

**Somerset Waste Board meeting
23rd September 2022
Report for Approval**



Financial Performance Update 2022/2023 and Development of the Annual Budget 2023/2024

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Forward Plan Reference:	<i>22/04/01</i>
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.</p> <p>The report is also the formal commencement of the budget setting process that will ultimately lead to the Annual Budget for 2023/2024 for the new Unitary Somerset Authority.</p>
Recommendations:	<p>The Joint Waste Scrutiny Panel considers and comments on the following recommendations in this report.</p> <p>That the Somerset Waste Board: -</p> <ul style="list-style-type: none">i) Notes the summary financial performance for 2022/2023 to the end of month 4 (April – July) and the potential outturn position for each partner authority.ii) Considers the draft budget process for 2023/2024 and the key factors that will influence the budget setting process.
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>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 constitutionally 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 2023/2024, contract inflation, current trends in demographic growth, service uptake, waste tonnages arising in 2022/2023 will be a key contributory factor in shaping the forward budget.</p> <p>There are no 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 volatile.</p> <p>Inflation is a very high risk in the present financial climate. This will have a major impact on the base calculation of the collection and disposal contract costs with Biffa, Viridor and Suez.</p>

1. Background

- 1.1.** The Annual Budget for 2022/2023 was originally set at the Board meeting of 11 February 2022 at £48,902,332. 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. The County Council is the responsible authority for waste disposal.
- 1.2.** Our Annual Budget is predominantly spent on making payments to our main contractors.

2. Current Financial Position – Month 4

	SCC	MDC	SDC	SSDC	SWaT	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Head Office	8	2	2	3	3	17
Disposal Costs	(1,208)	0	0	0	0	(1,208)
Collection Costs	0	(147)	(204)	(337)	(300)	(989)
Recycling Credits	469	(99)	(94)	(143)	(134)	0
Container Purchase & Delivery	0	56	51	75	59	241
Covid - 19	0	(66)	(67)	(99)	(91)	(323)
Other - includes PV & E-RCV	0	(1)	(0)	(1)	(1)	(3)
	(731)	(255)	(312)	(503)	(464)	(2,265)

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 £2,265,000**. This represents 4.6% of the original budget. The savings expected can be explained further as follows:

- Recycle More now fully rolled out and savings forecast of £2,440,000 (SCC £1,246,000 and Districts £1,194,000).
- Savings on Covid-19 costs in Districts of £323,000.
- Offset by additional costs of inflation for the County Council Disposal contract, plus additional costs of timber disposal at HWRC sites.

2.1. Waste Collection

Estimated figures for the collection indicate a potential combined **£1,534,000 underspend** across the 4 District partners at this stage.

There is still uncertainty around yields as this is the first year of Recycle More being fully rolled out.

2.2. Waste Disposal

Waste disposal costs are forecast to **underspend by £731,000**. This is the net impact of the Recycle More savings of £1,246,000 and additional costs of contract inflation and timber at the recycling sites. Due to timing, the budget is set on estimated inflation for the disposal contract and the actual inflation applied to the contract was higher than budgeted. Similarly, tonnages are estimated for budget setting and there has been an increase in timber volumes.

2.3. 2022/23 SWP savings update

The following SWP savings are built in to the 2022/23 budget

- £700,000 – Part year Recycle More saving for all partners
- £70,000 – Reduced gate fee at anaerobic digester plant

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

3. Annual Budget (LGR) Setting Update 2023/2024

This year's budget setting process is significantly more complex than in prior years largely due to Local Government Reform in Somerset. Work is underway to prepare a budget for the new Unitary Council for 23/24. As part of this process a workbook has been prepared to consolidate the waste budgets between the Districts & County Council, and to collate all pressures and savings.

A Waste and Neighbourhood Services workstream has been set up and meetings are ongoing with the expectation that:

- Additional funding requirements for budgets are expected to be collated by the 12th September.
- Savings relating to transformation, fees and charges and additional income are expected to be collated by the 23rd September.
- Savings need to be presented to achieve 5%/10% and 20% budget savings.

