

Somerset Waste Board meeting
29 September 2017
Report for Information

Financial Performance Update 2017/2018 and Development of the Annual Budget 2018/2019

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Forward Plan Reference:	SWB/17/06/03
Summary:	<p>The report sets out the financial performance against the approved Annual Budget for the first 4 months of the current financial year (April to the end of July), and a forecast outturn position. A verbal update will be given at the Board meeting of any significant changes in August.</p> <p>The report is also the formal commencement of the budget setting process that will ultimately lead to the Annual Budget for 2018/2019.</p>
Recommendations:	<p>That the Somerset Waste Board notes the summary financial performance for 2017/2018 year to date and the potential outturn position for each partner authority.</p> <p>That the Somerset Waste Board notes the current budget factors that will have implications for setting the 2018/2019 Annual Budget.</p>
Reasons for recommendations:	<p>The Board needs to be aware of the financial performance of the Somerset Waste Partnership as it delivers the approved Business Plan and delegated waste service functions, to ensure that it is being managed appropriately.</p> <p>Having regular information regarding the pressures in the current budget will also give the Board a greater understanding of the requirements for the Annual Budget for the following financial year.</p> <p>In accordance with previous internal audit recommendations, officers provide in-year financial information for the Board alongside the regular Performance Monitoring reports as they are complementary reports.</p>

	<p>Partner authorities will need indicative budget figures as early as possible in order to consider their individual contributions to the Board budget, and to progress their own financial planning processes.</p> <p>As with the Business Plan, setting the next year's budget is an iterative process and the Board will be consulted regularly throughout the process.</p>
<p>Links to Priorities and Impact on Annual Business Plan:</p>	<p>The Annual Budget is linked to the Annual Business Plan, and sets out the financial resources required to deliver the Plan and the waste collection and disposal services that have been delegated to the Somerset Waste Board. Financial monitoring will show how the Partnership is managing its resources as it delivers the Annual Business Plan.</p>
<p>Financial, Legal and HR Implications:</p>	<p>Any in-year underspends attributable to partners against the Annual Budget are traditionally made available for return or for reinvestment. Conversely, failure to stay within the Annual Budget for the Somerset Waste Partnership will directly impact on the partner authorities, who would be required to make good any shortfall at year end.</p> <p>When considering the draft Annual Budget for 2018/2019, current trends in demographic growth, service uptake and waste tonnages arising in 2017/2018 will be a key contributory factor in shaping the forward budget.</p> <p>We will continue to share the costs amongst partners in the same way as previously as set out in our Cost Sharing Agreement.</p> <p>Figures presented within this report are based on the current service, and any potential savings attributable to any changes to the service model that the Board may approve at a later date will be costed and reported on separately.</p> <p>There are no legal or HR implications of this report.</p>
<p>Equalities Implications:</p>	<p>None.</p>
<p>Risk Assessment:</p>	<p>Members will be aware from previous reports and presentations that the waste budget and actual costs, particularly disposal volumes and recycling credits, remain highly volatile.</p>

1. Background

- 1.1. The Annual Budget for 2017/2018 was originally set at the Board meeting of 24th February 2017 at £43,577,620. Partners contribute to the overall costs in accordance with our Cost Sharing Agreement. Individual contributions are based on key cost drivers such as household numbers, sparsity and garden waste customer numbers. As the waste disposal authority, all such costs fall to the County Council.
- 1.2. Our Annual Budget is predominantly spent on making payments to our main contractors – Viridor and Kier.

2. Current Financial Position

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	TDBC £'000	WSC £'000	Total £'000
Head Office	6	11	11	16	11	4	58
Disposal Costs	(710)	0	0	0	0	0	(710)
Collection - Recycling	0	(6)	(8)	(9)	(7)	(4)	(33)
Collection - Refuse	0	(1)	(1)	(2)	(2)	(0)	(7)
Collection - Garden	0	4	1	1	5	1	12
Collection Costs	0	2	2	3	2	1	10
Recycling Credits	(64)	22	10	24	10	(1)	0
Container Purchase & Delivery	0	(4)	12	(17)	3	4	(2)
Other	7	(0)	(5)	(7)	(5)	(2)	(11)
	(762)	28	22	9	17	3	(683)

The table above shows the variations from budget on all our major expenditure areas. **For the avoidance of doubt in the table above, negative figures shown in brackets are underspent budgets. Figures not in brackets are overspent budgets.** (A zero figure indicates that the line is on budget, or that it is not a budgetary responsibility of that partner).

Overall, the end of July position shows that the Somerset Waste Partnership budget is forecast to be **underspent by £683,000** (1.6% of the original budget), albeit on relatively limited actual costs on the year to date.

