

Somerset Waste Board meeting
10th February 2023
Report for Approval

Financial Performance Update 2022/2023 and Draft Annual Budget 2023/2024

Lead Officers: Mickey Green, Managing Director and Christian Evans, Strategic Finance Manager

Authors: Jo Currie, Finance Service Manager, Christian Evans, Strategic Finance Manager, Mickey Green, Managing Director

Contact Details: Christian.Evans@somerset.gov.uk

| | |
|-------------------------------------|--|
| Forward Plan Reference: | <i>FP/22/06/02</i> |
| Summary: | <p>The report sets out the financial performance against the approved Annual Budget for the first 9 months of the current financial year (April to the end of December), and a forecast outturn position.</p> <p>The report also sets out the final 2023/24 waste budget in the new Somerset Council, subject to approval by Full Council.</p> |
| Recommendations: | <p>The Joint Waste Scrutiny Panel considers and comments on the following recommendations in this report.</p> <p>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 9 (April – Dec) and the potential outturn position for each partner authority. ii) Considers the budget for 2023/2024. iii) To discuss the Confidential Presentation. |
| 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</p> |

| | |
|---|---|
| | <p>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>With the transition to a unitary council in April 2023 the Somerset Waste Board will not exist from that point forward. Accordingly, decisions on Medium-Term Financial Plan (MTFP) rests with Somerset County Council as the Continuing Authority. All proposals, including those related to waste therefore have to follow the Council's timetable, culminating in decisions at February Full Council.</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. All partners are aware of their forecast underspend for the current financial year and will be accounting for them appropriately, and the LGR programme is also aware given that the balances are returned after year end. The approach here has been discussed and agreed through our regular meetings with all s151 and SMG officers.</p> <p>When considering the Annual Budget for 2023/2024, contract inflation, current trends in demographic growth, material prices, service uptake, waste tonnages arising in 2022/2023 have been a key contributory factor in shaping the forward budget.</p> <p>There are no direct HR implications of this report. Note that national legislative change may impact on our future costs – potentially increasing them if charges for DIY waste are outlawed, potentially providing significant (multi-million) income when packaging Extended Producer Responsibility is introduced in 2024, and unknown on consistency until national government</p> |

| | |
|---------------------------------|---|
| | finalises its position. |
| Equalities Implications: | No additional assessments are needed at this point. |
| Risk Assessment: | <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 has a major impact on the base calculation of the collection and disposal contract costs with Biffa, Viridor and Suez. The national legislative environment remains very uncertain, as does the funding outlook for local authorities and the impact of a recession and cost of living crisis on public behaviour – all of these are risks to accurately forecasting a budget.</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 9

| | SCC | MDC | SDC | SSDC | SWaT | Total |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|----------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Head Office | - | - | - | - | - | - |
| Disposal Costs | (1,397) | - | - | - | - | (1,397) |
| Collection Costs | - | (164) | (219) | (313) | (286) | (983) |
| Recycling Credits | 424 | (91) | (91) | (141) | (122) | (22) |
| Container Purchase & Delivery | - | 54 | 50 | 73 | 58 | 235 |
| Covid - 19 | - | (90) | (91) | (135) | (123) | (438) |
| Other - includes PV & E-RCV | - | (1) | - | (1) | (1) | (3) |
| | | | | | | |
| | (973) | (292) | (352) | (517) | (474) | (2,609) |

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 - indicates that the line is on budget, or that it is not a budgetary responsibility of that partner).

Overall, the end of December position shows that the Somerset Waste Partnership budget is forecast to be **underspent by £2,609,000**. This represents **5.3%** of the original budget.

The forecast underspend can largely be explained as follows:

- Recycle More now fully rolled out and savings forecast of £2,084,000 (SCC £935,000 and Districts £1,149,000).
- Savings on Covid-19 costs in Districts of £438,000. Additional Covid measures ceased in October 2022.
- Savings on year end accruals for the County Council Disposal contract

(£290,000), net of additional costs of timber disposal at HWRC sites (£263,000).

