

Somerset Waste Board meeting
15 December 2017
Report for decision



Financial Performance Update 2017/2018 and Draft Budget 2018/2019
Lead Officer: Mickey Green, Managing Director and Martin Gerrish, Finance Officer
Author: Martin Gerrish, Finance Officer
Contact Details: mgerrish@somerset.gov.uk or (01823) 355303

Forward Plan Reference:	SWB/17/09/04
Summary:	<p>The report sets out the financial performance against the approved Annual Budget for the first 7 months of the current financial year from April to the end of October. (A verbal update will be provided at the meeting itself for any significant changes in November).</p> <p>The report is also an update of the Draft Budget from November’s meeting that will ultimately lead to the Annual Budget for 2018/2019.</p> <p>Members are also asked to note 2 current claims that have been made by the Somerset Waste Board on behalf of its partner authorities.</p>
Recommendations:	<p>That the Somerset Waste Board :</p> <ol style="list-style-type: none"> 1. notes the summary financial performance to date as contained in this report, and how this will impact on the budgetary requirements for 2018/2019. 2. approves the Draft Budget of £ 45,147,200 for 2018/2019 as set out in Appendix 1. 3. notes the landfill tax and vehicle cartel claims that have been made on behalf of the partner authorities.
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 as set out in the draft Annual Budget for the next financial year. There is a requirement within our revised Constitution for the Board to consider the suitability of the draft Budget no later than 24th December.</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 setting their own annual budgets for</p>

	<p>2018/2019.</p> <p>As with the Business Plan, setting the next year's budget is an iterative process and the Board will continue to be consulted regularly throughout the process.</p>
Links to Priorities and Impact on Annual Business Plan:	<p>The Annual Budget is entirely 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>
Financial, Legal and HR Implications:	<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 are a key contributory factor in shaping the forward budget.</p> <p>The Annual Budget, once finally approved, will become the new measure for our financial performance for 2018/2019. 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. Generally, costs and savings attributable to Recycle More have been included in specific reports on that subject, including the earmarked reserve that is being used to finance the project.</p> <p>There are no specific legal or HR implications.</p>
Equalities Implications:	<p>None.</p>
Risk Assessment:	<p>Members will be aware from previous reports that the waste budget and actual costs, particularly disposal volumes, 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. Small amendments have subsequently been made in relation to pension deficits and postage on the County side only, bringing the current budget to £43,611,410. 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

2.1. Summary of budget variances

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	TDBC £'000	WSC £'000	Total £'000
Head Office	(35)	9	9	13	9	3	9
Disposal Costs	(677)	0	0	0	0	0	(677)
Collection - Recycling	0	(6)	(8)	(9)	(7)	(4)	(33)
Collection - Refuse	0	(1)	(1)	(2)	(2)	(0)	(7)
Collection - Garden	0	0	(12)	(8)	19	13	12
Collection Costs	0	5	4	6	8	1	25
Recycling Credits	(79)	25	13	28	13	0	(0)
Container Purchase & Delivery	0	(9)	5	(17)	(0)	2	(19)
Other	19	(4)	(5)	(15)	(4)	(2)	(11)
	(771)	19	5	(5)	36	14	(702)

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. Figures are rounded to the nearest £000).

Overall, the end of October position shows the underlying Somerset Waste Partnership budget is forecast to be **underspent by £702,000** (1.61% of the current budget). This is very similar to the previous position report to the September Board, which were July figures and showed an underspend of £683,000.

2.2. Waste Collection

The figures above do not include any drawdown of the earmarked reserve for Recycle More (£421,284), which has been set aside for project costs as reported in other Board papers. Some initial consultancy costs have been included, and there has again been some vehicle rental and sale income to offset these costs. This amount is therefore still fully available as required for Recycle More.

