

NORTH LONDON WASTE AUTHORITY

REPORT TITLE: BUDGET AND LEVY 2024/25

REPORT OF: FINANCIAL ADVISER

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 8 FEBRUARY 2024

SUMMARY OF REPORT:

This report seeks approval of the budget and resource requirements for 2024/25 including the levy and charging arrangements for non-household and chargeable household waste.

The report seeks approval for Prudential Indicators and proposals for the Minimum Revenue Provision in the coming year. In addition, it provides a medium term forecast for future years up to and including 2026/27.

The report seeks approval of NLWA's reserve strategy that enables borough and Authority certainty on new asset maintenance costs for the future.

RECOMMENDATIONS:

The Authority is recommended to:

- A. Satisfy itself that the proposed budget will be sufficient to meet the net expenditure requirements for the year ahead and agree the 2024/25 budget;
- B. Agree to use revenue balance of £8.830m to support the 2024/25 budget;
- C. Agree the levy resource requirement for 2024/25 as laid out in table 1 in paragraph 1.9;
- D. Authorise the Financial Adviser to make the arrangements for collection of the levy and charges for non-household and household waste;
- E. Approve the prudential indicators and the basis for calculating the Minimum Revenue Provision as laid out in sections 6 and 7;
- F. Approve the per tonne charge for non-household and chargeable household residual and recyclable waste as laid out in table 4 in paragraph 2.22;
- G. Approve the recommendation of the reserve policy; and

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H. Note the medium-term budget forecasts for 2025/26 and 2026/27.

SIGNED: Jon Rowney, Financial Adviser

DATE: 29 January 2024

1. INTRODUCTION

- 1.1. At the Authority's meeting on 14 December 2023 Members were provided with a view of the financial position including an assessment of the budget and resource requirements for 2024/25 and the net budget requirement was forecast to be £94.754m. While this is an increase compared to the 2023/24 requirement of £85.071m, it was in line the forecast budget requirements included in previous reports as part of the medium-term forecast.
- 1.2. The December review drew attention to the budget issues that would need to be addressed at this meeting and noted that the Members' Finance Working Group (MFWG) would meet in January. In addition, officers would consult with borough counterparts to review the underpinning budget assumptions.
- 1.3. Since then, officers have consulted with borough counterparts whether to review the tonnage forecasts in detail to be used in the budget. No changes to forecasts were requested, but the forecast has been updated to reflect the slight increase in tonnages seen since the forecast was prepared for the December Authority meeting.
- 1.4. The MFWG met on 25 January to review these assumptions. The Group acknowledged that it was important that the Authority agree a budget that is sufficiently robust and flexible to meet its statutory operational obligations and to ensure that sufficient funding was available to support the capital expenditure.
- 1.5. Officers met with borough Directors of Finance on 18 January and Borough Directors of Environment on 19 January. Consideration was given to the Authority's budget and resource requirements for 2024/25.
- 1.6. The draft budget for 2024/25 contains a net expenditure requirement of £93.876m, a year-on-year increase of 10.3%. The year-on-year increase includes increased costs of waste disposal due to inflation, new Resource Recovery Facility becoming fully operational, Minimum Revenue Provision (MRP) and interest being recognised due to the site coming online, sale of recyclates decreasing due to market demand and mobilising our corporate overheads with large facilities coming into operation compounded by upcoming office rent reviews.
- 1.7. The draft budget for 2024/25 will be used to prioritise opening of the new EcoPark South facilities safely and effectively, running the waste operations in spite of maintaining a 54-year-old energy from waste facility, continuing to bolster the waste prevention programme (which includes grant funding towards local businesses), investing in carbon capture and storage, maintaining and developing our offer for recycling, mobilising our corporate resourcing for the challenges ahead and repaying our capital borrowings.

- 1.8. This will be funded by balances of £8.830m, non-household waste charges of £10.253m, household waste charges of £1.925m and a levy of £72.867m (consisting of a base element of £66.383m and a Re-use and Recycling Centre (RRC) element of £6.484m). The levy for each borough is shown below in table 1.
- 1.9. It should be noted that our balances have been higher than expected between 2021 and 2023. This has arisen because after an increase in household waste during 2020/21 as a result of the COVID-19 pandemic, waste volumes fell more quickly than expected when pandemic restrictions were lifted in 2021/22. Waste volumes fell further in 2022/23 as a result of the unexpectedly severe cost of living crisis impacting on consumer habits. In 2023/24 waste volumes have been close to forecast. This has resulted in lower balances in 2024/25. We expect to continue seeing this trend of lower balances in the medium term unless there are further major external shocks affecting residents.

Table 1

	Forecast Levy before balances			Balances available			Forecast Levy after balances		
	2023/24	2024/25	Increase/ Decrease	2023/24	2024/25	Increase/ Decrease	2023/24	2024/25	Increase/ Decrease
	£000s	£000s		£000s	£000s		£000s	£000s	
Barnet	15,499	16,982	9.6%	(2,721)	(1,964)	-27.8%	12,778	15,018	17.5%
Camden	8,466	8,625	1.9%	151	(1,864)	-1336.0%	8,617	6,761	-21.5%
Enfield	11,452	13,114	14.5%	(1,075)	(958)	-10.9%	10,377	12,156	17.1%
Hackney	9,127	10,471	14.7%	(1,568)	(759)	-51.6%	7,559	9,712	28.5%
Haringey	10,154	11,341	11.7%	(1,947)	(1,243)	-36.2%	8,207	10,098	23.0%
Islington	8,118	8,940	10.1%	(1,359)	(652)	-52.0%	6,759	8,288	22.6%
Waltham Forest	11,490	12,224	6.4%	(1,920)	(1,391)	-27.6%	9,570	10,833	13.2%
	74,306	81,697	9.9%	(10,439)	(8,830)	-15.4%	63,867	72,866	14.1%