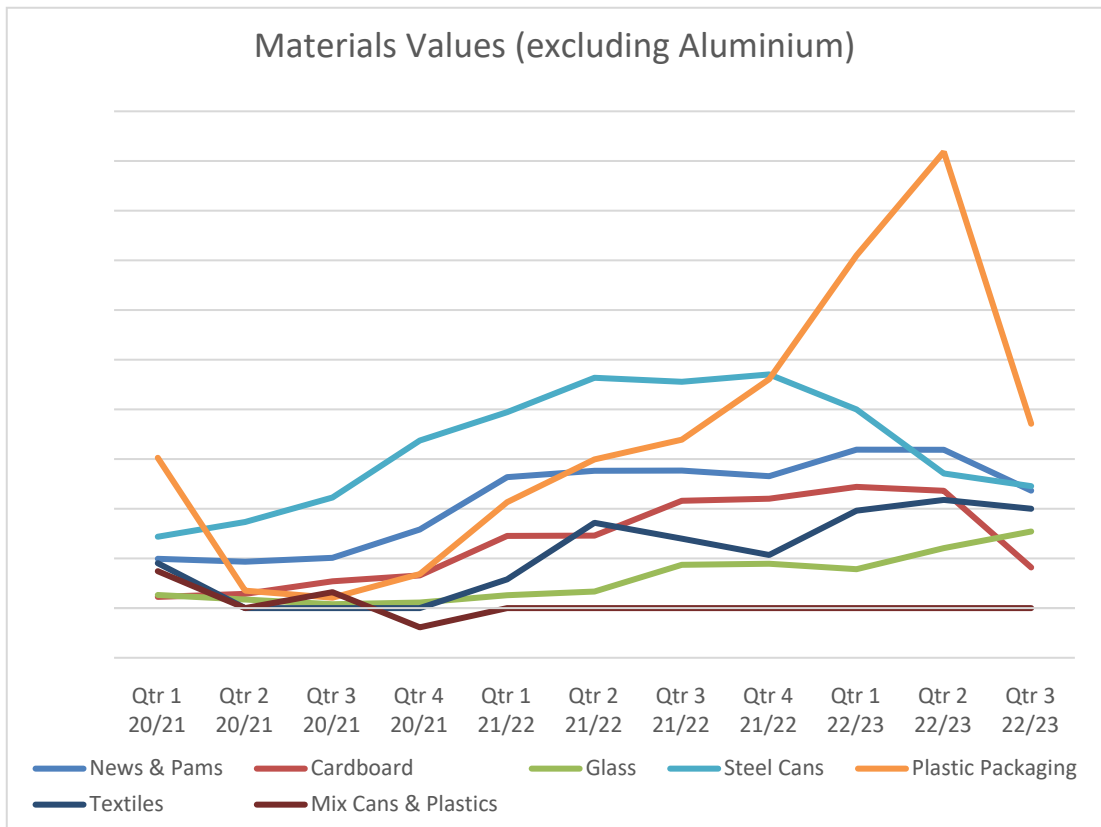
The previously reported forecast underspend at month 7 was £3,101,000, and the month 9 position reflects a reduction of £492,000 (i.e., less of an underspend than was previously forecast). This has reduced largely due to lower than anticipated materials income for Q3 and Q4 as global prices have fallen (forecast income reduced by £496,000) and higher than previously forecast disposal contract tonnages. Residual, HWRC, composting and food waste actual tonnages for months 8 and 9 were higher than previously forecast. This has resulted in an increased full year forecast cost of £188,000. This is partially offset by a reduction in forecast Covid costs by £136,000 as we have ceased the additional measures earlier than originally expected.

In addition to the above forecast underspend, there is a further £582,000 of anticipated materials income not included in the above forecasts. This represents 20% of the materials income expected for the full year, and as previously agreed, is intended to be set aside for an equalisation reserve.

