

Somerset Waste Board meeting
 23 February 2018
 Report for decision



Financial Performance Update 2017/2018 and Final Budget 2018/2019
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Forward Plan Reference:	FP/17/11/05
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 2018/2019.</p> <p>The Board is asked to approve a final Annual Budget for 2018/2019 in accordance with its Constitution and Inter Authority Agreement. (Both documents are available on the SCC internet or from the author).</p> <p>The Board is also asked to approve an improved approach to the use of our internal audit support from 2018/2019.</p>
Recommendations:	<p>That the Somerset Waste Board notes the summary financial performance to date as contained in this report, and how this will impact on the budgetary requirements for 2018/2019.</p> <p>That the Somerset Waste Board approves the attached final Annual Budget for 2018/2019 (totalling £45,145,256) as set out in Appendix 1.</p> <p>That the Somerset Waste Board approves that the Managing Director negotiates any final requirements with the relevant contractors in accordance with this Annual Budget Report.</p> <p>That the Somerset Waste Board approves the proposed approach to using our internal audit support as set out in Appendix 2.</p>
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</p>

	<p>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 2018/2019, current trends in demographic growth, service uptake and waste tonnages arising in 2017/2018 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 2018/2019.</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 of the information, including the potential impacts and mitigations, to ensure a fully informed decision is made.</p> <p>There are no specific savings contained within the 2018/2019 Annual Budget as presented in this paper, and therefore there are no new equalities implications for the Somerset Waste Board to consider.</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, remain highly volatile.</p>

1. Background

- 1.1. The Annual Budget for 2017/2018 was originally set at the Board meeting of 24th February 2016 at £43,577,620. Small amendments have subsequently been made in relation to pension deficits and postage on the County side only (as previously reported to the Board), bringing the current budget to £43,602,210. 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 – Viridor and Kier.

2. Current Financial Position

2.1. Summary of budget variances

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	TDBC £'000	WSC £'000	Total £'000
Head Office	(38)	8	9	13	9	3	4
Disposal Costs	(767)	0	0	0	0	0	(767)
Collection - Recycling	0	(6)	(8)	(9)	(7)	(4)	(33)
Collection - Refuse	0	(1)	(1)	(2)	(2)	(0)	(7)
Collection - Garden	0	(1)	(2)	4	30	15	47
Collection Costs	0	4	4	6	8	1	24
Recycling Credits	(60)	21	9	22	9	(1)	0
Container Purchase & Delivery	0	(14)	0	(18)	(4)	1	(34)
Other	(2)	(4)	(4)	(15)	(4)	(1)	(31)
	(867)	9	8	0	39	13	(798)

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. Figures are rounded to the nearest £000).

Overall, the end of December position shows the underlying Somerset Waste Partnership budget is forecast to be **underspent by £798,000** (1.8% of the current budget). By way of comparison, the overall underspend forecast was £702,000 (1.61% of the current budget) when previously reported.

2.2. Waste Collection

The “headline” figure above does not include any drawdown of the earmarked reserve for Recycle More (£421,284), which has been set aside for the project costs as reported

in previous Board papers. To date £39,661 has been spent on the Recycle More project.

The overall collection in-year position has not moved from the £69,000 overspend reported in December. However there have been a number of changes to the individual District positions, these have all been as a result of updated demographic information from partners or materials collected from Kier, our collection contractor.

As reported at the December Board, we were awaiting a final update on garden waste customer numbers from the Districts. These have now been received, and have increased in 4 of the 5 Districts. The most significant variances can be seen in Taunton Deane and West Somerset which are above the 2017/18 budgeted figures by 5.2% and 13.8% respectively. However, members are reminded that garden waste income is collected locally by the Districts. At present the income collected per new customer slightly outweighs the marginal costs, so the net position is actually good news for most partners.

Recycling credit figures are as at the end of November. The overall position for Districts has improved slightly since the previous Board report, but continues to be below budget by 2.5% (previously 3.26%).

