding – Capital Programme: (- £0.052m)

- 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.
- 2.8.2. The Authority has recently been successful with its bid to secure £100m of Public Works Loan Board (PWLB) borrowing at the Local Infrastructure Rate which is gilts +60 basis points. The authority's usual rate is currently gilts +180 basis points. This will represent a significant saving on the £100m in the future, when borrowed. The Authority's policy is to roll the interest cost into the capital cost during the construction period. This does not therefore affect the Authority's net operating expenditure (or the levy) until the assets it is borrowed against, become operational.

2.9. Reuse and Recycling Centres (RRCs): (- £0.067m)

- 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 decrease of £0.067m, based on expenditure and income to date in 2019/20.

2.10. Income from Sale of Recyclates: (+£0.091m)

- 2.10.1. As discussed in paragraph 2.5.1, the Authority is expecting its MRF providers to sell 111,136 tonnes of mixed dry-recyclates in 2019/20. This is 1,190 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 £13.14 per tonne in 2018/19. Prices achieved in the first quarter of 2019/20 averaged £12.38. The reduction reflects the difficult market conditions largely resulting from import restrictions imposed by China and other Far East nations. For the purposes of this update the Authority is forecasting an average of £16.22 for the whole year. This partly reflects an expectation that prices will pick up later in the year. More materially, the Authority will move from taking 50% of income to 80% of income from recyclates under the new contracts which take effect in December.

2.11. Charges to Boroughs for Non-Household Waste: (+ £0.086m)

- 2.11.1. In the light of borough tonnage declarations, non-household residual waste is currently forecast to be 93,931 tonnes, i.e. an increase of 1,853 tonnes compared with the second review figure of 92,078 tonnes. The declared 11,442 tonnes of recyclable waste represents an increase of 161 tonnes compared with the October update figure of 11,281 tonnes. Based on the declarations it is estimated that income will be greater than the October review at £8.607m in 2019/20. 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 2019/20 final

accounts process. An analysis by borough is provided in table A7 in Appendix A. The table indicates that all boroughs could receive a refund from the Authority.

2.12. Charges to Boroughs for Chargeable Household Waste: (+ £0.077m)

2.12.1. The latest declarations by the boroughs indicate a small decrease of 348 tonnes to 17,531 in residual tonnage and a 9 tonne increase in recyclable tonnage to 4,009 compared with the October update. Estimated charges are shown in table A8 in Appendix A. Barnet, Camden, Enfield, Hackney and Haringey could receive a refund and Barnet, and Islington and Waltham Forest could be required to make a small additional payment to the Authority.

2.13. Balances at 31 March 2020

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 A5 and A6 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 2020/21 levy in February 2020.

2.14. Overview

2.14.1. Allowing for the factors outlined above, the total net expenditure in 2019/20 for the Authority is estimated to be £66.230m. This represents an increase of £1.552m compared with the October budget update. Taking into account a decrease in non-household and household charges since October of £0.163m, the net revenue surplus at 31 March 2020 is forecast to be £5.250m, i.e. an decrease of £1.389m since the October review.

3. 2020/21 BUDGET FORECAST

3.1. At the Authority meeting in February 2019, Members were provided with an early forecast of the budget and resource requirements for 2020/21. This indicated an overall levy of £59.133m. The latest forecast has a 2020/21 levy of £55.061m.

3.2. In setting the levy for 2019/20, no balances were forecast as being available to support the 2020/21 budget and levy. Taking this into account, the levy was forecast to increase by 11.19% in 2020/21. Since then, revenue balances at 31 March 2019 improved by £2.844m. In addition, reviews of the 2019/20 budget identified that revenue balances at 31 March 2020 could increase by a further £1.293m to £4.137m.

3.3. The projected year on year change to the levy and charges is summarised in table 2:

Table 2	2019/20 Budget £'000	2020/21 Forecast £'000	Variance £'000	Variance %
Charges - non-household	9,111	9,172	61	0.67
Charges - household	1,834	1,831	(3)	(0.16)
Levy	53,182	55,061	1,879	3.53
Total	64,127	66,064	1,937	3.02

3.4. As per table 2 above, there is a forecast increase in the headline levy of 3.53%. Although as noted above the Authority's net budget requirement is forecast to increase in 2020/21 by £1.810m (2.60%).