2.1. Waste Collection

Estimated figures for waste collection indicate a potential combined **£1,635,000 underspend** across the 4 District partners at this stage.

Lower than expected materials income for quarter 3 has reduced the savings expected on the collections contract from previous forecasts. A graph is set out below showing the trends in material values (excluding Aluminium prices) over the last two and a half years. There is still uncertainty around volumes as this is the first full year of the Recycle More rollout and prices are also subject to high volatility.



2.2. Waste Disposal

Waste disposal costs are forecast to **underspend by £973,000**. This is largely explained by the Recycle More savings of £935,000, however there are also additional costs of timber at the recycling sites as previously reported (£263,000), offset by savings on prior year end accruals for the Disposal contract (£290,000).

The forecast for month 9 has been updated to reflect the latest disposal tonnages. Increases are largely relating to increased tonnages at both HWRC sites and kerbside tonnages. Tonnages have increased by approximately 2% from the previous forecast.

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 anerobic digester plant

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

Work is now complete on the budget for the new Somerset Unitary Council for 23/24. The budget is expected to be approved at the Full Council meeting on 22 February 2023.

As set out in previous Board reports, the MTFP process has been complex this year bringing 5 councils into one, and whilst the budgeted gap for 23/24 has been closed, there is a forecast budget gap of £40m for 2024/25.

Final savings proposed are included within the summary waste budget as set out below. The detailed budget is attached as Appendix 1. A reconciliation is also provided in the second table below showing how the final budget has been arrived at from the 2022/23 budget.

The budget set out below is expected to be approved in Feb 2023.

| | 23/24 |
|---------------------------|-------------|
| | £m |
| Garden Income | 3.7 |
| Materials Income | 2.2 |
| Bulky Income | 0.1 |
| Total Income | 6.0 |
| Waste Disposal | 29.9 |
| Collection Services | 23.6 |
| Head Office | 1.5 |
| Other Costs | 0.2 |
| Total Costs | 55.3 |
| 23/24 Draft Budget | 49.2 |

The following table sets out a reconciliation to the 2022/23 budget. The paragraphs below provide an update to the significant issues taken into consideration for savings and pressures in the collection and disposal contracts for the 2023/24 budgets.

| | £m |
|-----------------------------|-------------|
| 22/23 Base Budget | 48.9 |
| Inflation Disposal | 3.5 |
| Inflation Collection | 1.9 |
| Collection Housing Growth | 0.2 |
| Volume Growth | 0.3 |
| Savings | |
| Recycle More | (3.1) |
| Covid-19 Costs | (0.6) |
| Garden & Bulky Income | (0.4) |
| Materials Equalisation Fund | (0.4) |
| Capitalise Containers | (1.1) |
| 23/24 Draft Budget | 49.2 |
| Movement | 0.3 |
| Percentage change | 0.6% |

3.1 Collection Factors for 23/24 budget

Key factors considered for the collection contract budget for 2023/24 and explanations of changes since the September board paper are set out below:

Inflation

As explained previously, inflation for the collection contract with Suez, which is based on a basket of indices including labour, fuel, and CPI, has been estimated at 10% for the draft budget set out above. There have been no changes to our estimate in September of inflation of £1.9m.

Growth

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 was estimated at 1% reflecting expected growth in household numbers. Final household growth has been calculated at 0.99%, therefore no amendments are required to our previous estimate.

As previously stated, we propose to increase garden waste subscription charges in line with CPI at 10% for 2023/24. There remains a risk that the ongoing cost of living crisis may impact on numbers of garden waste subscriptions and renewals. However, our budget estimate for subscriptions for 23/24 is based on the volume of current year subscribers plus 1% and is expected to be achievable. Additional marketing of the service is planned to reflect the higher risk.

