

Somerset Waste Board meeting
15 February 2019
Report for decision

Financial Performance Update 2018/2019 and Final Budget 2019/2020
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Forward Plan Reference:	SWB/18/12/01
Summary:	<p>The report sets out the financial performance against the approved Annual Budget for the first 9 months of the current financial year from April to the end of December (with January updates where available), and how this has impacted on a forward budget for 2019/2020.</p> <p>The Board is asked to approve a final Annual Budget for 2019/2020 in accordance with its Constitution and Inter Authority Agreement. (Both documents are available on the SCC internet or from the author).</p>
Recommendations:	<p>That the Somerset Waste Board:</p> <ul style="list-style-type: none"> • notes the summary financial performance to date as contained in this report, and how this will impact on the budgetary requirements for 2019/2020. • agrees to add any remaining vehicle lease budgets to the Recycle More earmarked reserve, towards the costs of delivering the project (paragraph 2.2 below). • approves the waste disposal savings set out in paragraph 3.2 of this report. • approves the attached final Annual Budget for 2019/2020 (totalling £46,243,485) as set out in Appendix 1. • approves that the Managing Director negotiates any final requirements with the relevant contractors in accordance with this Annual Budget Report.
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>There is a requirement within the revised Constitution for the Board to agree a final Annual Budget for the following year by the end of the previous February.</p> <p>Partner authorities will need final budget figures for their overall financial planning processes.</p>
<p>Links to Priorities and Impact on Annual Business Plan:</p>	<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>
<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 any shortfall at year end.</p> <p>When considering the 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.</p> <p>We will continue to share the costs amongst partners as set out in our Cost Sharing Agreement.</p> <p>There are no legal or HR implications.</p>
<p>Equalities Implications:</p>	<p>Members attention is drawn to the need to exercise the equality duty under the Equality Act 2010 to have due regard to the impacts based on sufficient evidence appropriately analysed. Members have a duty to review the impact assessments of budgetary proposals.</p> <p>Duties placed on public bodies do not prevent difficult decisions such as reorganisations and service reductions being made, nor does it stop decisions which may affect one group more than another. What the duty does do is require consideration of all the information, including the potential impacts and mitigations, to ensure a fully informed decision is made.</p> <p>The proposed waste disposal savings have previously been in-year savings agreed by the Somerset Waste Board.</p>

Overall, the end of December position shows the Somerset Waste Partnership budget is forecast to be **underspent by £984,000** (2.21% of the current budget). By way of comparison, the overall underspend forecast was £933,000 (2.09% of the current budget) when previously reported to the December Board.

2.2. Waste Collection

The waste collection budgets have moved from a £25,000 overspend position to a £65,000 overspend, a movement of £40,000.

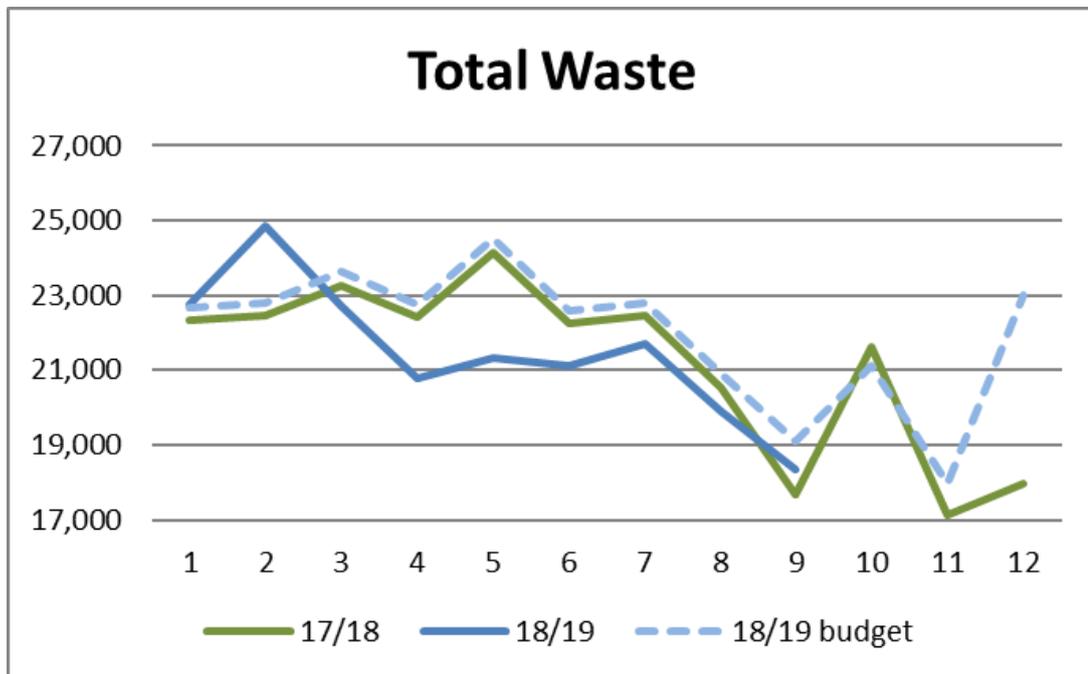
As was mentioned at the December 2018 Board meeting, there was some further work required to verify the garden waste numbers, where operational systems appeared to be reporting different customer numbers. This has now been completed, and the increase forecast in garden waste of £65,000 accounts for the majority of the variation in Quarter 3. Members are reminded that although the costs within the Somerset Waste Board budget have increased, particularly with regard to South Somerset, this is more than compensated by the amount of income raised locally. This has also been reflected in the 2019/2020 budget requirement below.

In addition, the position is improved by an estimated reduction in container purchase and delivery costs, Head Office costs and “Other”, which includes vehicle financing and contractor pension costs.