4. 2020/21 BUDGET FORECAST ASSUMPTIONS

4.1. The Authority's full budget forecast is included at table B1 in Appendix B and include the factors set out below. Many are demand-driven in that they depend on the volume of waste and contractual cost rates. Where pressures are more discretionary – for example as regards the Authority's corporate costs and waste prevention/communications initiatives (4.6 and 4.7), costs will be reviewed and clear information and options will be provided to Members ahead of budget setting decisions:

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 2019 puts the December 2019 annual RPI increase at 2.5% and the budget forecast currently reflects this level of increase in the relevant costs plus a further 2.8% 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 2020/21 transport and disposal budget forecast has been based upon a residual waste stream of 575,070 tonnes, i.e. a decrease of 9,246 tonnes compared with the 2019/20 forecast outturn. The decrease reflects the Authority's current view of the impact of proposed new collection arrangements in some boroughs. Table B2 in Appendix B provides further detail of the forecast changes in residual waste tonnage that underpins this budget update.

4.3.2. In preparing the 2020/21 levy proposals for consideration at the February 2020 budget setting meeting the Authority will be undertaking extensive consultation with the boroughs with a view to compiling mutually agreed tonnage forecasts that balance the boroughs' aims for waste reduction in

line with Reduction and Reuse Plans (RRPs) with the Authority's need to ensure that it is adequately resourced in 2020/21.

4.3.3. The forecast overall increase in the Authority's costs in 2020/21 compared with the 2019/20 forecast is £1.045m and reflects the following:

- 4.3.3.1. The decrease in forecast residual tonnage discussed above and the impact of the relative proportions of the total tonnage delivered to Hendon and Edmonton.
- 4.3.3.2. The full year cost increase relating to the revised gate fee at Hendon, estimated at £1.557m.
- 4.3.3.3. A decrease in the forecast amount payable to LEL in respect of the Electricity Income Claim, based on estimates that they have provided.
- 4.3.3.4. The full effect of the estimated RPI increase of 2.5% from 1 January 2020 and a further 2.8% from 1 January 2021.

4.4. Landfill Tax

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

4.5. Organic Waste and MRF Services

4.5.1. After taking account of an estimate of the tonnage delivered but which cannot be processed due to contamination, the Authority is forecasting that it will require treatment capacity for 112,680 tonnes of dry recyclable material in 2020/21, an increase of 1,546 tonnes from the latest forecast for 2019/20. Part of this increase results from the additional processing to reduce rejected loads at the Materials Recycling Facilities. A breakdown by borough is provided in table B3 in appendix B

4.5.2. The budget forecast reflects an estimate that the boroughs will deliver 39,336 tonnes of organic waste to the Authority in 2020/21. Compared with the latest forecast for 2019/20 this represents a decrease of 3,967 tonnes. Table B4 in appendix B provides a breakdown of the forecast tonnage by borough.

4.6. Corporate and Other support Service Costs

4.6.1. The Authority is proposing to increase its establishment to meet the additional demands presented by NLHPP and to increase the impact of waste prevention and communications activities. It expects that some new appointments will take place in 2019/20. These cost increases have been mitigated by forecast savings in expenditure on non NLHPP consultants and other external costs.

4.7. Waste Prevention Programme - New Initiatives

4.7.1. 2020/21 is the first year of a proposed new programme. It is planned to consider options in the Members' Recycling Working Group in December. The budget forecast in this report reflects officers' assessment of the resources required to undertake the programme's aims. There is an increase in proposed funding - to reflect the desire to increase the reach and impact of the programme. In addition there is a case for strengthening activity to tackle contamination of recycling, which has been proposed under the Joint Communications Initiative.

4.8. Recycling Initiatives

4.8.1. The Authority has the power to pay third party re-use and recycling credits. The budget forecast includes a provision of £0.245m. This issue is considered in the strategy and services report on the agenda.