Due to the complexity of this year's process, and the deadlines for first draft budgets being after the circulation of the September SWP Board papers, it is anticipated that a draft budget will be brought to the December Board.

The paragraphs below summarise the significant issues with both the collection and disposal contracts for the 2023/24 budgets.

3.1 Collection Factors for 23/24 budget

Inflation for the collection contract with Suez, which is based on a basket of indices including labour, fuel, and CPI, is currently 8.3% for the period Oct 21 to Jul 22. The full year effect will not be known until the figures have been published in October 2022. It is extremely difficult to forecast future inflation given the current climate, however we have currently estimated this at 11%, resulting in an expected inflation cost of £2.1m. The actual contract inflation

will be known before the final budget is set.

Household growth is applied to the contract based on the property numbers in December compared to the previous December. The budget increase for 23/24 is estimated at 1% as in prior years.

Garden waste is currently shown with an indicative growth of 1%, as with household growth this will be updated for actual customer numbers for each District before the budget is finalised. A separate paper has been prepared on fees and charges setting out our options on maintaining our current level of garden waste subscriptions. Subscriptions are on a rolling annual basis with most customers renewing in July based on historic renewal timescales. Given the current cost of living crisis there is a risk that a proportion of garden waste customers may not renew their subscriptions.

Our forecast for materials income has been based on predictions provided by Suez for tonnages and prices for 2023/24. The forecast indicates that income for 23/24 is comparable to the amounts received in 2022/23, at £2.2m for the year. The amount of recyclate collected at the kerbside may also be affected in 23/24 by the predicted recession.

3.2 Disposal Factors for 23/24 budget

Estimating the disposal costs for 2023/24 at this stage is difficult, because we only have a few months of data available to index the disposal contract, and volumes and mix have been volatile for some time due to impacts such as weather, Covid and Recycle More.

Contract inflation for the disposal contract is based on several different indices. 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 2022 to February 2023 and are not published until March.

However, initial indications are: -

- The current Baxter rates are 10.9% for Feb to Jul 22, RPI is 7.2%.
- Baxter indices form approximately 75% of the contract price increases. There are indications that inflation will increase further and may be 18-22% annually. An 18% contract inflation rate results in approximately an additional £5.1m cost to the disposal contract.
- Whilst we will have more information by the time the budget is set, the final 23/24 budget will be based on an estimate and therefore there is a risk that our estimates will not be accurate.
- Volume growth is based on estimated household growth which is anticipated to be in the region of 1% as in prior years. The cost-of-living crisis may result in a decrease in the amount of recycle going into sites as people buy less.
- Landfill tax percentage is based on estimated RPI which the government releases during the year. Note this applies to a very small proportion of our waste budgets.

3.3 Savings

Our initial estimates of savings for the 2023/24 budgets are as follows:

- Recycle More savings – likely to be in the region of £3m
- Covid savings on collections contract – likely to be between £0.3-£0.6m
- Material equalisation likely to be approx. £0.5m
- Other savings are being considered and will be refined over the coming weeks.

4 Capital Projects

A summary of the progress on the fleet replacement project is set out in a separate paper to the Board. A business case will need to be prepared and approved prior to approval of the capital spend.

There have been several delays on our PV panels project and as a result we may need to revisit our business case, although we are still anticipating a net return on the panels once they are generating electricity. This is under review by the SWP team and further information will be shared when it is available.

The remaining works outstanding at Wilton depot are in progress and expected to conclude in advance of vesting day of the new Unitary Council. Some delays have occurred due to finding historic contamination (asbestos) during the groundworks, which will delay the project slightly and result in an increased cost to the Council which is still to be confirmed.

5 Consultations undertaken

- 5.1** The Senior Management Group and S151 Officers receive a summary financial management report on a regular basis, and regularly covers financial topics on their agenda.

6 Implications

- 6.1.** Potential over and underspends as in section 2 above, if trends continue, would result in these figures at outturn for the individual partners.
- 6.2.** Financial trends as set out above will be incorporated in the setting of the Annual Budget for 2023/2024, as set out in section 3 above.

7 Background Papers

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