

Somerset Waste Board meeting
14 December 2018
Report for decision

Financial Performance Update 2018/2019 and Draft Budget 2019/2020
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Forward Plan Reference:	
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 September's meeting that will ultimately lead to the Annual Budget for 2019/2020.</p> <p>Members are also asked to note the current financial position with regard to the funding available for the Recycle More project.</p>
Recommendations:	<p>That the Somerset Waste Board notes the summary financial performance to date as contained in this report, and how this will impact on the budgetary requirements for 2019/2020.</p> <p>That the Somerset Waste Board approves a Draft Budget of £ 46,111,300 for 2019/2020 as set out in paragraphs 2.6-2.7 below, taking into account the potential savings requests from the County Council as set out in paragraph 2.7.</p> <p>That the Somerset Waste Board notes the financial position to date with regard to the Recycle More project, and affirms the position on capital financing of vehicles and depot infrastructure as set out in paragraph 2.4 below.</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 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 any savings requirements, and to progress setting their own annual budgets for 2019/2020.</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 2019/2020, current trends in demographic growth, service uptake and waste tonnages arising in 2018/2019 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 2019/2020. 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>Draft Budget figures presented within this report are based on the current service model. Costs and savings attributable to Recycle More have been included in the specific information on that project, 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 2018/2019 was originally set at the Board meeting of 23rd February 2018 at £45,145,256

Subsequently, the Board has agreed a number of in-year budget reductions and a drawdown from earmarked reserves on the disposal budget at the September meeting. In addition, the Board agreed the extension to the Viridor contract at the November 2018 meeting, which brings a saving from 2018/2019 onwards. Following these decisions, the 2018/2019 the Waste Board budget now stands at £44,545,260.

- 1.2.** Individual collection 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. 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	(24)	(6)	(6)	(9)	(6)	(2)	(54)
Disposal Costs	(907)	0	0	0	0	0	(907)
Collection - Recycling	0	0	0	0	0	0	0
Collection - Refuse	0	0	(0)	(0)	0	(0)	(0)
Collection - Garden	0	42	12	(16)	30	17	85
Collection Costs	0	3	2	3	3	1	11
Recycling Credits	(26)	6	4	9	4	3	0
Container Purchase & Delivery	0	(15)	(4)	(4)	(13)	(0)	(36)
Other	0	(5)	(5)	(16)	(5)	(2)	(33)
	(958)	25	3	(32)	12	17	(933)

The table above shows the variations from budget on all our major expenditure areas. **For the avoidance of doubt in the table above, 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 £933,000** (2.09% of the current budget). This is an improvement on to the previous position report to the September Board, which were July figures and showed an underspend of £562,000.

2.2. Waste Collection

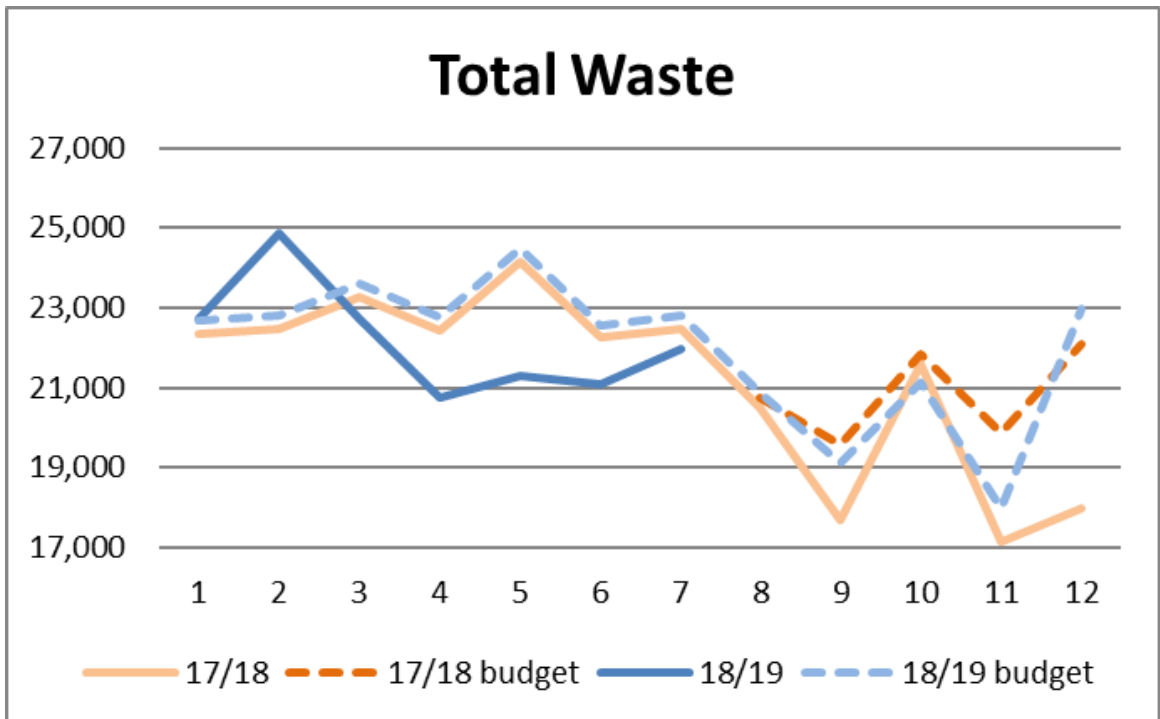
The collection position is £25,000 overspent, which is a slight deterioration from the £28,000 underspend reported to the previous report to September Board.

