

Financial Performance Update 2020/2021 and Draft Budget 2021/2022

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Forward Plan Reference:	17.11.20
Summary:	<p>The report sets out the financial performance against the approved Annual Budget for the first 7 months of the current financial year from April to the end of October.</p> <p>The report is also an update to the Draft Budget from September's meeting that will ultimately lead to the Annual Budget for 2021/2022.</p>
Recommendations:	<p>That the Somerset Waste Board:</p> <ol style="list-style-type: none"> 1) notes the summary financial performance for 2020/2021 as contained in this report, and how this will impact on the budgetary requirements for 2021/2022. 2) approves a Draft Budget of £47,015,858 for 2021/2022 for partner authority consultation, as set out in section 3.0 below, taking into account the potential savings requests from the County Council as set out in paragraph 3.2. 3) Notes the findings of the Internal Audit report on GDPR and the actions being undertaken to address the findings.
Reasons for recommendations:	<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</p>

	<p>variations to budget relating to the project will remain within the partnership until Breakeven point has been reached.</p> <p>When considering the draft Annual Budget for 2021/2022, current trends in demographic growth, service uptake and waste tonnages arising in 2020/2021 will be a key contributory factor in shaping the forward budget.</p>
Links to Priorities and Impact on Annual Business Plan:	Financial monitoring will show how the Partnership is managing its resources as it delivers the Annual Business Plan.
Financial, Legal and HR Implications:	<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>The Annual Budget, once finally approved, will become the new measure for our financial performance for 2021/2022. We will continue to share the costs amongst partners in the same way as previously as set out in our Cost Sharing Agreement. As previously agreed, during the roll out period, no Recycle More savings will be taken by partners until Breakeven point has been reached.</p> <p>A small amendment will be required to the IAA to reflect the Garden Waste income collection being done by Somerset Waste Partnership from 2021/22. The update is to the cost sharing table and it is proposed to use the constitutional arrangements designed to deal with minor changes (i.e. dealing with it by correspondence with partners)</p> <p>There are no specific HR implications.</p>
Equalities Implications:	None.
Risk Assessment:	Members will be aware from previous reports that the waste budget and actual costs, particularly disposal volumes, remain highly volatile. The potential impact on tonnages of Covid-19 (especially given the potential for a vaccine) and Brexit are extremely difficult to predict, and a prudent approach has been taken.

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 disposal costs fall to the County Council.
- 1.2** The Annual Budget is predominantly spent on making payments to our main contractors.

2. Current Financial Position

2.1 Summary of Budget Variances

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	92	4	4	6	5	111
Disposal Costs	(825)	0	0	0	0	(825)
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	1	1	1	1	2
Recycling Credits	401	(83)	(83)	(123)	(111)	0
Container Purchase & Delivery	0	(0)	(0)	0	0	0
Other	0	328	(14)	(12)	(31)	271
	(332)	248	(93)	(129)	(135)	(441)

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 October position shows that the Somerset Waste Partnership budget is forecast to be **underspent by £441,000** (0.9% of the current budget). This is an improvement on to the previous position reported to the September Board, which were July figures and showed an overspend of £2,205,000. This does not include the Recycle More project work, which is funded from a separate project fund.

Covid-19 costs are being charged to District partners therefore the previously

reported overspend has been updated to reflect the £2,306,400 now being funded by District partners. Somerset County Council as reported previously had already approved the transfer of MHCLG Covid-19 funding to their elements of these additional costs. All partners include these Covid-19 costs on their individual MHCLG returns. The total Covid-19 additional spend is £3,221,200 (£914,800 SCC, £2,306,400 District Partners). This is for the delayed roll out of Recycle More, re-opening of HWRC sites and associated costs, changes to tonnages, additional collection costs and head office costs such as PPE and the undeliverable element of the Slim my Waste, Feed my Face campaign. These costs are being continually updated as Covid-19 continues to impact. Although we expect the impacts to be more marginal with this second lockdown.

2.2 Waste Collection

Waste collection is £109,000 underspent. Any variations as a result of Recycle More are attributable to the Recycle More Fund and therefore do not make up part of this outturn position.