2.1. Waste Collection

Estimated figures for the collection partners indicate a potential combined £79,000 overspend across the 5 partners at this stage. There are a number of factors that need to be noted in this figure:-

Head Office costs are high because of higher pension deficit contributions that are necessary, a small additional cost for the IT development of the customer management system and some consultancy costs incurred in year in relation to the work on Recycle More by Anthesis and Eunomia.

(The Head Office figures quoted above do not include any potential drawdown of the £421,284 that the Board set aside at the end of the previous financial year from the rental and ultimate sale of our aged refuse fleet. Depending on the need

for additional consultancy support on Recycle More during 2017/2018 and the other budget lines within the Head Office, a decision can be made later in the year as to whether these costs can be accommodated within the normal budget or whether a small amount needs to be drawdown to meet initial costs).

Collection costs of Recycling and Refuse are showing small underspends in relation to communal properties. There has been a delaying in rolling out plastic and card to communals, as we try accommodating this with the Recycle More work.

Any increase in **collection costs of garden waste** will be driven by increased resident take-up of this service. Board members are reminded that a corresponding income stream is collected by the individual partners, and that given the structure of changes from Kier, it is actually a net financial benefit at present to increase the number of customers. This figure will need to be updated as later customer numbers are known.

Recycling credits have historically been the most volatile line in the collection service throughout the year, depending on the number of collection days in each month and on the date that materials leave depots. Despite these up and downs, we have usually come close to budget by end of the year (we achieved 99.2% of the budget in 2016/2017).

These are also based on figures that slightly lag behind normal costs. So, although there is a currently estimated deficit on this budget line of £64,000, (2.6% of the total recycling credits budget line), this is not yet of great concern.

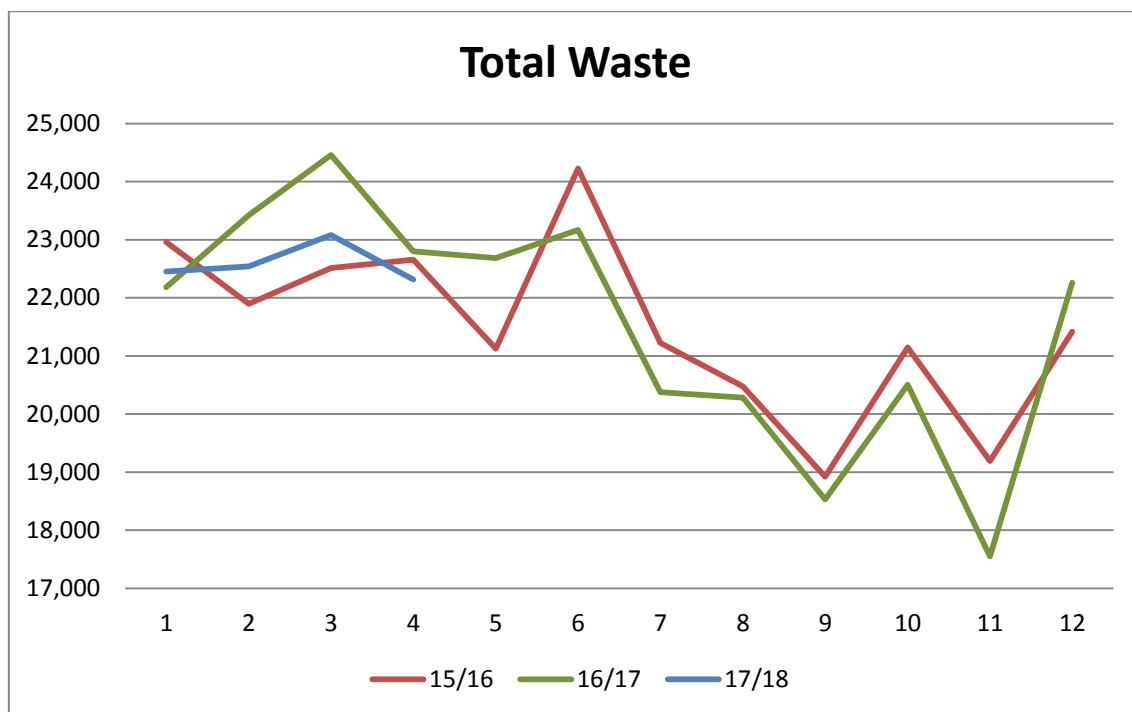
Container purchase and delivery costs will inevitably vary between individual partners, depending on actual usage. Higher costs are being experienced on delivery in particular, but members will recall that we have recently looked at alternative options and have reported that there are no cheaper options that we can implement under the Kier contract.

2.2 Waste Disposal

The waste disposal position continues to outperform budget. The currently forecast underspend figure of £762,000 represents 2.8% of the Annual Budget for disposal. Performance information that explains this position is an another item on this agenda, but the headline figure is that overall waste volumes arising are approximately 3% lower in the first Quarter of 2017/2018 than in the equivalent period for last year.