Materials income

The budget for materials income has been based on predictions provided by Suez for tonnages and prices for 2023/24, and these reflect the worsening global market prices for materials that we have seen more recently. Total income for 23/24 has been budgeted at £2.2m for the year. Previously, £0.4m of this amount (20%) had been set aside for a central materials equalisation reserve to cover any significant future fluctuations in prices. This amount is now included within the waste budget for 23/24.

3.2 Disposal Factors for 23/24 budget

Volumes and mix have been volatile for some time in the disposal contract due to impacts such as Recycle More, Covid, weather and more recently the cost-of-living crisis.

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.

An update on key factors in setting the budget for the waste disposal element of the budget are set out below:

- The latest Baxter rate is 13.1% for Feb to Nov 22. RPI from Feb to Dec is 12.4%. Baxter indices form approximately 75% of the contract price increases.
- Inflation estimates in our budgets have been revised down further reflecting the changes in Government policy on energy and further reductions in fuel prices. The estimate for the Baxter inflation rate has been amended to 13%, and RPI to 12%. Contract inflation is now estimated at £3.5m for the disposal contract (previous estimate of £3.7m).
- As previously mentioned, the final 23/24 budget is based on an estimate and therefore there is a risk that our estimates will not be accurate.
- Volume growth is anticipated to be 0.7% as previously noted. The cost-of-living crisis may result in a further decrease in the amount of waste disposed by households.
- 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.
- Fees and charges on the disposal contract have been set at the prior year’s RPI increase of 8.18%.

3.3 Savings

Savings included in the 2023/24 budget are as follows:

- Recycle More savings – £3.1m
- Capitalisation of bin/box purchases and delivery - £1.1m
- Covid savings on collections contract –£0.6m
- Increase in (mainly) Garden waste subscription charges - £0.4m
- Material equalisation reserve - £0.4m
- Contractual saving on AD plant - £20,000

3.4 Outstanding items

As previously noted, pay awards and utility increases are not yet included. These will be

calculated, and budget will be allocated centrally.

4 Capital Projects

The partial refleet has progressed as per the recommendations agreed by the Board in September and the further information provided to the board in December. SUEZ are progressing with the plans to place orders for vehicles. Whilst a bid was submitted for the additional costs of two electric refuse vehicles the long payback period meant that it did not meet the criteria for capital bids. Whilst final decisions on capital are not made until February full council the funding is unlikely to be available.

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. The key next step is to develop the Power Purchase Agreement and as previously reported this remains impacted by capacity in the SCC legal team.

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 a small 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).

Appendix 1 – Detailed Budget 2023/24

| Expenditure | £ |
|---------------------------------|--------------------|
| Head Office | |
| Salaries & on-costs | 1,136,960 |
| Travel & subsistence | 53,060 |
| Admin, training, meetings & IT | 87,560 |
| Advertising & campaigns | 48,170 |
| Office rent & accommodation | 72,140 |
| Support services | 137,940 |
| Contracted Services | |
| <u>Waste Disposal</u> | |
| Residual waste | 15,548,330 |
| Recycling centres | 9,664,255 |
| Food waste | 2,270,004 |
| Composting | 2,055,922 |
| Hazardous waste | 357,466 |
| <u>Collection Services</u> | |
| Recycling | 14,887,311 |
| Garden | 1,908,009 |
| Refuse | 7,020,698 |
| Clinical waste collections | 156,573 |
| Bulky waste collections | 138,875 |
| Container delivery & supply | (8) |
| Other collection costs | 644,132 |
| Capital financing | (1,664,941) |
| Admitted body pension costs | 81,910 |
| Depot costs | 410,700 |
| Other Costs | |
| Third party recycling credits | 10,344 |
| Assisted collection review | 10,000 |
| Garden renewals | 18,000 |
| 16 Plate vehicle loans | 201,620 |
| Covid costs | 0 |
| Total direct expenditure | 55,255,031 |
| Income | |
| Garden Income | (3,689,187) |
| Bulky Income | (138,875) |
| Materials Income | (2,220,000) |
| Total income | (6,048,062) |
| Total net expenditure | 49,206,969 |