The December Board also noted that the budget line for lease repayments (for Sort It Plus vehicles) has not been spent (£262,430). Members will recall that although the primary lease costs for these vehicles had expired, that we had agreed to keep this budget line in case elements of our elderly fleet needed early replacement. With only a small proportion of the year remaining, it is now expected that this budget will largely not be required, and therefore is a one-off windfall saving. Officers propose that this amount be added to the earmarked reserve for Recycle More, to support the roll-out costs from April 2020.

2.3. Waste Disposal

The waste disposal figure for the Board at the end of December showed an underspend of £1.049m, which is an improvement on the last budget report to the Board (£0.958m). Members will recall that the trends in the waste disposal budget have been downwards for the current financial year, although some of the savings are one-off caused by year end estimating and the severe weather in March 2018. The graph below shows that actual waste volumes have been closer to the budgeted figures in the latest quarter.



Overall, we are assuming the current trend continues until the end of the year, which would result in approximately a 1.9% reduction in tonnages overall from 2017/2018. Officers have also taken this trend in tonnages into consideration when proposing the budget for 2019/2020.

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, (including the County Council funding, but excluding any approved increase from the lease budget proposed above). 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 December, only £152,613 of this earmarked reserve has been spent, although further costs will be incurred with the on-going support for Eunomia (our technical consultants) and specialised external legal support. Additional support has come from 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.

3. Annual Budget 2019/2020

The February Waste Board is where our Constitution and Inter Authority Agreement require us to agree Annual Budget for the next financial year. It is also important that partners receive the necessary information to allow them to build any additional costs into their local budget requirements.

The detailed line by line budget requirements for each partner are set out in Appendix 1.

3.1. Final budget figures – collection

The total budget requirement for each collection partner is set out below, together with the reasons for the movement from the 2018/2019 budget. For the avoidance of doubt, a positive number in the table below represents an increase in budget requirement, and a negative figure (in brackets) represents a decrease in budget requirement.

		MDC	SDC	SSDC	SWaT
18/19 Final Budget		3,463,461	3,609,494	5,166,003	4,842,898
Inflation - Collection	3.28%	125,021	129,047	184,409	175,183
Household Growth	0.87%	34,823	16,917	27,143	41,488
Garden Waste	11.85%	48,669	17,471	91,754	54,326
Recycling Credits		(16,578)	(14,598)	(20,305)	(22,519)
Salaries	2.00%	2,030	2,154	3,026	2,841
Staff Secondment		4,806	5,075	7,130	6,719
Pension Deficit		0	0	0	0
Transfer station offset		(1,950)	(2,059)	(2,894)	(2,727)
New Authority changes		(3,039)	(3,488)	(4,652)	24,907
Bulkies / Containers		(9,291)	6,008	7,389	(4,105)
Proposed Savings		0	0	0	0
19/20 Budget		3,647,950	3,766,020	5,459,003	5,119,011
Increase / (Decrease)		184,490	156,526	293,000	276,113
Percentage		5.3%	4.3%	5.7%	5.7%

Members will recall that a number of cost drivers were already fixed by the December 2018 Board meeting. However the contract inflation has been amended slightly to 3.28% from the previously reported 3.27%.

However, a number of amendments have been made to the collection contract requirement, detailed below. These total approximately £120,000, which is a 0.67% movement since the Draft Budget. This increase is almost entirely due garden waste, which is a continuation of the issue noted above in the 2018/2019 financial position, and for which income will continue to accrue to the relevant District.

Amendments have been made in relation to household growth (now 0.87% across the whole of Somerset) and the latest recycling credit volumes. Members are reminded that collection partners only pay for the actual household growth in their own Districts, and that there is an automatic 3% uplift in the rate paid for each tonne of recycling credits.

Household numbers have been provided by the individual districts. The growth figures for each area are as follows;

Mendip	1.18%
Sedgemoor	0.64%
South Somerset	0.68%
SWaT	1.04%

3.2 Final budget figures – 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.

At present, the estimated average inflation across a number of disposal indices is 3.71%. The inflation uplift required is £621,400.

Landfill Tax rates from 1 April 2019 have been confirmed by the Treasury as £91.35 per tonne. This is an increase from £88.95 of 2.70% 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 £10.99 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 this remains unchanged from the figure estimated in December.

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 2018 meeting, or where base budgets can be relatively safely reduced.

For ease, these are set out below:-

- 1) Reduction in clinical waste disposal budget: £40,000
- 2) Reduction on Recycling Site waste minimisation bonus: £40,000
- 3) Reduction in Closed Landfill monitoring: £10,000
- 4) Reduction in Recycling Site permitting costs: £15,000
- 5) Reduction in fly tipping payments: £20,000

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 confirmed that an Equalities Impact Assessment is not required for any of these savings proposals.

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

- 3.3.** With the combined disposal and collection contract uplifts as set out in paragraphs 3.1 and 3.2 above, the Annual Budget requirement for 2019/2010 is £46,243,485.

4. Consultations undertaken

- 4.1.** The Senior Management Group receives a summary financial management report on a regular basis, and regularly covers financial topics on their agenda.
- 4.2.** Financial implications relating to Recycle More were discussed in a meeting with District section 151 officers in December.

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.** When the Board reaches a decision and approves the Annual Budget, it will represent the financial contributions required of all partners for 2019/2020. The total increase required for the next financial year is slightly in excess of £1.798m (an increase of 4.05%).
- 5.3.** The budgeted cost **per household** for the Somerset Waste Partnership for 2019/2020 is now £179.27 per annum or about **£3.44 per week**. (This is excluding garden waste income and one-off Recycle More costs. In 2018/2019 this was £3.33 per week based on the revised budget). This breaks down into approximately **£2.10 per week for disposal**, and **£1.34 per week for collection**.

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).