

Somerset Waste Board meeting
27 September 2019
Report for Approval

Financial Performance Update 2019/2020 and Development of the Annual Budget 2020/2021

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<p>Forward Plan Reference:</p>	<p>SWB/19/04/01</p>
<p>Summary:</p>	<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.</p> <p>The report is also the formal commencement of the budget setting process that will ultimately lead to the Annual Budget for 2020/2021.</p>
<p>Recommendations:</p>	<p>That the Somerset Waste Board:-</p> <ul style="list-style-type: none"> i) Notes the summary financial performance for 2019/2020 year to date and the potential outturn position for each partner authority. ii) Considers the draft budget for 2020/2021 and the key factors that will influence the budget setting process. iii) Removes the fly-tipping compensatory payment scheme in its entirety with effect from 1 April 2020 as it has served its purpose and is no longer required. iv) agrees the case for applying the exempt information provision as set out in the Local Government Act 1972, Schedule 12A and therefore to treat appendix A to this report in confidence, as it contains commercially sensitive information, and as the case for the public interest in maintaining the exemption outweighs the public interest in disclosing that information.

	<p>v) Delegates authority to the Managing Director to implement the arrangements to resolve pension issues on termination of the Kier contract as set out in confidential appendix A.</p>
<p>Reasons for recommendations:</p>	<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>The accompanying confidential appendix A contains commercially sensitive information relating to the contract and the Council's financial and business affairs. Officers recommend that this is treated as exempt information. "Exempt information" is defined by Section 100 of the Local Government Act 1972, by Schedule 12A to that Act.</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</p>

	<p>any shortfall at year end. However, during Recycle More roll out any variations to budget relating to the project will remain within the partnership until the project has been completed.</p> <p>When considering the draft Annual Budget for 2020/2021, current trends in demographic growth, service uptake and waste tonnages arising in 2019/2020 will be a key contributory factor in shaping the forward budget.</p> <p>There are no HR implications of this report.</p>
Equalities Implications:	None.
Risk Assessment:	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.

1. Background

- 1.1.** The Annual Budget for 2019/2020 was originally set at the Board meeting of 15 February 2019 at £46,243,485. 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.

2. Current Financial Position

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	(18)	(4)	(5)	(7)	(6)	(40)
Disposal Costs	(712)	0	0	0	0	(712)
Collection - Recycling	0	(0)	(0)	(0)	(0)	(0)
Collection - Refuse	0	(0)	0	(0)	(0)	(0)
Collection - Garden	0	(0)	(0)	(0)	0	0
Collection Costs	0	(3)	(4)	(5)	(4)	(16)
Recycling Credits	(49)	9	10	15	14	0
Container Purchase & Delivery	0	(1)	(1)	(1)	(1)	(4)
Other	(11)	(1)	(1)	(15)	(2)	(30)
	(791)	(1)	(0)	(13)	1	(804)

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 £804,000** (1.74% of the original budget), albeit on relatively limited actual costs in the year to date. This does not include the Recycle More project work, which is funded from a separate project fund.

2.1. Waste Collection

Estimated figures for the collection partners indicate a potential combined **£13,000 underspend** across the 4 partners at this stage.

Recycling credits are reporting a shortfall in income of £49,000 across the 4 partners. This is due to reduced volumes of dry recycling. Dry recycling volumes can vary considerably from month to month due to weather, number of collections in that month and social activity.

This shortfall in income is offset by other small underspends across the partners.

It should be noted that this is based on very limited collection data (April to June 2019), particularly recycling credits and variable collection items such as bulky collections and replacement containers.

- 2.2.** The Recycle More project fund stands at £1,101,040 following the transfers approved at the June board. To date a total of £11,000 of this has been spent. It is expected that this will be fully spent this financial year.

2.3. Waste Disposal

Waste disposal costs are forecast to underspend by £791,000, this is down to waste volumes being less than budgeted. The most significant areas seeing a reduction are kerbside residual waste and green waste at both kerbside and recycling centres.

All forecasts are based on the tonnages in the first 4 months of the year compared to the same period last year, although volumes continue to be volatile and dependent on outside factors such as the weather.

3. 2019/20 SCC savings update

The following SCC savings are built in to the 2019/20 budget;

- £200k Waste HWRC contract extension.
- £225k Non customer facing savings including volumes and a number of other small savings.

All these savings have either been made or are on target to be achieved by the end of the financial year.

4. Pensions - See confidential appendix A

5. Fly Tipping

The fly tipping compensatory payment scheme has been in place since April 2011, to protect District Council partners from adverse financial impacts to their Streetscene services through changes made by the County Council to the Recycling Site network. It was always designed to serve that specific purpose rather than be an ongoing scheme, and the rationale for continuing with it has now come to an end. Should there ever be issue which results in adverse financial impacts on one partner from the actions of another, then SMG officers are satisfied that the 'no cost-shunting' principle enshrined in our Inter-Authority Agreement would ensure appropriate compensation.

The compensation during the first year of implementation of the scheme amounted to circa £47,000, spread across the 5 District partners. Since that peak, the levels of compensation have diminished as fly tipping numbers have fallen year on year to a point that during 2016/17 and 2017/18, only Sedgemoor received limited amounts of £1,970 and £3,750 respectively. Since 2016/17 none of the other District partners have received any compensatory payment from the County Council and in 2018/19 no payments were due to any District partner. This trend is expected to continue in this current financial year. It is therefore proposed that the fly tipping compensatory payment scheme has served its purpose and should be removed from 2020/21.