It should be noted that the in-year underspend includes a one-off figure of £225,000 from Viridor that relates to a payment due on the Energy From Waste project at Avonmouth. Whilst this improves the position, it will not reoccur.

Members will recall that this trend was discussed at the June 2017 Board meeting, partially at least as a result of the implementation of the permit scheme at our Recycling Centres from the summer of last year. It is highly possible that the current performance is simply a continuation of this trend or a “full-year effect”.



3. Factors that will influence the Annual Budget 2018/2019

Work has commenced on the key cost drivers that will influence the “continuation” budget for 2018/2019. The proposed change in the Business Plan approval timetable cannot be replicated for the Annual Budget, as certain key numbers will not be finalised ahead of the December Board meeting. However, given that changes from the draft December budget to the final February Annual Budget are relatively small, and that the key Business Plan proposals will not have a budgetary impact in 2018/2019, this is considered to be very low risk.

At present, no specific additional savings targets have been notified, although this certainly does not preclude this possibility later during the budget setting process as usual.

3.1. Collection factors

Much of the early preliminary work in preparing the next Annual Budget will be in updating for household numbers, green waste customers, latest inflation figures and estimate waste tonnages. Many of these cost drivers are provided directly from the Districts. This will be reviewed constantly during the budget setting process as better information becomes available until the Annual Budget is formally set in February. Key points to note:-

- The inflation indices for the collection contract will be known and fixed ahead of the December Board meeting (being published in October). Given the current general upturn in inflation, particularly around fuel, this could be more significant a factor than in previous years. The final inflation factor applicable coming into 2017/2018 was 1.18%, which cost a total of £208,000 between partners.
- The household numbers are formally updated based on the 1st December figure supplied by all collection partners. Each collection partner pays an

uplift entirely dependent on household growth in their own District. The average last year was 1.23% growth, which cost a total of £157,000 between the partners.

- Garden waste growth will come from the latest actual numbers when we set the budget. The estimated growth for 2016/2017 was 3%. Whilst this will show a cost in the Somerset Waste Board budget, the local income stream will be higher than the marginal costs.
- A number of assumptions are therefore required at this stage to provide a preliminary estimate for the Board and partners, which will be much firmer at the December meeting.
- Since the Annual Budget for 2017/2018 was set, it has come to light that costs of Central Despatch for Somerset Waste Partnership have been charged to a corporate budget at Somerset County Council. Budget will be transferred for the County Council, and there is a small additional charge for each District partner, being approximately £4,000 in total. (The precedent has already been set within the Somerset Waste Partnership that we do not retrospectively amend budgets for better information, so this amount will only be requested from 2018/2019 onwards).
- The school education service trial reintroduction that is referred to in the Business Plan is proposed to be funded from Viridor Community Sector Integrated Plan, and therefore will have no additional impact on the Annual Budget for 2018/2019.

3.2 Disposal factors

The continuing positive trend in waste arisings will be closely monitored as part of the forward budget setting. If this is sustained, it will be a positive factor in the forecasting for 2018/2019. The waste disposal key factors in setting a continuation budget have not changed:-

- Landfill Tax rates from 1 April 2018 have been confirmed by the Treasury as **£88.95 per tonne** for standard rate material and £2.80 per tonne for lower rate (inert) material. This is an increase from £86.10 and £2.70 respectively in this financial year, an increase of 3.3% on the standard rate. Based on the initial tonnages in the 2017/18 budget, this would cost an additional £347,000. Rates have not yet been set for 2019/2020, but the guidance is that this will rise in line with RPI.
- Contract inflation for disposal is based on a number of indices within the various disposal contracts. These are highly volatile, particularly the Baxter index (which is an industry standard and includes a significant fuel element). Indices for disposal run from February 2017 to February 2018, and are not published until March. An estimated figure will therefore be included nearer the time. For comparative purposes, the contractual inflation costs in the Annual Budget for 2017/2018 was £578,000.
- Volume growth will be based on the latest available data ahead of the December draft budget, reviewed if necessary ahead of the Annual Budget setting in February 2018. Previous estimates have been based on household growth (£539,500 last year, however it may be possible to reign this back if trends do continue to be positive.

4. Consultations undertaken

- 4.1. The Senior Management Group receives a summary financial management report on a monthly basis, and regularly covers financial topics on their agenda.

5. Implications

- 5.1. Potential over and underspends as in section 2 above, if trends continue, would result in these figures at outturn for the individual partners.
- 5.2. Financial trends as set out above will be incorporated in the setting of the Annual Budget for 2018/2019.

6. Background Papers

- 6.1 Previous Financial Performance and Annual Budget reports to the Somerset Waste Board (all available on the website or from the author).