The collection position is £69,881 overspent, which is very similar to the £79,000 overspend reported to the previous report to September Board. The underlying reasons have not changed:-

- **Head Office** costs are high because of higher pension deficit contributions that are required.
- 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.
- Increases in collection costs of **garden waste** will be driven by increased

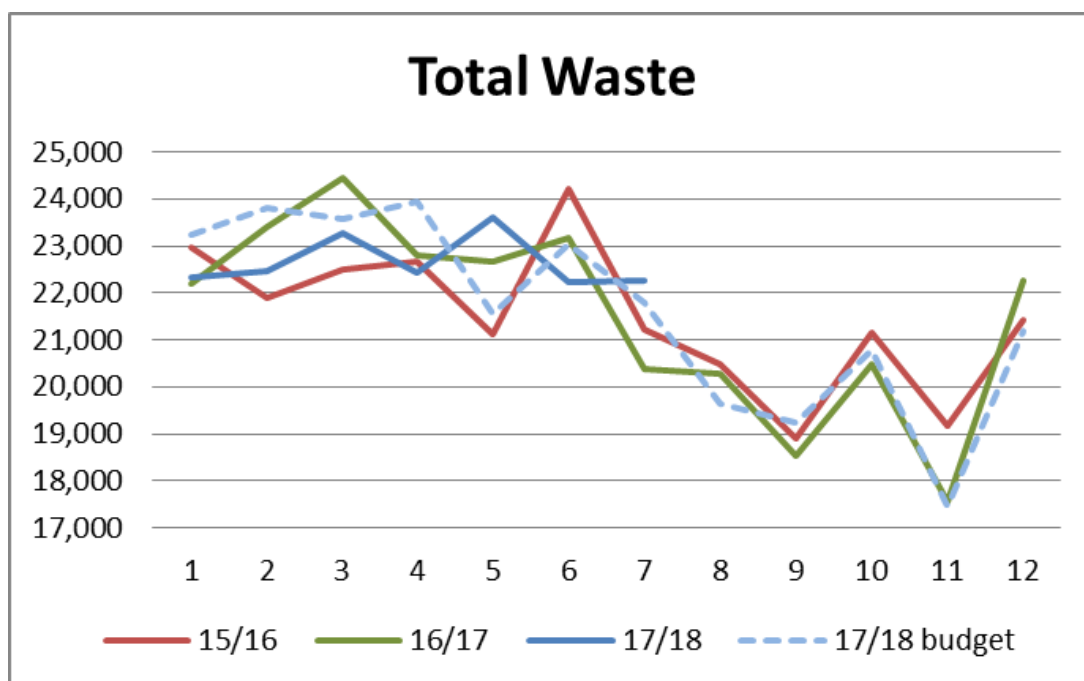
resident take-up of this service. Taunton Deane and West Somerset have seen a significantly higher increase relative to other partners. Members are reminded that a corresponding income stream is collected by the individual partners, and that given the structure of changes from Kier, it is actually a net financial benefit at present to increase the number of customers.

- **Recycling credits** continue to be below budget (currently 3.26%, previously 2.6%). Whilst these remain volatile, this the second quarter where this is the case at kerbside.
- **Container costs** are down on purchase, but up on delivery.
- **Other** costs for the District partners include the £23,000 income from vehicle disposals.

2.3. Waste Disposal

The waste disposal figure at the end of October showed an underspend of £771,000, which is very similar to the figures reported at the September Board of £762,000.

The reasons behind this are contained within the Performance Report, which is also on this agenda, but again reflects a reduction in waste arisings in the year to date, particularly in the early months.



2.4. Draft Budget 2018/2019

The table below shows the year on year changes for the collection partners and the reasons why the additional budget is required.