6. Indicative Annual Budget forecast for 2020/2021 – Collection

6.1 The table below shows the indicative budget requirements for 2020/2021. The inflation and growth assumptions are as listed. During 2020/21 there will be roll out costs for Recycle More which will be funded through the Recycle More project fund, these will be managed outside of the 'core' Somerset Waste Partnership budget.

No tonnage growth has been assumed on recycling credits, this remains based on current performance. The increased income for collection partners relates to the agreed 3% annual payment uplift on recycling credits from the County Council.

Household growth is an early estimate based on prior years actuals. Members are reminded that each collection partner will be charged according to their individual district housing growth.

There have been depot rent reviews and the increased costs are reflected in the budget below.

EARLY WASTE INFLATION ESTIMATES

		MDC	SDC	SSDC	SWaT
2019/20 Final Budget		3,647,950	3,766,020	5,459,003	5,119,011
Inflation - Collection	3.00%	120,337	123,136	177,845	168,242
Household Growth	1.00%	29,444	29,423	43,767	40,585
Garden Waste	2.00%	7,847	9,299	11,317	12,017
Recycling Credits		(16,030)	(15,262)	(23,410)	(21,378)
Salaries	2.00%	2,076	2,192	3,080	2,902
Pension Deficit		0	0	0	0
Transfer Station Offset		(2,009)	(2,121)	(2,981)	(2,809)
Bulkies / Containers		0	0	0	0
Depot Rent Reviews		4,739	5,004	7,031	6,625
Proposed Savings		0	0	0	0
2020/21 Budget		3,794,356	3,917,692	5,675,653	5,325,196
Increase / (Decrease)		146,405	151,672	216,650	206,185
Percentage		4.0%	4.0%	4.0%	4.0%

6.2 Disposal Factors

Estimating the disposal figures at this stage is difficult, because we are 8 months away from the start of the 2020/21 financial year, and volumes and mix have remained volatile for some time (permits, snow, sun etc).

However, initial forecasts are:-

- Landfill Tax rates from 1 April 2020 have been confirmed by the Treasury as **£94.15 per tonne**. This is an increase from £91.35 of 3.07% on the 2019/2020 rate. This has less of an impact as we are moving away from landfill.
- Contract inflation for disposal is based on a number of indices within the various disposal contracts. These are highly volatile, particularly the civil engineering ("Baxter") index, which is an industry standard and includes a significant fuel element. Indices for disposal run from February 2019 to February 2020 and are not published until March.
- Volume growth is based on projected household growth. The current assessment is 1.0% growth.
- The total additional budget required for the above pressures is £625,400 (landfill, inflation and volumes).
- There is an additional pressure for Avonmouth of £1,746,700. This is the reversal of the savings (pre-contract payments) which were taken early by SCC (reflecting the particularly acute budget pressures on SCC in recent years). Energy for Waste remains cheaper and more environmentally friendly than landfill.
- The standstill cost for the disposal budget is therefore £2,372,100, an increase of 8.40% on the original 2019/2020 budget.

7. Recycle More

The above budget is for the roll out period of Recycle More during 2020/21. The roll out will be funded from the Recycle More Project Fund and where appropriate capital monies. No savings as a result of the new contract will be taken from the Somerset Waste Partnership until all roll out costs have been fully funded. Roll out is due to complete in February 2022. Savings will start to be seen in 2022/23 once roll out has been fully funded. The overall savings are anticipated to be over £2 million.

All partners have agreed capital borrowing to purchase the vehicles, fund depot works and equipment, and purchase the new containers. Each district partner is borrowing £5.0m on behalf of the Somerset Waste Partnership at a return of PWLB plus 1%. Loan agreements will be set up between SCC and the Districts for this. SMG and Section 151 officers have agreed the borrowing principles and schedule and to capitalise the new container costs within this.

All revenue costs will be funded from the Recycle More Project Fund. The following principles have been agreed by SMG and the Section 151 Officers. These principles will inform the revisions required to the Inter Authority Agreement (IAA)

- District collection partners should not be penalised or rewarded for when they roll out within the programme. No savings will be taken from the Somerset Waste Partnership until roll out has been fully funded.
- As a significant proportion of Recycle More savings will be from disposal costs, the disposal partner SCC will also contribute its savings from Recycle More until the break-even point has been reached (2022/23). Should there be extraordinary circumstances beyond what we have forecast that have a significant impact on disposal costs or savings, then we would need to take a view at the time on how any additional savings or costs should be fairly apportioned.
- Somerset Waste Partnership hold the Recycle More Project Fund and any deficits will be funded through contract savings before they then become attributable to partners.
- Once breakeven point is reached, contract savings will be shared on the basis currently stated in the IAA.

A reserve will be established to smooth out potential fluctuations in recycle revenue (with fluctuations deriving from the tonnages of each material collected and market prices – the latter of which are beyond our control. Section 151 Officers (endorsed by SMG) agreed the following;

- The equalisation reserve should only be commenced after roll-out is complete but similar prudent forecasts should be used during the roll-out period (without building up a reserve)

- The fund should be built up from 20% of SWP's recycle revenue as this value was considered prudent.
- The level of the reserve will be reviewed annually as part of the budget setting process.
- District Partners will pay Somerset Waste Partnership the gross monthly costs and will then receive a quarterly payment in arrears for their share of recycle income.

8. Consultations undertaken

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

9. Implications

- 9.1.** Potential over and underspends as in section 2 above, if trends continue, would result in these figures at outturn for the individual partners.
- 9.2.** Financial trends as set out above will be incorporated in the setting of the Annual Budget for 2019/2020, as set out in section 3 above.
- 9.3.** Pensions – see confidential appendix A
- 9.4.** Fly tipping – there are no financial implications for any partner from changing this mechanism.

10. Background Papers

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