

Somerset Waste Board meeting  
25 September 2020  
Report for Approval

Paper  
Item No. SWB/20/06/05

Financial Performance Update 2020/2021 and Development of the Annual Budget 2021/2022

Lead Officer: Mickey Green, Managing Director and Sarah Rose, Finance Officer

Author: Sarah Rose, Finance Officer

Contact Details: serose@somerset.gov.uk

<b>Forward Plan Reference:</b>	SWB/20/06/05
<b>Summary:</b>	<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 2021/2022.</p>
<b>Recommendations:</b>	<p><b>That the Somerset Waste Board:-</b></p> <ul style="list-style-type: none"> <li><b>i) Notes the summary financial performance for 2020/2021 to the end of month 4 (April – July) and the potential outturn position for each partner authority.</b></li> <li><b>ii) Considers the draft budget for 2021/2022 and the key factors that will influence the budget setting process.</b></li> <li><b>iii) Approves the proposed approach to using our internal audit support as set out in Appendix A.</b></li> <li><b>iv) Notes the way forward regarding the Truck Cartel claim.</b></li> <li><b>v) Notes the confidential appendix regarding Kier.</b></li> </ul>
<b>Reasons for recommendations:</b>	<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>Partner authorities will need indicative budget figures as early as possible in order to consider their individual contributions to the Board budget, and to progress their own financial planning processes.</p>
<b>Links to Priorities and Impact on Annual Business Plan:</b>	<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>
<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. However, during Recycle More roll out any variations to budget relating to the project will remain within the partnership until roll out has been completed and breakeven point has been reached.</p> <p>When considering the draft Annual Budget for 2021/2022, current trends in demographic growth, service uptake, waste tonnages arising in 2020/2021 including any potential ongoing impacts from Covid-19 will be a key contributory factor in shaping the forward budget.</p> <p>There are no HR implications of this report.</p>
<b>Equalities Implications:</b>	<p>None.</p>
<b>Risk Assessment:</b>	<p>Members will be aware from previous reports and presentations that the waste budget and actual costs, particularly disposal</p>

volumes and recycling credits, remain highly volatile, which has also been further impacted by Covid-19.
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## 1. Background

- 1.1.** The Annual Budget for 2020/2021 was originally set at the Board meeting of 14 February 2020 at £47,894,210. 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.

## 2. Current Financial Position

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	105	7	8	11	10	141
Disposal Costs	(312)	0	0	0	0	(312)
Collection - Recycling	0	0	(0)	(0)	(0)	(0)
Collection – Refuse	0	0	0	(0)	(0)	(0)
Collection – Garden	0	(0)	(0)	(0)	0	0
Collection Costs	0	(0)	(0)	0	(0)	(0)
Recycling Credits	158	(32)	(35)	(49)	(43)	0
Container Purchase & Delivery	0	(0)	(0)	0	0	0
Other – Covid-19	0	491	490	722	672	2,376
	<b>(48)</b>	<b>466</b>	<b>463</b>	<b>684</b>	<b>640</b>	<b>2,205</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 July position shows that the Somerset Waste Partnership budget is forecast to be **overspent by £2,205,000** (4.6% of the original budget), albeit on relatively limited actual costs in the year to date. This does not include the Recycle More roll out costs, which is accounted for separately. See paragraph 2.2 below.

The above position includes the financial impacts of Covid-19. All partners are aware of these financial pressures and have included them on their individual MHCLG returns. Somerset County Council have approved the transfer of MHCLG Covid-19 funding to their elements of these additional costs. Therefore, it is only the District partner elements that are in the outturn position above.

Somerset County Councils Covid-19 additional expenditure is for their proportion of the delayed roll out of Recycle More (£510,000), the costs associated with the phased reopening of HWRC's (£103,000), Slim my Waste Feed my Face unachievable element of savings due to suspending the campaign (£21,000), head office costs e.g. Hand Sanitiser (£1,700) and impact on tonnages across all waste streams (£318,000). All of these costs totalling £953,700 have been funded through Somerset County Councils MHCLG Covid-19 funding.

For District Partners there is a total of £2,376,000 of Covid-19 related additional expenditure. This is due to the delay of the roll out of Recycle More (£1,826,000) and additional collection costs which also includes some support vehicles and validation of Suez's costs by Eunomia (£550,000).

## **2.1. Waste Collection**

Estimated figures for the collection partners indicate a potential combined **£2,253,000 overspend** across the 4 partners at this stage.

In the main the overspend is a result of the additional costs of Covid-19 (£2,376,000). This includes the delayed roll out of recycle more and contractor costs for the additional resources required to deal with the increased demand on the service. The balance of the overspend is increased head office costs (£36,000) mainly salaries which will be attributable to recycle more.

Due to people's lifestyle changes as a result of Covid-19 volumes of waste presented at the kerbside have increased, particularly for the recycling waste streams. Dry recycling materials attract recycling credit payments and the forecast includes increased income for the District partners as a result. We do not know how permanent these changes to lifestyles will be or if this is a one off.

There are still some unknowns which could impact the outturn position such as the demand for replacement containers and the use of the bulky waste collection service. Both of these services were suspended for a while during the initial Covid-19 crisis. Once current demand is ascertained it will be used to analyse future costs, as there has not been a steady state of demand during this time.