4.9. North London Heat & Power Project

4.9.1. The budget forecast includes the ongoing feasibility, design and support 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 interest will be added to project costs during the construction period.

4.10. Revenue Funding of the Capital Programme

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

4.10.1.1. The Authority's investment in LondonEnergy Ltd

4.10.1.2. Pinkham Way

4.10.1.3. Lease of laydown area, part of the EcoPark and the purchase of Deephams Farm Road to support the North London Heat and Power project.

4.10.1.4. The possible refurbishment of RRC sites

4.10.1.5. The possible investment in a waste transfer station

4.10.2. 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.

4.10.3. As mentioned in paragraph 2.8.2, the costs of borrowing for the NLHPP are rolled into the capital cost until the asset comes into use. Therefore, the impact of borrowing for the EcoPark south construction and associated costs will not be budgeted under this heading until completion.

4.11. Reuse and Recycling Centres

4.11.1. The budget provides for the operation of seven Re-use and Recycling Centres at a cost of £4.794m. A reduction in the cost of residual waste is offset by increased recycling and additional operational costs. The amounts charged to the relevant boroughs through the 2020/21 levy will also allow for the change in balances that arose from the closure of the 2018/19 accounts and forecast changes in balances from 2019/20. An analysis by borough of these costs is provided in table B5 in Appendix B

4.12. Income from the Sale of Recyclates

4.12.1. In view of recent sale prices and the new contractual arrangements that will take effect in December 2019, the 2020/21 budget forecast includes assumptions about the new arrangements and is based on an average per tonne income of £20.00

4.13. Non-Household Waste Charges

4.13.1. The Authority is expecting to receive 105,373 tonnes in 2020/21 comprising 93,931 tonnes of residual waste, 369 tonnes of biodegradable waste 9,969 tonnes of dry recyclable waste, 1,093 tonnes of food waste and 11 tonnes of green waste.

4.13.2. The estimated charges per tonne of waste are included in table 3 below. 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 £8.337m for residual waste, £0.026m for Biodegradable waste, £0.029m for food waste and £0.780m for dry recyclable waste. This is analysed by borough in table B8 in appendix B.

Table 3	Price Per tonne £
Residual	88.76
Biodegradable	69.36
Green	49.30
Food	26.49
Mixed Dry Recyclable	78.19

4.14. Chargeable Household Waste

4.14.1. The Authority is expecting to receive 21,541 tonnes of chargeable household waste comprising 17,531 tonnes of residual waste, 2,735 tonnes of dry recyclable waste, 650 tonnes of biodegradable waste, and 622 tonnes of food waste and 3 tonnes of green waste.

4.14.2. The estimated charges per tonne of waste are included in table 3 above. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with its MRF providers.

4.14.3. Based on the advised tonnages the estimated cost to the boroughs is £1.556m for residual waste, £0.045m for Biodegradable waste, £0.017m for food waste and £0.214m for dry recyclable waste. The cost is analysed by borough in table B7 in Appendix B.

4.15. Efficiency Savings and Other Cost Reductions

4.15.1. 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.

4.16. Contingency

4.16.1. There is a high degree of uncertainty about the scale of a number of budget pressures in the coming year. At this stage the budget assumes that contingency is assessed on the same basis as recent years, namely a contingency of £1m be reserved for the NLHPP budget and related matters in addition to a 2% operational base contingency provision of £1.410m. This budget cannot be used without further Authority approval.

4.16.2. The assessment of appropriate contingency will be considered at the Member Finance Working Group in January.

5. LEVY APPORTIONMENT ARRANGEMENTS

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

5.2. Table 4 summarises the estimated levy impact for each council (further details of the calculation for 2020/21 can be found in tables B5 and B6 in Appendix B):

Table 4	2019/20 Levy			2020/21 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	9,138	1,233	10,371	11,048	1,021	12,069	1,698	16.37
Camden	5,165	391	5,556	5,072	659	5,731	175	3.15
Enfield	7,096	39	7,135	6,750	35	6,785	(350)	(4.91)
Hackney	6,741	257	6,998	6,779	242	7,021	23	0.33
Haringey	7,320	699	8,019	7,341	854	8,195	176	2.19
Islington	5,220	766	5,986	5,579	811	6,390	404	6.75
Waltham Forest	7,670	1,447	9,117	7,518	1,352	8,870	(247)	(2.71)
Total	48,350	4,832	53,182	50,087	4,974	55,061	1,879	3.53

5.3. The increase in the levy is in part driven by an increase in the net expenditure requirement (2.60%) and a lower availability of balances arising in year.