2024/25 Budget challenges

- 1.10. At the MFWG, Members were briefed on the financial pressures, opportunities and risks that the Authority faces in 2024/25 and future years due to a combination of factors as outlined below. An estimate of the impacts has been factored into the budget for the coming year.
- 1.11. LEL are facing medium-term budget pressures. This is related to the age of the energy from waste facility, and in future years also the transitional cost of managing two major plants for the period when the new energy recovery facility is being commissioned prior to the existing facility ceasing operation. Our aim is to minimise expenditure on the plant while keeping it operating successfully. Continued operation is needed until the new energy recovery facility is operated because it would be significantly more expensive to have to have hundreds of thousands of tonnes of waste treated at third party facilities at short notice.
- 1.12. Decrease in sale of recyclates, the projection on the net basket price is expected to fall next year which in turn will reduce the income NLWA receive from recyclates.

- 1.13. Higher interest rates impacting the cost of borrowing. Whilst NLWA have benefited from borrowing when interest rates were low, future borrowing is expected to have a higher cost of borrowing. This is mentioned because, although it will not directly affect costs until after the new energy recovery facility is in operation is several years' time, some borrowing is expected in the current year which will be at higher rates than previously achieved.
- 1.14. Inflation uncertainties impacting major contracts. Whilst inflation is currently falling, the Authority's long-term contracts are indexed with the Retail Price Index or Consumer Price Index, and therefore the Authority is susceptible to changes in inflation driving costs.
- 1.15. Smooth transition of new facilities into operation. While detailed planning is made to implement transition, these cannot fully remove uncertainty can delay the opening and result in extra costs.
- 1.16. Future plans of existing assets (e.g. Wembley Transfer Station), costs for Wembley site will increase in the coming years as the capitalisation of costs will come to an end.
- 1.17. Officers working diligently to ensure to mitigate and reduce cost for those financial challenges and will continue to do so in the coming years. The medium-term risks include general LEL operating pressures and additional EcoPark South costs. The medium-term opportunities include unrecognised interest on interest receivable on capital borrowings.

Creation of a maintenance reserve

- 1.18. This report also proposes the creation of a maintenance reserve. The reserve is proposed as a direct response to one of the outcomes of the Corporate Peer Challenge in 2023. The review suggested that the Authority should be clear about how it will manage the inevitable maintenance and replacement costs involved in the life cycle of the facilities.
- 1.19. The reserve is intended to allow the Authority to respond to future asset maintenance in a more planned, coordinated and proactive manner, particularly as the Authority and member borough authorities have more of an incentive to sustain a high-quality operation for future generations to come.
- 1.20. Its creation will also provide greater financial certainty for the Authority and respective boroughs for planned and unplanned asset maintenance once the assets built as part of the North London Heat and Power Project become operational. The cost of maintenance required will be higher in some years than in others and a reserve held by the Authority would allow the Authority to manage the peaks and troughs, minimising the risk of surprises for boroughs.

- 1.21. The proposal for the period before the new Energy Recovery Facility is in operation involves using only interest on capital balances to mitigate financial pressures such as keeping the existing Energy from Waste facility operational beyond its useful economic life.
- 1.22. Once the new Energy Recovery Facility is in operation, the reserve will be built up from existing financial budgets for planned and unplanned asset maintenance. Anything above the limit of the reserve would then be used in future years to reduce the levy requirement. This is in line with best market practice.
- 1.23. Other Joint Waste Disposal Authorities use a reserve to manage peaks and troughs in their own expenditure. One London Waste Disposal Authority holds a reserve of £25 million despite not owning their own facilities, so the proposed reserve would be in line with sensible financial management techniques used in other Authorities.
- 1.24. The reserve policy has been consulted on with both the MFWG and Borough Directors of Finance who have endorsed the approach.
- 1.25. By agreeing now on the arrangements for creating a reserve, it would also allow the Authority to manage pressures in the medium term with London Energy to effectively plan to fund the maintenance required to keep the existing facilities running until the new facilities are built. A detailed explanation of the reserve is contained in section 7. Members are being asked to approve the policy that will enhance certainty and help optimise current and future asset maintenance.
- 1.26. Further information relating to the size of the reserve is included in section 5.
- 1.27. This report contains sections as follows:
 - Section 2 2024/25 Draft Budget.
 - Section 3 Apportionment of the 2024/25 levy.
 - Section 4 Medium Term Forecast for 2025/26 to 2026/27.
 - Section 5 Creation of a Maintenance Reserve
 - Section 6 Prudential Indicators
 - Section 7 Minimum Revenue Provision
 - Section 8 Conclusion.
 - Section 9 Equalities Implications
 - Section 10 Comments of the Legal Adviser
 - Appendix A 2024/25 supporting information and tables
 - Appendix B Medium Term Forecast for 2025/26 to 2026/27

2. REVIEW OF THE 2024/25 DRAFT BUDGET

- 2.1. Since the budget was set in February 2023, forecast revenue balances of £8.830m at 31 March 2024 have arisen as reported in the Finance Update paper, also on this agenda. This forecast balance can be used to reduce the levy. The projected year

on year change to the levy and charges is summarised in table 2 below that includes balances.

Table 2	2023/24 Budget £'000	2024/25 Budget £'000	Variance £'000	Variance %
Charges - non-household	8,949	10,253	1,304	14.6
Charges - household	1,815	1,925	110	6.1
Levy	63,868	72,867	8,999	14.1
Total	74,632	85,045	10,413	14.0

2.2. As per table above, there is a forecast increase in the overall recharge to boroughs of 14.0%, of which the levy is a part and it increases by 14.1%. The higher increase in the levy reflects both a movement between household tonnage and chargeable types.

