

Somerset Waste Board meeting  
20 December 2019  
Report for decision

Paper  
Item No.

Financial Performance Update 2019/2020 and Draft Budget 2020/2021

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<b>Forward Plan Reference:</b>	
<b>Summary:</b>	<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.</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 2020/2021.</p>
<b>Recommendations:</b>	<p><b>That the Somerset Waste Board notes the summary financial performance for 2019/2020 to date as contained in this report, and how this will impact on the budgetary requirements for 2020/2021.</b></p> <p><b>That the Somerset Waste Board approves a Draft Budget of £47,896,600 for 2020/2021 for partner authority consultation, as set out in section 3.0 below, taking into account the potential savings requests from the County Council as set out in paragraph 3.2.</b></p>
<b>Reasons for recommendations:</b>	<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. 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</p>

	forward budget.
<b>Links to Priorities and Impact on Annual Business Plan:</b>	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.
<b>Financial, Legal and HR Implications:</b>	<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 2020/2021, current trends in demographic growth, service uptake and waste tonnages arising in 2019/2020 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 2020/2021. We will continue to share the costs amongst partners in the same way as previously as set out in our Cost Sharing Agreement. As previously agreed, during the roll out period, no Recycle More savings will be taken by partners until the project roll out has been fully funded.</p> <p>There are no specific legal or HR implication. This budget has been agreed on the principles agreed by the board at the September board meeting and as reflected in the draft revised Inter Authority Agreement (See separate paper)</p>
<b>Equalities Implications:</b>	None.
<b>Risk Assessment:</b>	Members will be aware from previous reports that the waste budget and actual costs, particularly disposal volumes, 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. The budget now stands at £46,031,055. This is as a result of the agreed movement of the vehicle lease monies at the Board meeting on 28 June 2019 of £262,430 to the Recycle More project fund and the additional SCC carry forward of £50,000 for Slim my Waste Feed my Face. 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** The Annual Budget is predominantly spent on making payments to our main contractors.

## 2. Current Financial Position

### 2.1 Summary of budget variances

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	(32)	(8)	(8)	(11)	(11)	<b>(70)</b>
Disposal Costs	(1,111)	0	0	0	0	<b>(1,111)</b>
Collection - Recycling	0	(0)	(0)	(0)	(0)	<b>(0)</b>
Collection - Refuse	0	(0)	0	(0)	(0)	<b>(0)</b>
Collection - Garden	0	(23)	(36)	33	(59)	<b>(85)</b>
Collection Costs	0	(2)	(2)	(3)	(2)	<b>(8)</b>
Recycling Credits	(89)	18	19	26	26	<b>(0)</b>
Container Purchase & Delivery	0	(3)	17	(0)	(15)	<b>(1)</b>
Other	(11)	(1)	(1)	(11)	(1)	<b>(25)</b>
	<b>(1,244)</b>	<b>(19)</b>	<b>(10)</b>	<b>33</b>	<b>(62)</b>	<b>(1,302)</b>

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 October position shows that the Somerset Waste Partnership budget is forecast to be **underspent by £1,302,000** (2.8% of the current budget). This is an improvement on to the previous position reported to the September Board, which were July figures and showed an underspend of £804,000. This does not include the Recycle More project work, which is funded from a separate project fund.

## **2.2 Waste Collection**

The collection position is £58,000 underspent, which is an improvement of £45,000 from the £13,000 underspend reported at the September Board.

The main reason for this movement has been a reduction in the number of customers subscribing to the garden waste service (measured annually as at the end of September for contract payments). This amounts to an £85,000 saving on the budgeted costs of this service.

Members are reminded that this means there will be a reciprocal reduction in the income collected by district partners for this service.

Garden waste figures have a significant impact on individual partners over and underspends. Other main factors are recycling credits and containers.

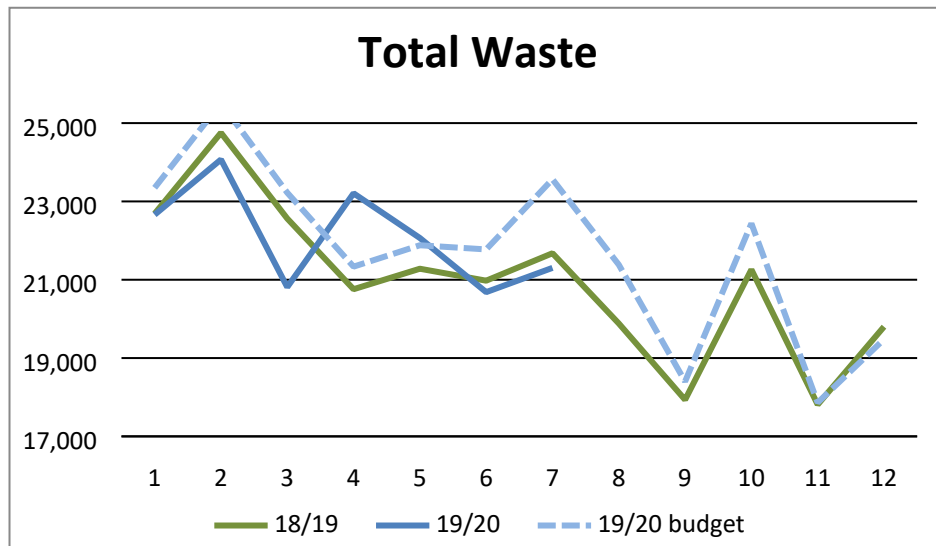
- 2.3** The Recycle More project fund stands at £1,101,040 following the transfers approved at the June board. To date a total of £72,071 of this has been spent. It is expected that this will be fully spent this financial year. This will be spent on implementation costs (including costs in relation to termination of the kier contract, lease and depot costs and technical advice) and pre contract borrowing.