6. MEDIUM TERM BUDGET FORECAST FOR 2021/22 TO 2023/24

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

Table 4	Net Expenditure	Base Levy	RRC Levy	Total	Increase
	£'000	£'000	£'000	£'000	%
2021/22	75,533	58,879	4,914	63,793	15.86
2022/23	97,144	76,196	5,037	81,233	27.34
2023/24	100,906	79,193	5,163	84,356	3.84

7. CONCLUSION

7.1. This update indicates that the 2019/20 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year and balances at 31 March 2020 are likely to be £5.250m higher than was assumed when the budget was set in February 2019. There is no certainty that any further balances will emerge in 2019/20 and the forecast levy for 2021/22 to 2023/24 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 2020/21 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 2020 to review the assumptions underpinning the 2020/21 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 2020/21 will be reported to the budget and levy setting meeting in February.

8. EQUALITIES IMPLICATIONS

- 8.1. Budgets and forecasts are considered an allocation of resources. Approval to spend is sought separately by officers. The equalities implications are considered as part of the spending approval.

9. COMMENTS OF THE LEGAL ADVISER

- 9.1. The Legal Adviser has been consulted in the preparation of this report and comments have been incorporated.

List of documents used:

Report to the Authority 7 February 2019 – Revenue Budget and Levy 2019/20

Report to the Authority 21 June 2019 – 2018/19 Revenue and Capital Budgets Final Outturn and 2019/20 Budget Update

Report to the Authority 3 October 2019 – 2019/20 Budget Update

2019/20 budgetary control and 2020/21 budget working papers

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APPENDIX A: FINANCIAL TABLES THAT SUPPORT THE REPORT

Table A1 shows the variance between the October update and the current forecast

Table A1	2019/20 Budget	2019/20 October Forecast	2019/20 Current Forecast	Variance
	£'000	£'000	£'000	£'000
Expenditure				
Main Waste Disposal Contract (ex RRC Waste)	36,961	36,081	35,985	(96)
Landfill Tax	1,568	1,542	1,443	(99)
Composting Services	1,922	1,858	1,810	(48)
MRF Services	7,837	8,054	8,150	96
Transfer Stations and Other Sites	1,681	1,681	1,681	0
Corporate and other Support Service Costs	2,651	2,714	2,490	(224)
Strategy and Services Team	621	641	614	(27)
Waste Reduction Programme – New Initiatives	500	500	511	11
Joint Communications Initiative	83	83	83	0
Recycling Initiatives	239	239	239	0
North London heat and Power Project	1,615	1,917	780	(1,137)
Revenue Funding – Capital Programme	8,930	7,029	6,977	(52)
	64,608	62,339	60,763	(1,576)
Reuse and Recycling Centres				
Residual Waste	935	872	862	(10)
Landfill Tax	127	121	120	(1)
Operating Costs	3,479	3,767	3,711	(56)
	4,541	4,760	4,693	(67)
Total Expenditure	69,149	67,099	65,456	(1,643)
Income				
Rents	(119)	(119)	(119)	0
Sale of Recyclates	(2,221)	(1,893)	(1,802)	91
Other Income	0	0	0	0
Interest on Balances	(40)	(40)	(40)	0
	(2,380)	(2,052)	(1,961)	91
Net Expenditure	66,769	65,047	63,495	(1,552)
Contingency	2,735	2,735	2,735	0
Total Net Expenditure	69,504	67,782	66,230	(1,552)
Financed By				
Use of Balances	(5,377)	(8,221)	(8,221)	0
Charges to Boroughs (Non-household waste)	(9,111)	(8,485)	(8,399)	86
Charges to Boroughs (Chargeable Household Waste)	(1,834)	(1,755)	(1,678)	77
2017/18 Levy - Base Element	(48,350)	(48,350)	(48,350)	0
- HWRC Element	(4,832)	(4,832)	(4,832)	0
Total Levy	(53,182)	(53,182)	(53,182)	0
Total Resources Available	(69,504)	(71,643)	(71,480)	163
Estimated Additional Revenue Balances at 31 March 2020	0	(3,861)	(5,250)	(1,389)