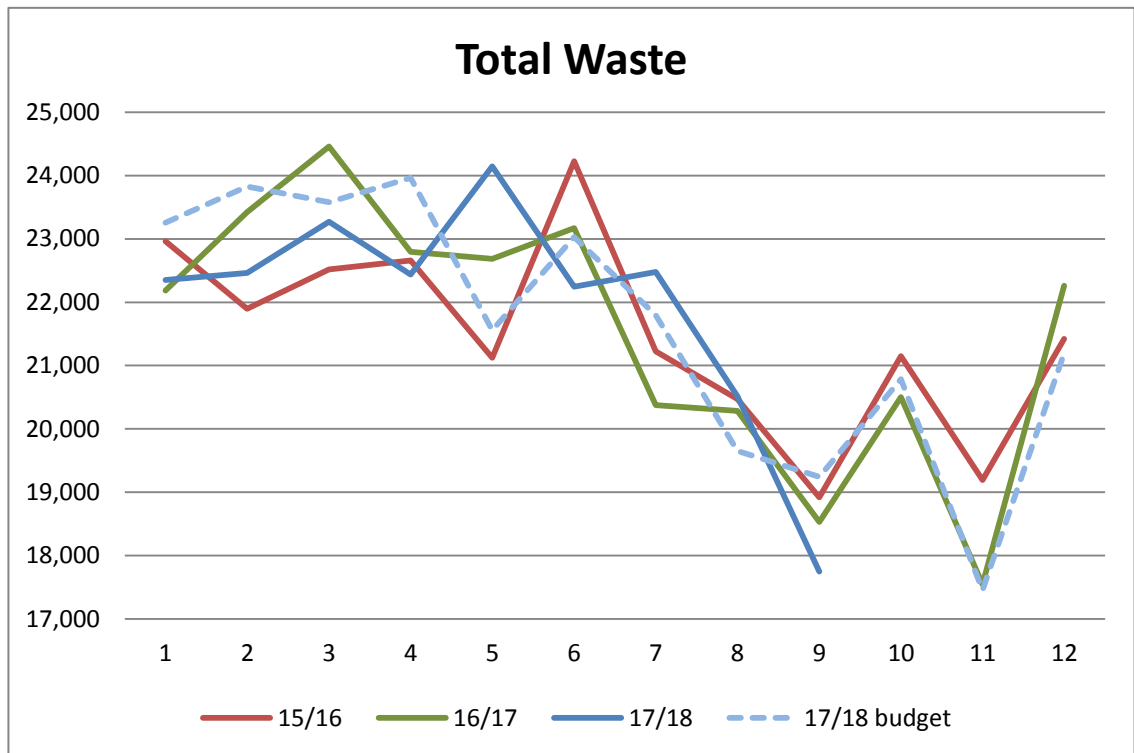
Container purchases and delivery estimates have fallen since being reported in December, with the majority of the underspend in Mendip and South Somerset.

2.3. Waste Disposal

The position on waste disposal at the end of December is an underspend of £867,000, which is 3.2% of current disposal budget (compared to previously reported figure for October of £771,000).

The graphs below illustrate the position and trends when compared to previous years and to the in-year budget. The outturn forecast for the disposal budget is that these current trends continue for remainder of the year. Since month 6, the overall waste arisings have been much closer to our budget predictions than in previous months.

Detailed performance information and the reasons for the tonnage reduction can be found on a separate paper on this agenda. The mix of waste arisings also impacts on the financial predictions. Waste volumes at the recycling sites have reduced as a result of the permit scheme and these tonnages are more expensive due to haulage costs which are not incurred with kerbside collections. In addition there have been volume reductions in some of the more expensive waste streams, namely landfill and food waste.



3. Annual Budget 2018/2019

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

Members will recall that a number of cost drivers were already fixed by the December 2017 Board meeting, such as the contractual inflation under the collection contract. However, there have been a number of movements affecting individual District partners. In particular:-

- Actual household figures were provided by Districts. These included some higher than usual increases from the estimated numbers provided for the December draft budget. Overall household growth increased from the predicted 0.77% to a final figure of 1.08%.
- Garden waste customers and recycling credit figures have been adjusted in line with the latest information, and officers have forecast a 3% growth for garden waste customers, but no growth for recycling credits. Recycling credits are, however, subject to a 3% annual price increase.
- Salaries have been increased to included the agreed 2% payaward as reported to the previous Board.

		MDC	SDC	SSDC	TDBC	WSC
17/18 Final Budget		3,337,563	3,478,809	4,988,964	3,421,569	1,174,401
Inflation - Collection	2.54%	92,674	95,550	136,718	94,551	33,126
Household Growth	1.08%	25,542	18,299	30,303	56,918	11,938
Garden Waste	3.00%	8,956	14,671	17,086	43,797	18,090
Recycling Credits		(61)	(10,073)	(7,562)	(14,881)	(9,163)
Salaries	2.0%	1,993	2,120	2,976	2,066	702
Pension Deficit		9,255	9,824	13,798	9,693	3,262
Transfer station offset		(1,888)	(2,004)	(2,815)	(1,977)	(666)
Bulkies / Containers		(13,312)	(607)	(17,547)	(2,538)	(1,826)
ICT Development		1,095	1,163	1,633	1,147	386
Waste Projects		1,643	1,744	2,449	1,721	579
Proposed Savings		0	0	0	0	0
18/19 Budget		3,463,461	3,609,494	5,166,003	3,612,067	1,230,831
Increase / (Decrease)		125,898	130,685	177,039	190,498	56,430
Percentage		3.8%	3.8%	3.5%	5.6%	4.8%

3.2. Final budget figures – disposal

The figures for the disposal budget have not changed since the December Board. As reported above, the trend in recent months has been closer to the budgeted figures, and officers have used this as a base for future forecasting. It is not possible to finalise the inflation uplifts for the disposal contract in time for the Annual Budget setting, as these are not known until March at the earliest. Any inflationary adjustment requirement between our estimates and the final published indices is made in the financial year in question as in previous years.