2.3. The Authority's draft budget is included at table A1 in Appendix A. The draft budget includes the following factors:

Inflation

2.4. The Authority's largest contracts, and therefore a significant majority of its spend, are linked to the change in the Retail Price Index (RPI) with the most significant of these linked to the December index. The increase in RPI in December 2023 was 5.2%. The summary of independent forecasts published by HM Treasury in January 2022 estimates the December 2024 annual RPI increase at 2.8% and where relevant, the Consumer Price Index (CPI) at 2.2%. These have been factored into the draft budget.

Transport & Disposal and Landfill Tax

2.5. The 2024/25 transport and disposal cost has been based on forecast residual waste stream of 569,067 tonnes (includes RRC tonnages), i.e. a decrease of 1,948 tonnes (0.34%) compared to the 2023/24 forecast outturn. This decrease reflects detailed discussions with officers from all constituent boroughs and the impacts are therefore tailored to each borough's circumstances. A breakdown by borough which excludes RRC tonnage is included in Table A2 in Appendix A.

2.6. The electricity income claim and landfill tax claim have been verified to the LEL budget and workings, and are reflective of the throughput that can be achieved. Electricity prices are forecast to remain at a level which will mean that there is no compensation due to LEL in the year. The Government has advised that landfill tax rates will rise from £102.10 per tonne to £103.70 per tonne from April 2024.

- 2.7. The budget includes an estimate that approximately 17,000 tonnes of delivered residual waste and 1,500 tonnes of RRC Residual waste will result in landfill tonnage.

Composting Waste Services and Materials Recycling Facility (MRF) Services

- 2.8. The budget forecast reflects that mixed organic waste, food waste and green tonnages will increase by 1,689 tonnes to 61,202 tonnes in 2024/25 compared to the 2023/24 forecast. Borough breakdowns are included in tables A3 to A5 in Appendix A.
- 2.9. Dry mixed recycling tonnages are expected to decrease by 1,286 tonnes compared to the 2023/24 forecast. Borough breakdown is included in Table A6 in Appendix A. The overall increase in this budget reflects an allowance for price inflation in April 2024. In addition, the budget reflects the inflation increase on the additional bulking charges for tonnages that are delivered via the transfer stations.

Corporate Support Service and Strategy & Service team

- 2.10. The budget forecast includes known increase in the Authority's staffing and resources. The establishment has been enhanced to reflect the requirement to manage the new assets that are being constructed and will be owned by the Authority. This has been compounded by office rent review due to take place in the summer of 2024.

New Resource Recovery Facility

- 2.11. The new Resource Recovery Facility (RRF) is anticipated to commence operation in the spring of 2024. £2.8m has been included in 2024/25 budget to cover the running and maintenance elements of this. This is in addition to recognising interest payments from the point of opening and capital repayments on the facility which will become payable from 2024/25 and will represent a budget pressure from then on.

Waste Prevention Programme and Recycling Communications

- 2.12. The draft budget includes provision for the waste education project, behaviour change project and Repair and Upcycling project within the Waste Prevention Programme. It also includes an allocation of £0.250m for the community fund.

North London Heat & Power Project

- 2.13. The budget forecast includes the ongoing support costs for the NLHPP that cannot be capitalised. All costs that can be capitalised will be funded by borrowing and interest payable on the loans will be added to project costs during the construction period.

Revenue Funding of the Capital Programme

- 2.14. The budget forecast provides for the financing of:
- 2.14.1. The Authority's investment in LEL;
 - 2.14.2. Pinkham Way;
 - 2.14.3. Lease of laydown area, part of the EcoPark and the purchase of Deephams Farm Road to support the NLHPP;
 - 2.14.4. The RRF, after it opens in early 2024;
 - 2.14.5. The possible refurbishment of RRC sites; and
 - 2.14.6. The possible investment in a waste transfer station.
- 2.15. 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.
- 2.16. 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 contract and associated costs as well as the MRP are budgeted from the first quarter of 2024/25.

Reuse & Recycling Centres

- 2.17. The budget provides for the operation of seven Reuse and Recycling Centres at a cost of £6.244m. The amount charged to the relevant boroughs through the 2024/25 levy will also allow for the change in balances that arose from the closure of the 2022/23 accounts and forecast changes in balances from 2023/24. An analysis by borough of these costs is provided in Table A7 in Appendix A.
- 2.18. The proposal for the Authority to take over the running of Barrowell Green from 2024/25 is under review and not yet finalised. The costs of these services are not reflected in the 2024/25 Budget. The Barrowell Green Reuse and Recycling Centre paper on this agenda proposes that the Authority will enter into a bilateral agreement with the London Borough of Enfield to fund the arrangement in 2024/25. From 2025/26, the Authority would then include the cost in its budget and the costs would be recharged to boroughs through the levy using menu pricing.

Income from the Sale of Recyclates

- 2.19. Due to volatility in market price, the price achieved for income from recyclates has fallen as the UK economy has slowed down. Actual prices are based on a basket of

commodities that the Authority collects and are available on letsrecycle.com. Market prices can be volatile and the figures used for the budget have been produced after consulting with Biffa, the Authority's MRF contractor.

- 2.20. The budget assumes that the market values will flatten in the region of £39-35 per tonne in 2024/25. The graph below shows the assumption that over the coming quarters, the net basket price will reduce towards historic levels.