The underspend is due to increased recycling credits (because of more kerbside recycling) offset by an update to garden waste income projections due to the timing of income received. A large proportion of the income was received prior to 1st April as usually happens and this was returned to Mendip District Council as part of their surplus at outturn. This has been appropriately accounted for in their accounts and will offset the deficit shown in forecasts ('other' for Mendip District Council in the table above). 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.

Work will be undertaken to evaluate what elements of these should be attributable to Recycle More and projections will be updated accordingly. This update to the breakeven model is part of a piece of work to ensure all costs are correctly attributed now roll out has commenced and an update will be brought to the February board. This will be in line with the cost sharing principles for Recycle More as agreed by the Board and imbedded in the Inter-Authority Agreement.

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 services were suspended for a while during the initial Covid-19 crisis in Spring/early Summer 2020.

2.3 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

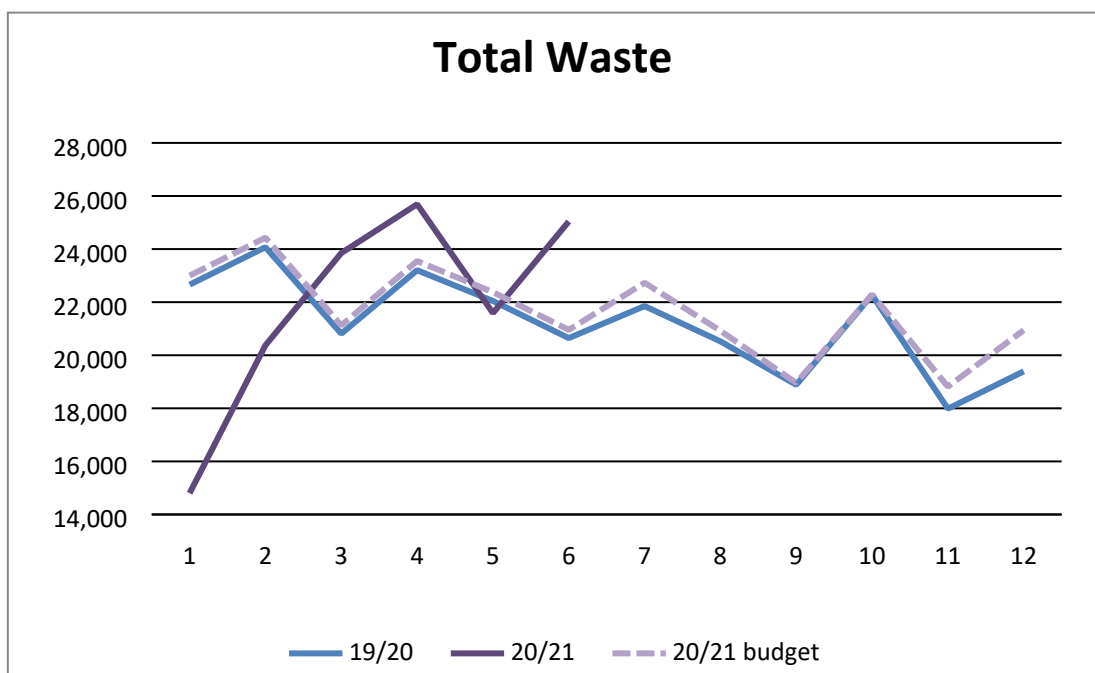
of 2019/20 the project balance was a deficit of £140,000. It is anticipated that during 2020/21 £2,440,000 will be spent on the roll out of the Recycle More project (including the direct costs of roll-out and the cost differential between Recycle More and the continuation budget) which will leave an anticipated deficit of £2,580,000 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. As mentioned above a detailed review of breakeven will be undertaken over the next few weeks part of this also includes work on the recycle risk share as we are now getting some actual data from the contractor. An update will be brought to the February Board as to any movement from the anticipated breakeven point in quarter 2 of 2022/23 reported to the September Board.

2.4 Waste Disposal

Waste disposal costs are forecast to underspend by £332,000 this is down to waste volumes changes and the mix of the different waste streams being different to the budgeted assumptions. The most significant areas seeing a reduction in tonnages are recycling centres as a result of the closure period and green waste at the kerbside.

We have seen significant increases in dry recycling, food and residual waste at the kerbside and the forecast anticipates this trend will continue.

All forecasts are based on the tonnages in the first 6 months of the year. As can be seen from the graph below tonnages are far from stable as this remains an area of volatility.