## **2.2. Recycle More**

The figures above do not include the Recycle More fund. It was agreed by the board that this project is kept separate from the continuation budget. At The end of 2019/20 the project balance was a deficit of £140,000. It is anticipated that during 2020/21 £2,233,000 will be spent on the roll out of the Recycle More project which will leave an anticipated deficit of £2,373,000 at

outturn. As agreed 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 and breakeven point is reached, it is anticipated this will be early in quarter 2 of 2022/23.

### **2.3. Waste Disposal**

Waste disposal costs are forecast to underspend by £48,000, this is down to waste volumes being less than budgeted. The most significant areas seeing a reduction is recycling centres and green waste at both kerbside and recycling centres. This reduction is in part offset by an overspend on head office costs (£105,000). A large proportion of this is due to the staffing costs of rolling out the slim my waste feed my face project, which are offset by cost savings of waste being diverted from residual to the food waste stream.

It should be noted that the recycling centres were closed due to Covid-19 and the garden waste service was suspended for 6 weeks. It is anticipated that some of these reduced volumes may have been stored by householders and may reappear in the coming weeks. However, it is also possible that this waste has been disposed of through other means such as kerbside collections and home composting etc.

All forecasts are based on the tonnages in the first 4 months of the year.

### **2.4 2020/21 SCC savings update**

The following SCC savings are built in to the 2020/21 budget totalling £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

All these savings have either been made or are on target to be achieved by the end of the financial year except for 20% of the Slim my Waste, Feed my Face saving. This shortfall as a result of Covid-19 has been funded through MHCLG Covid-19 funding.

### 3. Indicative Annual Budget for 2021/2022 – Collection

**3.1** The table below shows the indicative budget requirements for 2021/2022. The inflation and growth assumptions are as listed. During 2021/22 there will be roll out costs for Recycle More which will be managed outside of the 'core' Somerset Waste Partnership budget.

Tonnages for recycling credits have been increased to reflect the 2019/20 levels but with no further growth applied. The majority of the increased income for collection partners relates to the agreed 3% annual payment uplift on recycling credits from the County Council.

Household growth is an indicative 1% across all District Partners. Members are reminded that each collection partner will be charged according to their individual district housing growth.

Inflation for the collection contract has been calculated on 3% at this stage. It is difficult to forecast future inflation given the current climate with Covid-19 and Brexit. The actual contract inflation will be known before the final budget is set.

The business plan states the intention that all partner garden waste subscriptions will be collected by Somerset Waste Partnership. Once this arrangement has been finalised this income will be added into the budget.

#### EARLY WASTE INFLATION ESTIMATES

		MDC	SDC	SSDC	SWaT
20/21 Final Budget		3,157,678	3,880,520	5,671,714	5,195,799
Inflation – Collection	<b>3.00%</b>	124,047	127,160	185,401	171,692
Household Growth	<b>1.00%</b>	24,273	30,497	45,053	41,457
Garden Waste	<b>1.00%</b>	3,852	4,568	6,082	5,788
Recycling Credits		(23,179)	(25,974)	(35,157)	(30,609)
Salaries	<b>2.75%</b>	3,002	3,184	4,460	4,186
Pension Deficit		0	0	0	0
Transfer Station Offset		(2,069)	(2,194)	(3,073)	(2,884)
Bulkies / Containers		0	0	0	0
Subtotal		3,287,604	4,017,760	5,874,480	5,385,428
Garden & Bulky Income		(18,088)	(7,035)	(15,185)	(29,393)
Proposed Savings		0	0	0	0
21/22 Budget		3,269,516	4,010,726	5,859,295	5,356,035

Increase / (Decrease)		111,838	130,206	187,581	160,236
Percentage		3.5%	3.4%	3.3%	3.1%

### 3.2 Disposal Factors

Estimating the disposal figures at this stage is difficult, because we are 8 months away from the start of the 2021/22 financial year, and volumes and mix have remained volatile for some time (weather, Covid-19, Brexit etc).

However, initial forecasts are:-

- Landfill Tax rates from 1 April 2021 have yet to be confirmed by the Treasury. In 2020/21 these were £94.15 per tonne and an increase of 3% has been assumed for this initial budget. This has a minimal impact as the majority of waste is being processed through our Energy from Waste contract.
- Contract inflation for disposal is based on a number of indices within the 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 2020 to February 2021 and are not published until March.
- Volume growth is based on projected household growth and impacts of Covid-19. The current assessment is 1% for household growth and a further 2.5% for Covid-19.
- The total additional budget required for the above pressures is £1,627,400 (landfill, inflation and volumes).
- Savings agreed in previously by the board and SCC which apply to 2021/22 financial year are a further £200,000 saving for year 3 of the HWRC contract extension. There is also a reduction to the £105,100 Slim my Waste Feed my Face saving of £58,900 as it moves into its second year.
- The standstill cost for the disposal budget is therefore £1,486,300, an increase of 5.0% on the original 2020/2021 budget.

### 3.3. Recycle More

The above budget excludes the costs of the roll out of Recycle More during 2021/22. This will be funded from the Recycle More Project Fund and where appropriate capital monies. 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. Breakeven point is anticipated to be early in Quarter 2 of 2022/23. Once breakeven point is reached, contract savings will be shared on the basis currently stated in the IAA.

#### **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.

#### **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 trends as set out above will be incorporated in the setting of the Annual Budget for 2021/2022, as set out in section 3 above.

#### **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 author).