Non-Household Waste Charges

- 2.21. Following discussions with boroughs officers, the Authority is expecting to receive 90,672 tonnes of non-household waste in 2024/25, a small decrease of 58 tonnes compared to the forecast for 2023/24. The 2024/25 tonnage comprises 75,918 tonnes of residual waste, 12,032 tonnes of dry mixed recyclable waste, 2,649 tonnes of food and 73 tonnes of green waste.
- 2.22. The estimated charges per tonne of waste are included in table 4 below. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with its Materials Recycling Facility (MRF) providers.

Table 4	Price Per Tonne £
Residual	121.80
Mixed Biodegradable	97.06
Green	58.12
Food	3.38
Mixed Dry Recyclable	76.69

- 2.23. Based on the advised tonnages the estimated cost to the boroughs is £10.253m. This is analysed by borough in Table A9 in Appendix A.

Chargeable Household Waste

- 2.24. The Authority expects to receive 17,137 tonnes of chargeable household waste in 2024/25, no change compared to the forecast for 2023/24. The 2024/25 tonnage comprises 13,814 tonnes of residual waste, 2,182 tonnes of dry mixed recyclable waste and 1,140 tonnes of food waste.
- 2.25. The estimated charges per tonne of waste are included in Table 4 above. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with its MRF providers.
- 2.26. Based on the advised tonnages the estimated cost to the boroughs in 2024/25 is £1.925m. The cost is analysed by borough in Table A10 in Appendix A.

Contingency

- 2.27. 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 these budgets are soundly based, the Authority needs to consider how it would fund any additional costs. In particular, if there are concerns about the level of the waste stream delivered to the Authority by constituent councils, its ability to generate income from the sale of recycling, its ability to secure treatment capacity at third party facilities or its ability to ensure that there are sufficient resources to fund the costs of the NLHPP.
- 2.28. In coming to a view on this, Members should bear in mind that once the levy is set the Authority would not be in a position to secure additional funds from its constituent councils. Because over three-quarters of the Authority's operating expenditure in any year in the life of the budget and medium term plan is driven by the amount of waste and recycling collected by the constituent boroughs, it has limited scope to make compensating savings for additional costs that may arise in meeting its waste disposal obligations. Although the Authority has responsibility for the disposal of the waste from its constituent councils, it has no direct control over the volumes of waste entering the waste stream. A variance to the budgeted

tonnages could arise by either a higher than expected growth in the waste stream or constituent councils not recycling as much as forecast. These factors place greater emphasis on the need to have robust budgets and adequate contingencies to deal with such eventualities.

- 2.29. Members will also be aware that the Local Government Act 2003 places a formal duty on the Financial Adviser to report to Members on the adequacy of the Authority's reserves (see section 6 below). There is a degree of uncertainty about the scale of a number of budget pressures in the coming year. It is proposed to include a base contingency provision, assessed on the same basis as recent years, namely a contingency of £1m plus 2% of operational base cost (£1.821m), totalling £2.821m.

3. APPORTIONMENT OF THE 2024/25 LEVY

- 3.1. All boroughs formally agreed to adopt a menu-price based levy for 2016/17 onwards. Table 5 below, summarises the estimated levy impact for each council after any balances available have been included (further details of the calculation for 2023/24 can be found in tables A7 and A8 in Appendix A):

	2023/24 Levy (excluding windfall)			2024/25 Forecast Levy			Total estimated levy change (Column 6 minus Column 3)	
	Base	RRC	Total	Base	RRC	Total	£'000	%
	(1)	(2)	(3)	(4)	(5)	(6)	£'000	%
Barnet	11,647	1,131	12,778	13,495	1,523	15,018	2,240	17.5
Camden	7,882	735	8,617	5,986	775	6,761	(1,856)	(21.5)
Enfield	10,069	308	10,377	12,024	132	12,156	1,779	17.1
Hackney	7,304	255	7,559	9,336	376	9,712	2,153	28.5
Haringey	7,494	714	8,208	8,947	1,151	10,098	1,890	23.0
Islington	5,941	819	6,760	7,380	908	8,288	1,528	22.6
Waltham Forest	7,999	1,570	9,569	9,214	1,619	10,833	1,264	13.2
Total	58,336	5,532	63,868	66,382	6,484	72,866	8,998	14.1

4. MEDIUM TERM FORECAST 2025/26 AND 2026/27

- 4.1. The medium-term forecast allows for RPI inflation at 2.5% year on year and CPI inflation at 2%. Although prudent provision has been made for these costs, the Authority's budget is exposed to a number of factors outside its control. A 1% variance in inflation could add or subtract costs of approximately £0.8m in a full year. Similarly, a 1% variation in tonnages could have a further impact of £0.6m per annum.

- 4.2. The outlook for the levy has been discussed with both the MFWG and Borough Directors of Finance and Environment. The medium-term forecast assumes that there will be no balances at the end of 2024/25. Appendix B contains the medium-term forecast and shows that the net expenditure requirement is forecast to increase to £98.433m (4.9%) in 2025/26 and £99.740m (1.3%) in 2026/27.
- 4.3. The increases in net expenditure in 2025/26 are driven largely by the fact that there are currently no balances available and the inclusion of MRP after the RRF opens.
- 4.4. If no balances are available to support budgets for 2025/26 and beyond, net expenditure and levies are forecast as in table 6 and table 7 below.
- 4.5. During the year, the Authority might generate balances which will reduce the levy. As a comparator, this time last year, the budget forecast for 2024/25 with no balances available, contained a forecast increase of 28.70% (which has now reduced to 14.1%). However, around the average increases there can be substantial divergence between boroughs, particularly based on any increase or reduction in balances carried forward from one year to the next.