Tonnage Forecasts

The Tonnages in tables A2-A4 have been reviewed based on actual tonnage delivered over the past 12 months. Where officers are aware of planned service changes, these have been included in the forecast. In advance of the next review, borough officers will be consulted further on their own expectations.

Table A2 - 2019/20 residual waste tonnage forecast

	2018/19 Actual Tonnes	2019/20 Budget Tonnes	2019/20 Forecast Tonnes	Change %
Barnet	102,616	100,128	105,562	+5.43
Camden	76,617	77,192	74,674	-3.26
Enfield	90,239	89,372	92,902	+3.95
Hackney	89,608	90,251	89,150	-1.22
Haringey	73,266	74,210	72,845	-1.84
Islington	79,020	79,268	78,446	-1.04
Waltham Forest	71,413	71,104	70,737	-0.52
Total	582,779	581,525	584,316	+0.48

Table A3 - Organic Recycling tonnage forecast

	2018/19 Actual Tonnes	2019/20 Budget Tonnes	2019/20 Forecast Tonnes	Change %
Barnet	16,279	14,000	12,628	-9.80
Camden	4,118	4,208	3,969	-5.68
Enfield	0	0	0	+0.00
Hackney	6,848	6,884	7,196	+4.53
Haringey	5,274	5,896	5,638	-4.38
Islington	4,567	6,335	4,641	-26.74
Waltham Forest	8,981	8,670	9,231	+6.47
Total	46,067	45,993	43,303	-5.85

Table A4 - Mixed Dry Recycling tonnage forecast

	2018/19 Actual Tonnes	2019/20 Budget Tonnes	2019/20 Forecast Tonnes	Change %
Barnet	26,940	29,000	26,576	-8.36
Camden	18,707	20,251	17,904	-11.59
Enfield	0	0	0	+0.00
Hackney	17,481	18,113	18,141	+0.15
Haringey	15,964	15,031	16,712	+11.18
Islington	15,171	14,808	16,070	+8.52
Waltham Forest	15,833	16,096	15,733	-2.26
Total	110,096	113,299	111,136	-1.91

Re-use and Recycling Centre (RRCs) Balances at 31 March 2020

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 overspends 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 2019/20, the Authority estimated that it would have balances owed to it of £0.291m to amend the cost of RRCs in 2019/20. The 2018/19 outturn contained additional balances of £0.043m.

Table A5 below provides a summary of the current financial position for each borough:

Table A5	Change in RRC Balances at 1 April 2019 (As reported in June)	Total Operating Costs – 2019/20 Original Budget	Total Operating Costs - 2019/20 Current Forecast	Change in 2019/20 Total Operating Costs	Estimated RRC Balances at 31 March 2020 (Column 1 plus 4)
	£'000	£'000	£'000	£'000	£'000
Barnet	(13)	1,177	1,092	(85)	(98)
Camden	75	473	522	49	124
Enfield*	0	34	34	0	0
Hackney	(6)	236	239	3	(3)
Haringey	28	638	723	85	113
Islington	(6)	738	768	30	24
Waltham Forest	(35)	1,245	1,300	55	20
Total	43	4,541	4,678	137	180

* 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 £0.180m will be taken into account in calculating the RRC element of the 2020/21 levy.

Base Levy Balances at 31 March 2020

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. The following table 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 2019/20 base levy included estimated balances of £5.668m, which enabled the Authority to set a base levy of £48.350m. Since the levy is fixed for the year, the additional balances arising from the 2018/19 outturn feed into the estimated balance at 31 March 2020 and can

be taken into account together with any in-year savings when the Authority determines its 2020/21 levy.