## **2.4 Waste Disposal**

The waste disposal figure as at the end of October showed an underspend of £1,244,000 which is an improvement on the figures reported at the September Board of an underspend of £791,000.

Total tonnages to date are 3.5% less than budgeted. Forecasts have now been reprofiled to assume these trends continue for the remainder of the financial year. There have been significant waste reductions for residual waste at both the kerbside and recycling sites compared to budget. This is the most expensive waste stream so any reduction or diversion results in the largest savings.

It should be noted that tonnages can be volatile and generate significant cost movements.



## 2.5 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.

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

## 3.0 Draft Budget 2020/2021

### 3.1 Draft Budget 2020/2021 – Collection

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 based on the latest estimates provided by the district partners. These will be amended for final budget to be taken to the February board when actual figures are known. Members are reminded that each collection partner will be charged according to their individual district housing

growth. The current estimates are:-

Mendip	0.76%
Sedgemoor	1.19%
South Somerset	0.99%
Somerset West and Taunton	0.49%

The estimates in the table below also reflect the latest information regarding garden waste customers, bulky collections, containers and other contract cost changes.

There is a new budget line for income collected on behalf of Mendip for their garden waste charges and for all the district partners for their bulky waste charges. This new income line amounts to £673,700 across the district partners.

The only figures that are subject to change for the final budget are housing growth (upon receipt of final numbers) and bulky waste and containers (as more up to date information becomes available)

		<b>MDC</b>	<b>SDC</b>	<b>SSDC</b>	<b>SWaT</b>
19/20 Final Budget		3,647,950	3,766,020	5,459,003	5,119,011
Inflation - Collection	<b>2.82%</b>	113,178	115,751	167,179	158,152
Household Growth	<b>0.85%</b>	22,930	37,855	41,118	18,897
Garden Waste	<b>-0.45%</b>	(16,577)	(27,905)	44,687	(49,675)
Recycling Credits		(17,337)	(13,432)	(24,979)	(20,332)
Salaries	<b>2.75%</b>	5,432	5,736	8,059	7,594
Pension Deficit		0	0	0	0
Transfer Station Offset		(2,008)	(2,130)	(2,983)	(2,800)
Bulkies / Containers		(2,914)	16,233	1,513	(14,832)
Depot Rent Reviews		4,737	5,023	7,036	6,604
Subtotal		<b>3,755,392</b>	<b>3,903,152</b>	<b>5,700,634</b>	<b>5,222,619</b>
Garden & Bulky Income		(602,800)	(14,760)	(27,710)	(28,430)
Proposed Savings		0	0	0	0
20/21 Budget		<b>3,152,592</b>	<b>3,888,392</b>	<b>5,672,924</b>	<b>5,194,189</b>
<b>Increase / (Decrease)</b>		<b>(495,358)</b>	<b>122,372</b>	<b>213,920</b>	<b>75,178</b>
<b>Percentage</b>		<b>-13.6%</b>	<b>3.2%</b>	<b>3.9%</b>	<b>1.5%</b>

### 3.2 Draft Budget 2020/ 2021 - 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. The latest tonnage trends available have been used to set this budget.

However, most recent 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 £351,400 (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.
- In addition, the County Council is requesting savings from the Somerset Waste Board of £361,100
  - £200,000 – Year 2 of the core services contract extension (previously agreed by the board in November 2018)
  - £20,000 - Fly-tipping compensatory scheme removal (ceasation of scheme agreed by the board in September)
  - £36,000 - Minimisation Cap (linked to core contract extension)
  - £105,100 – Slim my Waste, Feed my Face food campaign
- The standstill cost for the disposal budget is therefore £1,737,000, an increase of 6.17% on the original 2019/2020 budget.

### 3.3 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 to fund vehicles and depot works.

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. These costs include pre contract borrowing and implementation costs. Implementation costs include costs in relation to the termination of the Kier contract, lease and depot costs and technical advice. A great deal of work has gone into ensuring these figures are extremely prudent.

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 per annum.

#### **4. Consultations undertaken**

The Senior Management Group receives a summary financial management report on a regular 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 figures as set out in the draft budget in section 3 above will be incorporated in the setting of the Annual Budget for 2020/2021. Any movement at this stage, particularly 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).