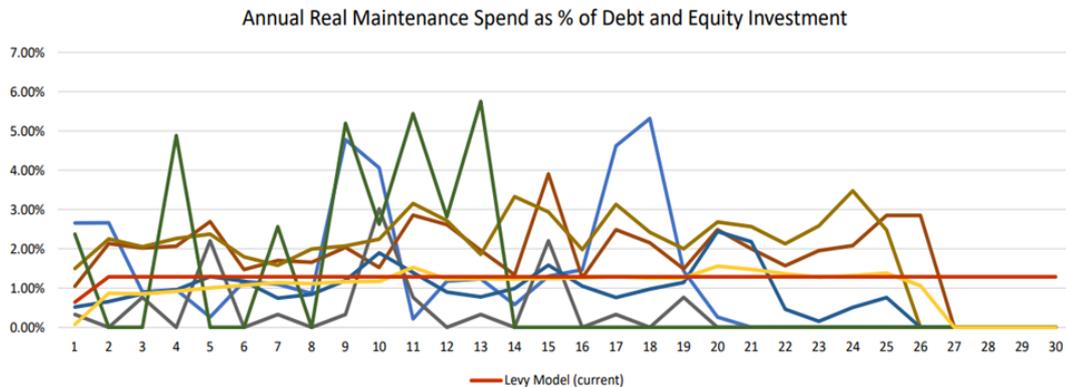
Table 6	2024/25	2025/26	Variance	
	Proposed Levy £'000	Forecast Levy £'000	£'000	%
Barnet	15,018	17,781	2,763	18.40
Camden	6,761	9,040	2,279	33.70
Enfield	12,156	13,763	1,607	13.22
Hackney	9,712	10,987	1,275	13.13
Haringey	10,098	11,884	1,786	17.69
Islington	8,288	9,362	1,074	12.96
Waltham Forest	10,833	12,780	1,947	17.97
Total	72,866	85,597	12,731	17.47

Table 7	Net Expenditure £'000	Base Levy £'000	RRC Levy £'000	Total £'000	Increase %
2025/26	98,433	(79,197)	(6,400)	(85,597)	17.5%
2026/27	99,740	(80,201)	(6,560)	(86,760)	1.4%

5. CREATION OF A MAINTENANCE RESERVE

- 5.1. In future years, the Authority will be the owner of significant infrastructure assets once the new facilities open at the EcoPark. These new assets will bring about new maintenance requirements, including cyclical maintenance, especially in relation to the ERF. Cyclical maintenance can result in high levels of expenditure in some years

and lower expenditure in others. This could present a risk if expenditure had to be brought forward. The graph below shows the anonymised maintenance spend datasets for seven energy recovery facilities for which a variable profile was available, plus the NLWA budget estimate (the red line, equivalent to £15m in 2023 prices) which was included in the levy modelling outputs reported to the December 2023 Authority meeting.



- 5.2. The graph shows that maintenance expenditure for ERF assets is highly variable, year-on-year with the peaks of 5-6% equating to a reserve of approximately £75m based on the value of the new NLHPP assets. Currently this risk is managed by LEL.
- 5.3. As this responsibility will be managed by the Authority once the new facilities are brought into use, it is proposed that the Authority should create a reserve that would be used to smooth future maintenance requirements. Such a reserve could also mitigate other risks such as an outage with the new facility or maintenance having to be brought forward unexpectedly, as mentioned above. Whilst we will require LEL to insure against such issues, insurers tend not to pay out immediately and we foresee three to four months of delay on a claim for a major unplanned outage, with commensurate pressure on cash to maintain service.
- 5.4. Borough Finance Directors and the Member Finance Working Group have been consulted on the creation of an indexed reserve of £50m (based on the fact that LEL will continue to hold some business risk). The creation of this reserve would be planned into the medium term forecast and would not impact the 2024/25 levy. It is proposed that this reserve would be built up once the ERF opens. The amount to be added to the reserve each year would be included in the budget papers and would be approved as part of the budget setting process. This will be reviewed on a periodic basis after the ERF is fully operational.
- 5.5. It is also proposed that the reserve should be used to manage the medium-term issues relating to LEL mentioned in the Finance Update also on the agenda for this meeting. Income that the Authority generates from interest receivable relating to monies borrowed to support the capital programme will be added to the reserve to

minimise the effects that maintenance of the existing LEL facilities might have on future levies.

- 5.6. Taking account of the issues raised above, and the proposed retention of revenue balances, the Authority’s budget estimates (including contingencies) are sufficiently robust to deal with the current risks and uncertainties facing the Authority. Future budgets will need to be considered on merit and where necessary, strengthened in a period of greater instability.

6. PRUDENTIAL INDICATORS

- 6.1. The Authority determines its capital investment needs to meet its service obligations. In doing so, it must have regard to The Prudential Code for Capital Finance in Local Authorities. The Code is designed to ensure that local authorities have capital investment plans that are affordable, prudential and sustainable. To demonstrate that they have fulfilled these objectives the Code sets out indicators that must be used.