For ease, the working assumptions set out in the December Board paper are set out below:-

Contract inflation estimates (depending on the contract index to be used, as there are several within the various disposal contracts) from 2% to 6.3%. The higher end of these estimates relates to the Baxter index (which is an industry standard). The Baxter index includes a significant fuel element, which is subject to quite large movements over time.

In addition there are also uplifts for recycling credits of 3%, staff pay award of 2% and some smaller head office costs. A total inflationary uplift of £743,900 is required.

Landfill tax rates are already published and will move from £86.10 to £88.95 (up 3.3%), that will cost £347,200 in total.

As a result of the estimated contract inflation uplifts, and the known increase in the landfill tax rate, **the total cost of disposal by landfill** will rise to approximately £110 per tonne in 2017/2018.

Volumes have reduced in the current year and even allowing for an additional 1.5% above the current year's forecast, there will be a budget reduction of £228,600.

The total demographic pressure for the disposal budget is therefore **£862,500**.

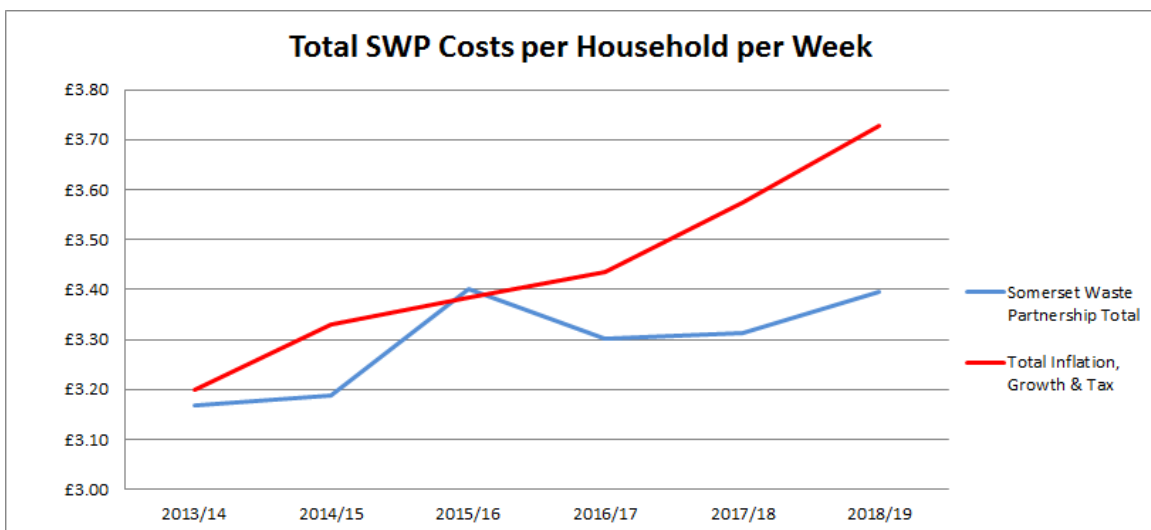
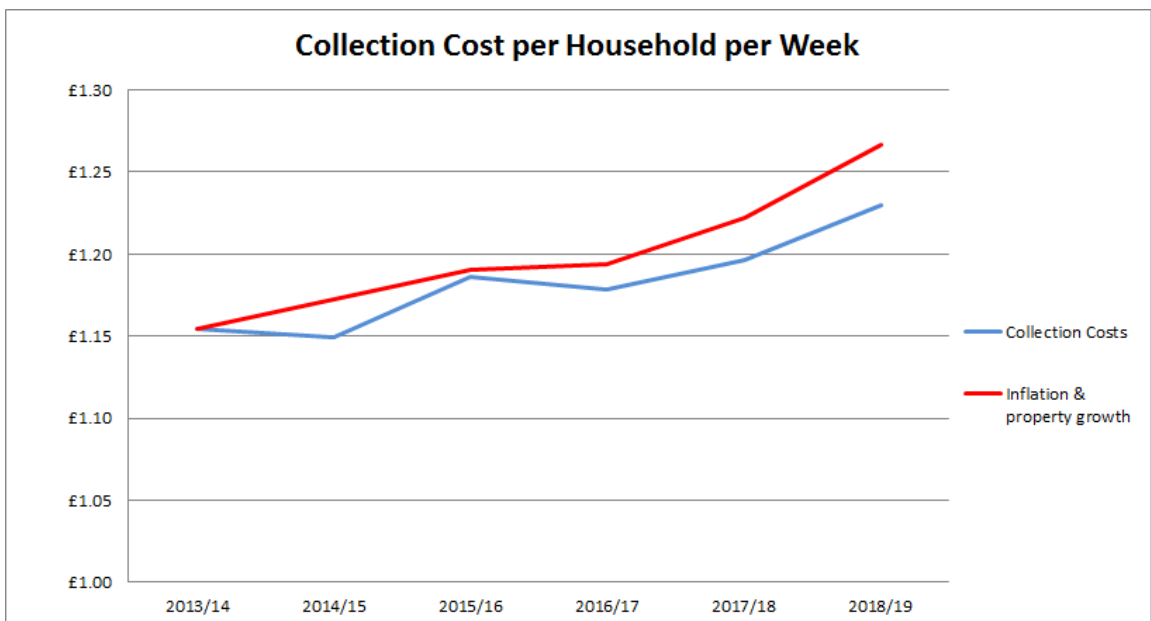
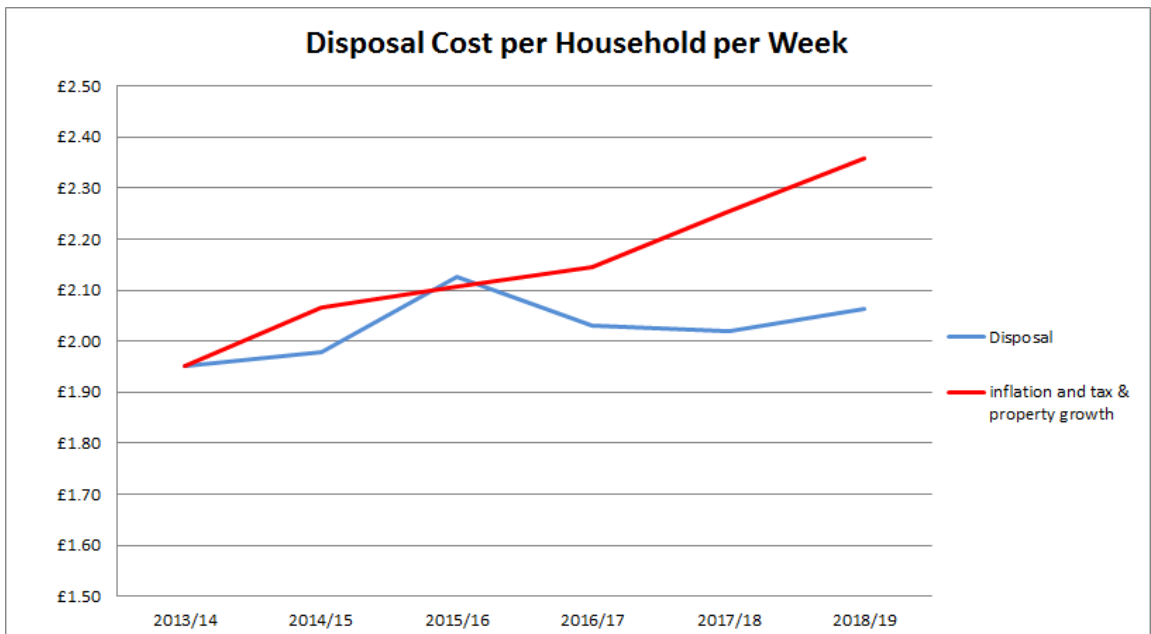
4. Consultations undertaken