The main reason for this movement has been an additional £85,000 estimate on the garden waste costs, based on the number of customers subscribing to the service at the end of August. This is still being finalised ahead of the February final budget. There is a strong correlation between the individual collection partners garden waste figures and their bottom line. Members are reminded that there is compensating income for additional garden waste customers that is collected by the individual partner. Currently, the income received for additional customer exceeds the marginal cost paid to the contractor.

In addition, this overspend is partially offset by an estimated reduction in container purchase and delivery costs, Head Office costs and “Other”, which includes vehicle financing and contractor pension costs

2.3. Waste Disposal

The waste disposal figure for the Board at the end of October showed an underspend of £958,000, which is an improvement on the figures reported at the September Board of £534,000. Members will recall that a significant proportion of this underspend is caused by one-off factors (£569,000) around year end forecasting and the extreme weather, however it is clear that volumes have reduced during 2018/2019, as set out in the Performance Report, which is also on this agenda. The graph below illustrates the 2018/2019 performance in particular.



2.4 Recycle More project funding

The budget figures reported above do not include any drawdown of the earmarked reserve for Recycle More. Available funds at the start of 2018/2019 stood at £616,106. It has been agreed by the Board that we keep this funding separate from the continuation budget, and report on it separately. Section 151 officers have

wanted clarity between the on-going budget requirement and the one-off project funding.

Up to the end of October, only £86,000 of this earmarked reserve has been spent, although further costs will be incurred with the on-going support for Eunomia, who are our technical consultants. Additional support has come procurement, legal and finance staff at the Administering Authority.

It is expected that the current level of the reserve will be adequate to cover the costs incurred during the procurement and mobilisation period (April 2019 – March 2020), noting that these do not include capital costs related to depots or vehicles.

In 2016 the roll-out costs agreed by the Board were estimated at £2.2m (primarily due to the cost of new containers, cost of communications and transition support, but not including the costs of procurement).

The exact roll-out costs will depend on the winning contractor and agreed roll-out methodology and communications.

The Board are also asked to note that the depot requirement for the new service will necessitate some lease costs between contract award and contract commencement in April 2020. At present, the funding for this is not quantified, and this could be a further call on the Recycle More earmarked reserve.

It has been previously agreed that partners will not be able to take savings generated from the Recycle More service model itself, until all roll-out costs have been met. This was to ensure that all partners are treated equally, and that the order of the roll-out will not impact on individual partners.

It has always been the intention that any capital financing savings are not part of the above agreement, and that these will accrue to the partners who borrow as they arise. This has been recently confirmed with the section 151 officers, as there would have been a need to replace the fleet in any event. The Board is asked to formally confirm this arrangement.

2.5 Truck Cartel update

This collective action is still under consideration. The original terms offered by the funding partner were not sufficient for the majority of local authorities involved to agree to progress the action. The terms and conditions are now under further review. Nick Bacon QC is advising the Local Government Association on behalf of the local authorities.

2.6 Draft Budget 2019/2020 – Collection

The table below shows the year on year changes for the collection partners and the reasons why the additional budget is required. A positive number is an increase in the budgetary requirement, whilst a negative number is a decrease in the budgetary requirement. So, for example, the recycling credits budget is decreased for Districts, because the County Council provides a 3% uplift per year to the

collection partners.