WASTE INFLATION ESTIMATES

		MDC	SDC	SSDC	TDBC	WSC
17/18 Final Budget		3,337,563	3,478,809	4,988,964	3,421,569	1,174,401
Inflation - Collection	2.54%	93,913	96,793	138,566	95,775	33,603
Household Growth	0.77%	17,654	20,279	24,454	31,079	8,794
Garden Waste	3.00%	18,271	13,842	16,189	42,942	17,916
Recycling Credits		(306)	(11,550)	(9,284)	(11,674)	(8,916)
Salaries	1.0%	997	1,061	1,489	1,034	352
Pension Deficit		9,257	9,856	13,818	9,640	3,262
Transfer station offset		(1,888)	(2,011)	(2,819)	(1,967)	(666)
Bulkies / Containers		(5,583)	9,014	(12,549)	6,386	2,732
ICT Development		1,095	1,166	1,635	1,141	386
Waste Projects		1,643	1,750	2,453	1,711	579
Proposed Savings		0	0	0	0	0
18/19 Budget		3,472,616	3,619,010	5,162,915	3,597,635	1,232,445
Increase / (Decrease)		135,053	140,201	173,951	176,066	58,044
Percentage		4.0%	4.0%	3.5%	5.1%	4.9%

Overall, the position is slightly improved on that reported to the November Board in the Business Plan (collectively £35,000 better on the c£17.1m budget). The most significant change is the individual Districts household growth numbers. We had previously estimated 0.95% growth, but the latest estimates from partners are 0.77%. This is the last outstanding area that we will change when we get actual household numbers from partners in January. The individual growth reported from each are:-

Mendip	0.66%
Sedgemoor	0.74%
South Somerset	0.62%
Taunton Deane	1.10%
West Somerset	0.84%

The inflation figure is also slightly lower than estimated at 2.54%. This is now fixed for the next financial year.

As reported with the Business Plan, the disposal budget is less fixed. Inflation

indices are not finalised until February's figures are published, and will be estimated to provide a final Annual Budget as usual. There is also a uplift on recycling credits of 3% to pay the Districts. The total contractual costs (including smaller lines) are currently estimated at c£750,000.

The landfill tax uplift if known, moving from £86.10 to £88.95, which will cost close to £350,000. The total landfill tax estimate for 2018/2019 is now £10.65 million.

Assuming volumes continue as currently forecast, there will be a reduction in the budget requirement of approximately £230,000.

In total, the estimated disposal uplift required is **£862,500** (compared to £1.465m for 2017/2018).

3. Other financial matters

3.1. Landfill tax claim

A briefing note on this claim is included as Appendix 2, as previously requested by the Board. Unfortunately, PwC has not been able to provide a more current legal position.

3.2. Vehicle cartel claim

In April 2017 European Commission published its non-confidential version of the settlement decision in the EU truck cartel case. This cartel activity was investigated by the European Commission and record fines of almost €2.93 billion were imposed on certain manufacturers in July 2016.

Much of the litigation position is still subject to legal confidentiality, but I can report that:-

- The Local Government Association is exploring the possibility of collating Collective action by for member authorities for compensation claim against certain truck manufacturers who engaged in price fixing between 1997 and 2011. The Local Government Association has met with a number of Litigation Funders who have approached it as interested in funding a Local Government Claim on a "no win no fee" basis.
- Following formal agreement from all section 151 officers in Somerset, we have indicated that we are proposing to join under this Local Government Association Collective action.
- The SWP is acting as the contact for this claim.
- There are 26 waste recycling vehicles that could have been affected by the cartel (total lease value £1,686,062 plus VAT).
- Because these were leased, we do have very detailed records about the vehicles (e.g. chassis number).

4. Consultations undertaken

- 4.1. The Senior Management Group receives a summary financial management report on a regular basis, and regularly covers financial topics on their agenda.
- 4.2. The in-year financial position and the potential budgetary requirement will be considered at the section 151 officers' meeting on 15th December 2017. Section 151 officers have already received details of the figures included in the Business Plan.

5. Implications

- 5.1. Potential over and underspends as in sections 2.1-2.3 above, if trends continue, would result in these figures at outturn for the individual partners.
- 5.2. Financial figures as set out in the draft budget in section 2.4 will be incorporated in the setting of the Annual Budget for 2018/2019. Any movement at this stage, particular for collection partners, would be very marginal.

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 report author).