2.5 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. Draft Budget 2021/2022

3.1 Draft Budget 2021/2022 – Collection

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 as this will be attributable to Recycle More. 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 based on the latest estimates provided by the District partners. These will be amended for final budget to be taken to the February Board when actual figures are known. Members are reminded that each collection partner will be charged according to their individual district housing growth. The current estimates are:-

Mendip	0.64%
Sedgemoor	0.91%
South Somerset	0.72%
Somerset West and Taunton	0.50%

Inflation for the collection contract is 0.33% based on the basket of indices in the contract. This is a reduction from the estimated 3% built into the first indicative budget brought to the September board.

The estimates in the table below also reflect the latest information regarding

garden waste customers, bulky collections, containers and other contract cost changes.

There is a one-off cost included for additional fleet maintenance/refurbishment on the small number of refuse trucks which transferred from Kier to Suez, the value of which is still subject to final negotiations with Suez. The total anticipated additional costs are more than double what has been estimated, and this reflects our expectations of the outcome of these ongoing negotiations.

There is a new budget line for income collected on behalf of Sedgemoor, Somerset West and Taunton and South Somerset for their garden waste charges. SWP are already successfully collecting garden waste income for Mendip.

Draft budget

		MDC	SDC	SSDC	SWaT
20/21 Final Budget		3,157,678	3,880,520	5,671,714	5,195,799
Inflation - Collection	0.33 %	13,624	13,987	20,394	18,885
Household Growth	0.68 %	23,254	32,993	38,617	23,716
Garden Waste	1.00 %	(7,914)	(10,856)	3,720	(7,380)
Recycling Credits		(23,179)	(25,974)	(35,157)	(30,609)
Salaries	2.00 %	2,945	2,977	4,168	3,910
Pension Deficit		0	0	0	0
Transfer Station Offset		(2,068)	(2,199)	(3,074)	(2,878)
Bulkies / Containers		(247)	2,561	(2,369)	55
Subtotal		3,164,094	3,894,008	5,698,013	5,201,497
Garden & Bulky Income		(7,403)	(691,819)	(940,239)	(886,288)
Proposed Savings		0	0	0	0
Fleet		35,000	35,000	35,000	35,000

maintenance					
21/22 Budget		3,191,690	3,237,188	4,792,773	4,350,209
Increase / (Decrease)		34,012	(643,331)	(878,941)	(845,589)
Percentage		1.1%	-16.6%	-15.5%	-16.3%

3.2 Draft Budget 2021/ 2022 – 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. The latest tonnage trends available have been used to set this budget.

However, most recent 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 historic trends and impacts of Covid-19. The current assessment is 1% for routine tonnage growth and a further 2.5% for Covid-19.
- The total additional budget required for the above pressures is £1,626,600 (landfill, inflation, volumes and salaries).
- 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.
- In addition, the County Council is requesting savings from the Somerset Waste Board of £30,000 for 2021/22 and £324,000 for 2022/23
 - AD contract review £30,000 in 2021/21 (no customer impact)

- Recycle More savings in 2022/23 (SCC's share of the anticipated savings – all partners have been provided with their expected savings)
- The standstill cost for the disposal budget is therefore £1,455,500, an increase of 4.9% 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 in Quarter 2 of 2022/23, as mentioned above the breakeven point will be reviewed and updated accordingly. Once breakeven point is reached, contract savings will be shared on the basis currently stated in the IAA.

3.4 GDPR Internal Audit Report

SWP requested an audit to support our ongoing journey to GDPR compliance, given the complicated landscape we operate in – implementing a new CRM system, integrating it with our new collection contract partner and our District partner's systems and reflecting that much customer contact results in data moving between District, SWP and contractor. As is our usual practice, we are sharing this report (including our response) with the Board. A verbal update will be provided to the Board and the SWP Data Protection Officer will be present at the meeting to answer any questions.

4. Consultations undertaken

The Senior Management Group receives a summary financial management report on a regular basis, and regularly covers financial topics on their agenda. Joint s151 and SMG meetings of all partners are now undertaken at key milestones (e.g. ahead of finalising the budget presented in this paper).

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 figures as set out in the draft budget in section 3 above will be incorporated in the setting of the Annual Budget for 2021/2022.

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).

Appendix: Compliance with the General Data Protection Requirement 19/20 (SWAP Internal Audit report)