DRAFT WASTE INFLATION ESTIMATES

		MDC	SDC	SSDC	SWaT
18/19 Final Budget		3,463,461	3,609,494	5,166,003	4,842,898
Inflation - Collection	3.27%	124,638	128,651	183,844	174,646
Household Growth	0.96%	46,334	16,566	27,944	41,636
Garden Waste	6.04%	46,393	20,622	(10,822)	51,218
Recycling Credits		(17,847)	(14,090)	(19,798)	(22,011)
Salaries	2.00%	2,030	2,154	3,026	2,841
Pension Deficit		0	0	0	0
Transfer station offset		(1,956)	(2,058)	(2,892)	(2,725)
New Authority changes		(3,039)	(3,488)	(4,652)	24,907
Bulkies / Containers		(9,755)	5,552	6,785	(4,852)
Waste Projects		0	0	0	0
Proposed Savings		0	0	0	0
19/20 Budget		3,650,257	3,763,405	5,349,439	5,108,558
Increase / (Decrease)		186,796	153,911	183,436	265,660
Percentage		5.4%	4.3%	3.6%	5.5%

The additional budget requirement for District partners for the collection service is £789,803, which is an increase from the September of £663,199.

There are a number of reasons for this increase to the Draft Budget:-

Inflation is now fixed at 3.27%, which is September's indices, published in October. In September, this had been estimated at 3%.

Garden waste numbers have been inflated in line with the increased customers taking the service in 2018/2019, plus the usual growth estimate. Again, income will offset these additional costs.

The Sort It Plus Business Case support to the new authority has been removed in accordance with the amendments to the Cost Sharing Agreement that the Board approved in September.

Household numbers have been provided by the individual Districts. Members are reminded that each District only pays for the actual growth in its areas. Figures as reported from each area are as follows:-

Mendip	1.54%
Sedgemoor	0.65%

South Somerset	0.71%
SWaT	1.06%

The only figures where movement is now expected to occur is in relation to housing growth or updated garden waste customers, which are regularly reviewed. South Somerset in particular appear to have attracted more garden waste customers that will be reflected in the Final Budget, but will benefit from the additional income that they will collect. This will be recalculated when we get actual household and final garden waste numbers from partners in January, ahead of the Final Budget taken to the February Board.

2.7 Draft Budget 2019/ 2020 - Disposal

As with every Draft Budget reported in December, 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. Given the volatility of the volumes arising, these will continue to be monitored and the latest available trends will be used to estimate the final Annual Budget.

At present, the estimated average inflation across a number of disposal indices is 3.7%. The inflation uplift required is £621,400.

Landfill Tax rates from 1 April 2019 have been confirmed by the Treasury as £91.20 per tonne. This is an increase from £88.95 of 2.53% on the 2018/2019 rate. Based on the projected current tonnages budget, this would cost an additional £287,400. The total landfill tax estimate for 2019/2020 is now £10.97 million.

Assuming volumes continue as currently forecast, there will be a reduction in the budget requirement of approximately £16,000.

In total, the estimated disposal uplift required is now £892,800 (compared to £1.195m estimated in September).

The Viridor HWRC contract extension, approved by the Board in November, will also provide an additional £200,000 of savings in 2019/2020.

In addition, the County Council is requesting further savings from the Somerset Waste Board of £225,000. To meet this target, the Managing Director proposes to continue a number of in-year savings that were already agreed by the Board at its September meeting, or where base budgets can be relatively safely reduced.

For ease, these are set out below:-

- 1) Reduction in clinical waste disposal budget: £40k
- 2) Reduction on Recycling Site waste minimisation bonus: £40k
- 3) Reduction in Closed Landfill monitoring: £10k
- 4) Reduction in Recycling Site permitting costs: £15k
- 5) Reduction in fly tipping payments: £20k

For the additional £100,000 of savings, this will need to come from the continued downward volumes of waste. Whilst the direction of travel is clearly positive, this is a potential risk and is not controllable by the Somerset Waste Partnership. However, members are reminded the County Council is wholly responsible for all disposal costs and bears this risk if the trend changes.

It is not thought necessary to include an Equalities Impact Assessment for any of these savings proposals, however, this will be confirmed at the February Board meeting in time for the final Annual Budget for 2019/2020.

The total waste disposal uplift required, taking into account all of the above is £467,800.

Combined with the collection contract uplifts as set out in paragraph 2.5 above, the Draft Budget requirement for 2019/2010 is £46,111,300. This will be finalised at the February Board meeting.

3. Consultations undertaken

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

4. 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 sections 2.6-2.7 above will be incorporated in the setting of the Annual Budget for 2019/2020. Any movement at this stage, particular for collection partners, would be relatively 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).