- 4.1. The Senior Management Group receives a summary financial management report on a monthly basis, and regularly covers financial topics on their agenda.
- 4.2. The in-year financial position and the potential budgetary requirement were considered at the Senior Management Group meeting in January 2018, and section 151 officers' were informed on 18th January 2018.
- 4.3. The proposed approach for the internal audit plan, with its emphasis on data quality and exchange were also endorsed by the Senior Management Group in January 2018.

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 2018/2019. The total increase required for the next financial year is slightly in excess of £1.543 million.
- 5.3. The budgeted cost **per household** for the Somerset Waste Partnership for 2018/2019 is now £176.54 per annum or about **£3.40 per week**. (This is excluding garden waste income and one-off Recycle More costs). This breaks down into approximately **£2.12 per week for disposal**, and **£1.28 per week for collection** (although collection varies slightly for more sparse areas such as West Somerset). This figure does not include the income received directly by collection partners for garden waste income, and just includes the Somerset Waste Partnership's own budget.

For illustrative purposes, we have tracked the annual budgets in terms of £s per household per week against what might have been anticipated given the underlying contractual inflation, landfill tax escalator and property growth. Whilst this is not an exact science, it does illustrate that throughout the period in question the amount that we have asked for as partner contributions to the Somerset Waste Partnership have been lower than what might be considered the "norm". (Head Office has been excluded from the collection and disposal graphs, but is in the total SWP figure).



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).