Indicators for Affordability

- 6.2. The Authority’s capital programme for 2023/24 to 2026/27 includes:

- 6.2.1. Completion of construction of the Resource Recovery Facility, EcoPark House and the Energy Recovery Facility at the Edmonton EcoPark.
- 6.2.2. Possible acquisition of waste transfer station should the opportunity arise, and refurbishment works at existing RRC sites.
- 6.2.3. Based on this capital programme of £951m (2023/24 to 2026/27) the following ratios of financing costs (i.e. interest and minimum revenue provision) to net revenue stream are recommended for approval. It should be noted that for the Authority, the net revenue stream is represented by the levy: -

Ratio of Financing Costs to Net Revenue Stream					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	12.30%	12.84%	19.36%	17.64%	17.48%

- 6.2.4. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have been previously taken by the Authority, reported in October 2022, are:

Impact on the NLWA Levy					
	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
£m	Nil	-1.555	-0.716	0.444	0.628

6.3. Indicators for Prudence

6.3.1. The Capital Financing Requirement measures the underlying need to borrow. The Code provides that over the medium-term net external borrowing does not exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current and next two years. This provides assurance that borrowing will be incurred only for capital purposes. The Authority met this requirement in 2022/23 and no difficulties are envisaged in 2023/24 or subsequent years. The CFR reflects the cumulative capital expenditure less any provision made for the minimum revenue provision in year. The following Capital Financing Requirements are therefore recommended for approval:

Capital Financing Requirement					
	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
£m	528	851	1,193	1,392	1,445

6.3.2. The Code requires that treasury management is carried out in accordance with good practice. The prudential indicator is that a local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. Members will be aware that the Authority's cash resources are pooled with those of London Borough of (LB) Camden and that LB Camden undertakes treasury management activities on the Authority's behalf. Camden has adopted this code and its treasury management policies and procedures conform to the Code's requirements. Officers are satisfied that through the arrangement that the Authority has with LB Camden that treasury management activities undertaken on behalf of the Authority also meet the requirements of this Code.

6.4. Indicators for capital expenditure, external debt and treasury management

6.4.1. In 2022/23, the Authority continued the construction of the EcoPark South assets and also began construction of the Energy Recovery Facility. Planned capital expenditure for 2023/24 to 2026/27 is to complete this work and to plan for the demolition of the existing Energy from Waste facility.

6.4.2. Accordingly, the following estimated capital expenditure is recommended:

Capital Expenditure					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
£m	284	329	351	209	64

6.4.3. The following two Prudential Indicators (PI's) govern the Authority's ability to borrow funds in the money markets or from the Public Works Loans Board. They must be set at a level that allows headroom for the capital programme to be achieved. The following authorised limits for external debt are recommended for approval:

Authorised Limit for External Debt					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
£m					
Borrowing	1,000	1,000	1,400	1,500	1,500
Other long term liabilities	Nil	1	1	1	1

6.4.4. The following operational boundaries for external debt are recommended for approval:

Operating Boundary for External Debt					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
£m					
Borrowing	1,000	1,000	1,400	1,500	1,500
Other long term liabilities	Nil	1	1	1	1

6.4.5. The following prudential indicators are relevant for setting a treasury management strategy. The Authority has currently only taken fixed interest loans, but the indicators are set at a level that will enable the Authority to react to changing circumstances that may favour the use of variable rate loans.

Net Principal re Fixed Rate Borrowing					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
£m	1,000	1,000	1,400	1,500	1,500

Net Principal re Variable Rate Borrowing					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
£m	0	0	300	500	500

6.4.6. In order to ensure flexibility in the loans that might be taken it is recommended that the following maturity structure of fixed rate borrowing is set for 2023/24. Given the Authority's particular investment needs, the limits provide maximum flexibility for short-term borrowing.

Maturity Structure of fixed rate borrowing during 2023/24	Upper Limit %	Lower Limit %	Current %
Under 12 months	100	0	1
12 months and within 24 months	100	0	0
24 months and within 5 years	100	0	2
5 years and within 10 years	100	0	0
10 years and above	100	0	97

6.4.7. The indicators will be kept under review.

7. MINIMUM REVENUE PROVISION

- 7.1. The Authority is required to set aside a sum from revenue each year for the repayment of debt. This is known as the MRP. Regulations require that the sum set aside is prudent and associated guidance provides several methodologies that local authorities can adopt. Whichever method an Authority chooses, the regulations require that it be formally adopted each year.
- 7.2. For 2023/24, the Authority is recommended to adopt a method for borrowing undertaken before 2018/19 (for the purchase of shares in LEL in 2010) that makes provision in equal instalments over the estimated life of the asset concerned.
- 7.3. For all borrowing from 2019/20 (for the NLHPP), the Authority is recommended to calculate the MRP on an annuity basis over the estimated life of the asset. This approach is similar to many domestic mortgages and will allow the annual charge for MRP to be smoothed so that it is at a consistent level each year rather than paying a flat MRP charge each year with a slowly reducing amount of interest.

8. ADVICE ON RESERVES AND BALANCES AND ROBUSTNESS OF THE BUDGET PROCESS

- 8.1. Advice is usually provided at this time on the level of reserves and balances available to the Authority, and on the robustness of the estimates that have been used to arrive at the proposed budget. Section 25 of the Local Government Act 2003 requires the Chief Finance Officer (Financial Adviser) to report to the Authority on:
- 8.1.1. The adequacy of the proposed reserves; and
- 8.1.2. The robustness of the budget.
- 8.2. The level of balances and the robustness of estimates are closely linked. Balances and reserves should be set at a level that takes account of the financial risks facing the Authority; the greater the level of uncertainty, the more likely balances will be needed. A budget is prepared on the best information available at the time, and inevitably includes some uncertainty.

- 8.3. It is important that in setting the budget Members take account of the uncertainties involved, both in establishing a suitable level of balances and contingencies, and in setting an overall strategy for the budget. This involves, for example, ensuring that only resources likely to be available in the long-term are used to accomplish long-term objectives.