Table A6	Additional balance at 1 April 2019 (reported In June)	2019/20 Budget Levy Costs	2019/20 Levy Costs - Current Forecast	Forecast Change in 2019/20 Levy Costs	Estimated Balance at 31 March 2020 (Column 1 plus 4)
	1	2	3	4	
	£'000	£'000	£'000	£'000	£'000
Barnet	(339)	10,686	10,571	(115)	(454)
Camden	(457)	5,988	5,478	(510)	(967)
Enfield	(337)	7,605	7,330	(275)	(612)
Hackney	(532)	7,728	7,269	(459)	(991)
Haringey	(412)	7,835	7,434	(401)	(813)
Islington	(361)	6,017	5,693	(324)	(685)
Waltham Forest	(449)	8,159	7,701	(458)	(907)
Total	(2,887)	54,018	51,476	(2,542)	(5,429)

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 2019/20 compared with the original budget assumptions are shown in the table below:

Table A7	2019/20 Budget Estimate	2019/20 Current Forecast	Estimated Variance
	£'000	£'000	£'000
Barnet*	1,044	1,005	(39)
Camden*	2,352	2,097	(255)
Enfield	857	789	(68)
Hackney*	1,880	1,758	(122)
Haringey *	302	243	(59)
Islington *	2,561	2,405	(156)
Waltham Forest	115	102	(13)
Total	9,111	8,399	(712)

* 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 2019/20 compared with the original budget assumptions are shown in the table below:

Table A8	2019/20 Original Estimate £'000	2019/20 Current Forecast £'000	Estimated Variance £'000
Barnet*	203	93	(110)
Camden*	472	450	(22)
Enfield	127	117	(10)
Hackney*	537	515	(22)
Haringey *	238	226	(12)
Islington *	257	262	5
Waltham Forest	0	15	15
Total	1,834	1,678	(156)

APPENDIX B: BUDGET FORECAST TABLES FOR 2020/21

Table B1 shows the variance between the 2019/20 budget and the budget forecast for 2020/21

Table B1	2019/20 Budget	2020/21 Budget Forecast	Variance
	£'000	£'000	£'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	36,961	38,006	1,045
Landfill Tax	1,568	1,501	(67)
Biodegradable Waste Services	1,922	1,693	(229)
MRF Services	7,837	10,017	2,180
Transfer Stations and Other Sites	1,681	1,837	156
Corporate and other Support Service Costs	2,651	3,210	559
Strategy and Services Team	621	623	2
Waste Prevention Programme	500	620	120
Joint Communications Initiative	83	200	117
Recycling Initiatives	239	246	7
North London Heat and Power Project	1,615	1,615	0
Revenue Funding – Capital Programme	8,930	6,987	(1,943)
	64,608	66,555	1,947
Reuse and Recycling Centres			
Residual Waste	935	883	(52)
Landfill Tax	127	123	(4)
Operational Costs	3,479	3,788	309
	4,541	4,794	253
Total Expenditure	69,149	71,349	2,200
Income			
Rents	(119)	(121)	(2)
Sale of Recyclates	(2,221)	(2,254)	(33)
Interest on Balances	(40)	(40)	0
	(2,380)	(2,415)	(35)
Net Expenditure	66,769	68,934	2,165
Contingency	2,735	2,380	(355)
Total Net Expenditure	69,504	71,314	1,810
Financed By			
Use of Balances	(5,377)	(5,250)	127
Charges to Boroughs (Non-household waste)	(9,111)	(9,172)	(61)
Charges to Boroughs (Chargeable Household Waste)	(1,834)	(1,831)	3
Levy - Base Element	(48,350)	(50,087)	(1,737)
- RRC Element	(4,832)	(4,974)	(142)
Total Levy	(53,182)	(55,061)	(1,879)
Total Resources Available	(69,504)	(71,314)	(1,810)
Estimated Revenue Balances at 31 March	0	0	0

Tonnage Forecasts

The Tonnages in tables A2-A4 have been reviewed based on actual tonnage delivered over the past 12 months. Where officers are aware of planned service changes, these have been included in the forecast. In advance of the next review, borough officers will be consulted further on their own expectations.