9. CONCLUSION

- 9.1. The detailed 2024/25 draft budget is soundly based and allows for the inclusion of prudent levels of contingency. The budgets as set out in this report should be sufficiently robust to meet the Authority's expenditure requirements over this period.
- 9.2. Since the December 2023 meeting, Authority officers have reviewed underpinning assumptions and have consulted with the MFWG, borough Directors of Finance and borough Directors of Environment. All groups were content with the proposed approach and the 2024/25 proposed budget reflects this approach. Members will be advised of progress against the budget in regular budget review reports to the Authority.
- 9.3. The Authority is in a position to agree the 2024/25 levy at £72.866m (comprising a base levy element of £66.382m and an RRC element of £6.484m). In total, this represents an increase of 14.1% increase compared with the 2023/24 levy.

10. EQUALITIES IMPLICATIONS

- 10.1. 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.

11. COMMENTS OF THE LEGAL ADVISER

- 11.1. 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.
- 11.2. 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:
- 11.2.1. Apportioning costs in proportion to the tonnage of household waste delivered by each of council; and

- 11.2.2. For non-household waste and other costs, apportioning costs on the basis of the council tax base.
- 11.3. All the constituent councils have agreed through the Inter Authority Agreement entered into in 2015 that alternative levy apportionment arrangements will apply from 2015/16 and the menu pricing arrangements referred to above are set out in that Inter Authority Agreement. This meets the requirements of the Joint Waste Disposal Authorities (Levies) (England) Regulations 2006.

List of documents used:

Report to the Authority 9 February 2023 – Revenue Budget and Levy 2023/2024
Report to the Authority 22 June 2023 – 2022/23 Financial Outturn and 2023/24 Update
Report to the Authority 14 December 2023 – 2023/24 Budget Update
2023/24 budget working papers

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APPENDIX A: 2024/25 DRAFT BUDGET

Table A1 below provides a summary of the 2024/25 proposed budget.

	2023/24 Budget Excl. Rebate £'000	2024/25 Proposed budget £'000	Variance £'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	43,859	45,919	2,060
Composting Waste Services	2,314	2,205	(109)
MRF Services	12,633	12,755	122
Transfer Station and Other Sites	4,625	5,009	384
Corporate and Other Support Service Costs	5,372	6,097	725
Waste Prevention and Communications Programme	833	816	(17)
Recycling Initiatives	287	206	(81)
North London Heat and Power Project	600	633	33
Carbon Capture & Storage	1,054	1,152	98
Revenue Funding – Capital Programme	10,868	14,834	3,966
	82,445	89,626	7,181
Reuse and Recycling Centres Expenditure			
Residual Waste Disposal	1,368	1,336	(32)
Operating Costs	4,086	4,908	822
	5,454	6,244	790
Income			
Rents	(137)	(141)	(4)
Sale of Recyclates	(5,299)	(4,477)	822
Income from LEL	0	0	0
Interest on Balances	(40)	(198)	(158)
Miscellaneous Income	0	0	0
	(5,476)	(4,816)	660
Net Expenditure	82,423	91,054	8,631
Contingency	2,648	2,821	173
Total Net Expenditure	85,071	93,875	8,804
Financed By			
Use of Balances	(10,439)	(8,830)	1,609
Charges to Boroughs (Non-household waste)	(8,949)	(10,253)	(1,304)
Charges to Boroughs (Chargeable Household Waste)	(1,815)	(1,925)	(110)
2023/24 Levy - Base Element	(58,336)	(66,382)	(8,046)
- RRC Element	(5,532)	(6,484)	(952)
Total Levy	(63,868)	(72,866)	(8,998)
Total Resources Available	(85,071)	(93,875)	(8,804)
Estimated Additional Revenue Balances at 31 March	0	(0)	(0)

Table A2 – 2024/25 residual waste tonnage forecast

	2022/23 Actual Tonnes	2023/24 Forecast Tonnes	2024/25 Budget Tonnes	Change Tonnes	Change %
Barnet	103,769	106,178	106,269	+92	+0.09
Camden	69,721	70,067	69,937	-129	-0.18
Enfield	84,560	90,691	91,079	+388	+0.43
Hackney	84,763	84,935	85,013	+78	+0.09
Haringey	68,147	69,651	70,264	+613	+0.88
Islington	67,959	69,650	68,279	-1,370	-1.97
Waltham Forest	63,857	66,078	64,460	-1,618	-2.45
Total	542,776	557,249	555,302	-1,948	-0.35

Table A3 – 2024/25 mixed organic waste tonnage forecast

	2022/23 Actual Tonnes	2023/24 Feb Forecast Tonnes	2024/25 Budget Tonnes	Change Tonnes	Change %
Barnet	0	0	0	+0	+0.00
Camden	0	0	0	+0	+0.00
Enfield	0	0	0	+0	+0.00
Hackney	0	6	0	-6	-100.00
Haringey	445	252	246	-6	-2.44
Islington	3,295	4,008	4,232	+225	+5.60
Waltham Forest	7,765	8,339	4,377	-3,962	-47.51
Total	11,506	12,605	8,855	-3,750	-29.75

Table A4 – 2024/25 Food waste tonnage forecast

	2022/23 Actual Tonnes	2023/24 Forecast Tonnes	2024/25 Budget Tonnes	Change Tonnes	Change %
Barnet	0	11	0	-11	-100.00
Camden	2,460	3,081	3,111	+31	+0.99
Enfield	0	6,935	6,951	+16	+0.23
Hackney	4,424	5,061	4,777	-284	-5.61
Haringey	3,309	3,409	3,546	+137	+4.00
Islington	0	0	0	+0	+0.00
Waltham Forest	408	282	1,905	+1,623	+574.88
Total	10,602	18,779	20,290	1,511	+8.05