Table B2 – 2020/21 residual waste tonnage forecast

	2018/19 Actual Tonnes	2019/20 Forecast Tonnes	2020/21 Budget Forecast Tonnes	Change %
Barnet	102,616	105,562	106,638	+1.02
Camden	76,617	74,674	74,490	-0.25
Enfield	90,239	92,902	86,329	-7.08
Hackney	89,608	89,150	86,851	-2.58
Haringey	73,266	72,845	72,238	-0.83
Islington	79,020	78,446	78,400	-0.06
Waltham Forest	71,413	70,737	70,124	-0.87
Total	582,779	584,316	575,070	-1.58

Table B3 - Organic Recycling tonnage forecast

	2018/19 Actual Tonnes	2019/20 Budget Tonnes	2020/21 Forecast Tonnes	Change %
Barnet	16,279	14,000	8,661	-38.14
Camden	4,118	4,208	3,968	-5.70
Enfield	0	0		+0.00
Hackney	6,848	6,884	7,196	+4.53
Haringey	5,274	5,896	5,637	-4.39
Islington	4,567	6,335	4,640	-26.76
Waltham Forest	8,981	8,670	9,231	+6.47
Total	46,067	45,993	39,333	-14.48

Table B4 - Mixed Dry Recycling tonnage forecast

	2018/19 Actual Tonnes	2019/20 Budget Tonnes	2020/21 Forecast Tonnes	Change %
Barnet	26,940	29,000	26,665	-8.05
Camden	18,707	20,251	18,089	-10.68
Enfield	0	0	0	+0.00
Hackney	17,481	18,113	18,145	+0.18
Haringey	15,964	15,031	17,318	+15.22
Islington	15,171	14,808	16,116	+8.83
Waltham Forest	15,833	16,096	16,347	+1.56
Total	110,096	113,299	112,680	-0.55

Reuse and Recycling Centre Levy

The amounts charged to the relevant boroughs through the 2020/21 levy allow for the additional balances that arose from the closure of the 2018/19 accounts and forecast additional balances from 2019/20.

Table B5	Forecast balances at 1 April 2020 £'000	2020/21 Estimated costs £'000	2020/21 Estimated Levy £'000
Barnet	(98)	1,119	1,021
Camden	124	535	659
Enfield	0	35	35
Hackney	(3)	245	242
Haringey	113	741	854
Islington	24	787	811
W. Forest	20	1,332	1,352
Total	180	4,794	4,974

Base Levy

The amounts charged to the relevant boroughs through the 2020/21 base levy allow for the additional balances that arose from the closure of the 2018/19 accounts and forecast additional balances from 2019/20.

Table B6	Forecast balances at 1 April 2020 £'000	2020/21 Estimated Levy Requirement £'000	2020/21 Estimated Levy £'000
Barnet	(454)	11,502	11,048
Camden	(967)	6,039	5,072
Enfield	(612)	7,362	6,750
Hackney	(991)	7,770	6,779
Haringey	(813)	8,154	7,341
Islington	(685)	6,264	5,579
W. Forest	(907)	8,425	7,518
Total	(5,429)	55,516	50,087

Non-household Waste Charges

The cost to boroughs in 2020/21 is estimated to be:

Table B7	2020/21 Estimated Tonnes	2020/21 Estimated Cost £'000
Barnet*	12,335	1,093
Camden*	26,517	2,297
Enfield	9,660	857
Hackney*	22,572	1,922
Haringey *	3,054	267
Islington *	29,988	2,625
Waltham Forest	1,247	111
Total	105,373	9,172

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

The final charges will be calculated as part of the 2019/20 final accounts process and reported to the Authority in June 2020. 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 2020/21 is estimated to be:

Table B8	2020/21 Estimated Tonnes	2020/21 Estimated Cost £'000
Barnet	1,140	101
Camden	5,667	492
Enfield	1,431	127
Hackney	6,783	562
Haringey	2,881	249
Islington	3,455	285
Waltham Forest *	184	16
Total	21,541	1,832

* 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