Table A5 – 2024/25 Garden waste tonnage forecast

	2022/23 Actual Tonnes	2023/24 Q4 Forecast Tonnes	2024/25 Budget Tonnes	Change Tonnes	Change %
Barnet	10,513	12,415	12,618	+203	+1.63
Camden	1,651	2,183	2,090	-93	-4.25
Enfield	296	6,733	6,743	+10	+0.15
Hackney	2,558	2,754	2,599	-155	-5.65
Haringey	2,287	2,766	2,732	-34	-1.22
Islington	487	619	706	+87	+14.05
Waltham Forest	455	659	4,569	+3,910	+593.08
Total	18,248	28,129	32,056	3,927	+13.96

Table A6 – 2024/25 MDR tonnage forecast

	2022/23 Actual Tonnes	2023/24 Feb Forecast Tonnes	2024/25 Budget Tonnes	Change Tonnes	Change %
Barnet	25,759	25,147	25,759	+612	+2.43
Camden	15,362	15,852	15,362	-490	-3.09
Enfield	17,616	17,525	17,411	-114	-0.65
Hackney	17,505	17,450	17,337	-113	-0.65
Haringey	16,985	16,687	16,985	+298	+1.79
Islington	14,245	14,281	14,245	-36	-0.25
Waltham Forest	18,015	17,709	16,266	-1,443	-8.15
Total	125,486	124,650	123,364	-1,286	-1.03

Table A7 - RRC Levy

The amounts charged to the relevant boroughs through the 2024/25 levy allow for the balances from the closure of the 2022/23 accounts and forecast additional balances from 2023/24.

	Forecast RRC Balances at 1 April 2024 £'000	2024/25 Estimated costs £'000	2024/25 Estimated Levy £'000
Barnet	206	1,317	1,523
Camden	32	743	775
Enfield*	(127)	259	132
Hackney	2	374	376
Haringey	140	1,011	1,151
Islington	14	894	908
Waltham Forest	(26)	1,646	1,620
Total	241	6,244	6,485

Table A8 - Base Levy

The amounts charged to the relevant boroughs through the 2024/25 base levy allow for the additional balances that arose from the closure of the 2022/23 accounts and forecast additional balances from 2023/24. The table below also includes the effect of the levy rebate

	Forecast Balances at 1 April 2024 £'000	2024/25 Estimated Levy Requirement £'000	2024/25 Estimated Levy £'000
Barnet	(2,170)	15,665	13,495
Camden	(1,896)	7,882	5,986
Enfield	(830)	12,854	12,024
Hackney	(761)	10,097	9,336
Haringey	(1,383)	10,330	8,947
Islington	(666)	8,046	7,380
Waltham Forest	(1,365)	10,579	9,214
Total	(9,071)	75,453	66,382

Table A9 - Non-household Waste Charges

The cost to boroughs in 2024/25 is estimated to be:

	2024/25 Estimated Tonnes	2024/25 Estimated Cost £'000
Barnet*	10,363	1,243
Camden*	25,973	2,807
Enfield	9,017	1,099
Hackney*	19,700	2,192
Haringey *	3,435	379
Islington *	20,626	2,351
Waltham Forest*	1,558	182
Total	90,672	10,253

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

The final charges will be calculated as part of the 2024/25 final accounts process and reported to the Authority in June 2025. Any under or over payment by boroughs will be collected from or repaid to boroughs at the conclusion of the final accounts process.

Table A10 - Chargeable Household Waste

The cost to boroughs in 2024/25 is estimated to be:

	2024/25 Estimated Tonnes	2024/25 Estimated Cost £'000
Barnet	2,074	252
Camden	820	88
Enfield	1,429	174
Hackney	6,386	700
Haringey	2,881	323
Islington	3,547	388
Waltham Forest *	0	0
Total	17,137	1,925

*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.

APPENDIX B: MEDIUM TERM FORECAST 2025/26 & 2026/27

The table below shows the proposed budget and the budget forecasts for the following two years

	2023/24	2025/26	2026/27
	Budget	Current	Current
	Excl. Rebate	Forecast	Forecast
	£'000	£'000	£'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	43,859	47,164	48,341
Composting Waste Services	2,314	2,258	2,307
MRF Services	12,633	13,016	13,281
Transfer Station and Other Sites	4,625	5,937	5,944
Corporate and Other Support Service Costs	5,372	6,191	6,346
Waste Prevention and Communications Programme	833	837	857
Recycling Initiatives	287	212	217
North London Heat and Power Project	600	649	666
Carbon Capture & Storage	1,054	1,994	1,427
Revenue Funding – Capital Programme	10,868	15,780	15,872
	82,445	94,037	95,258
Reuse and Recycling Centres Expenditure			
Residual Waste Disposal	1,368	1,369	1,403
Operating Costs	4,086	5,031	5,157
	5,454	6,400	6,560
Income			
Rents	(137)	(144)	(148)
Sale of Recyclates	(5,299)	(4,566)	(4,658)
Income from LEL	0	0	0
Interest on Balances	(40)	(203)	(208)
Miscellaneous Income	0	0	0
	(5,476)	(4,914)	(5,014)
Net Expenditure	82,423	95,522	96,804
Contingency	2,648	2,910	2,936
Total Net Expenditure	85,071	98,433	99,740
Financed By			
Use of Balances	(10,439)	0	0
Charges to Boroughs (Non-household waste)	(8,949)	(10,808)	(10,929)
Charges to Boroughs (Chargeable Household Waste)	(1,815)	(2,028)	(2,051)
2023/24 Levy - Base Element	(58,336)	(79,197)	(80,201)
- RRC Element	(5,532)	(6,400)	(6,560)
Total Levy	(63,868)	(85,597)	(86,760)
Total Resources Available	(85,071)	(98,433)	(99,740)
Estimated Additional Revenue Balances at 31 March	0	(0)	(0)