

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

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<p>Forward Plan Reference:</p>	<p><i>26.01.2021</i></p>
<p>Summary:</p>	<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.</p> <p>The Board is asked to approve a final Annual Budget for 2021/22 in accordance with its constitution and Inter Authority Agreement.</p>
<p>Recommendations:</p>	<p>That the Somerset Waste Board:</p> <ul style="list-style-type: none"> • notes the summary financial performance for 2020/2021 to date as contained in this report, and how this will impact on the budgetary requirements for 2021/2022. • Approves a final budget of £47,045,658 for 2021/2022 as set out in Appendix 1 taking into account the savings requests from the County Council as set out in paragraph 3.2.
<p>Reasons for recommendations:</p>	<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 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 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. 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>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>
<p>Equalities Implications:</p>	<p>None.</p>
<p>Risk Assessment:</p>	<p>Members will be aware from previous reports that the waste budget and actual costs, particularly disposal volumes, remain highly volatile. The ongoing impact on tonnages of Covid-19 and Brexit impacts are extremely difficult to predict, and a prudent approach has been taken.</p>

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	87	2	2	3	3	98
Disposal Costs	(392)	0	0	0	0	(392)
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	6	5	8	9	28
Recycling Credits	471	(98)	(98)	(145)	(130)	(0)
Container Purchase & Delivery	0	(0)	(0)	0	0	0
Other	(15)	335	(11)	(3)	(22)	284
	151	245	(101)	(137)	(141)	18

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 December position shows that the Somerset Waste Partnership budget is forecast to be **Overspent by £18,000** (0.04% of the current budget). This is an adverse movement to the previous position reported to the December Board, which was the position at the end of October, reporting a projected underspend of £441,000. This does not include the Recycle More project work, which is funded from a separate project fund. The above position includes some variances that will be part of the transfer to the Recycle More reserve which is an ongoing piece of work to ensure all costs are correctly allocated. Timing did not allow this work to be completed prior to December

finance reporting deadlines.

Covid-19 costs are being charged to all partners as appropriate so are not included in the reported forecast outturn position. All partners include these Covid-19 costs on their individual MHCLG returns. The total Covid-19 additional spend for Somerset Waste Partnership committed as at the end of December is £2,984,300 (£698,000 SCC, £2,286,300 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. There are ongoing discussions with the collection contractor regarding further additional costs as a result of working within Covid-19 restrictions. This isn't included in the figures for Covid-19 above. However, it is estimated this will be in the region of £480,000.

2.2 Waste Collection

The collection position is £134,000 underspent, which is an improvement of £54,000 from the £80,000 underspend reported at the December Board, this does however still include some elements that through ongoing analysis of recycle more spend will be attributable to the recycle more reserve as agreed previously by the board.

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 garden 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 for the year 2019/20. 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. However as noted above some elements will be attributable to the recycle more reserve as agreed previously by the board.

Work has been undertaken to evaluate what elements of spend should be attributable to Recycle More and projections will be updated accordingly, however due to the timing of reporting for December outturn position this was not able to be included in the outturn position above. This update to the breakeven model was part of a piece of work to ensure all costs are correctly attributed now roll out has commenced. 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. Paragraph 2.3 below details the outcome of this analysis on breakeven.

There are still some unknowns which could impact the outturn position such as the demand for replacement containers and the ongoing impact on materials sales values.

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. 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.

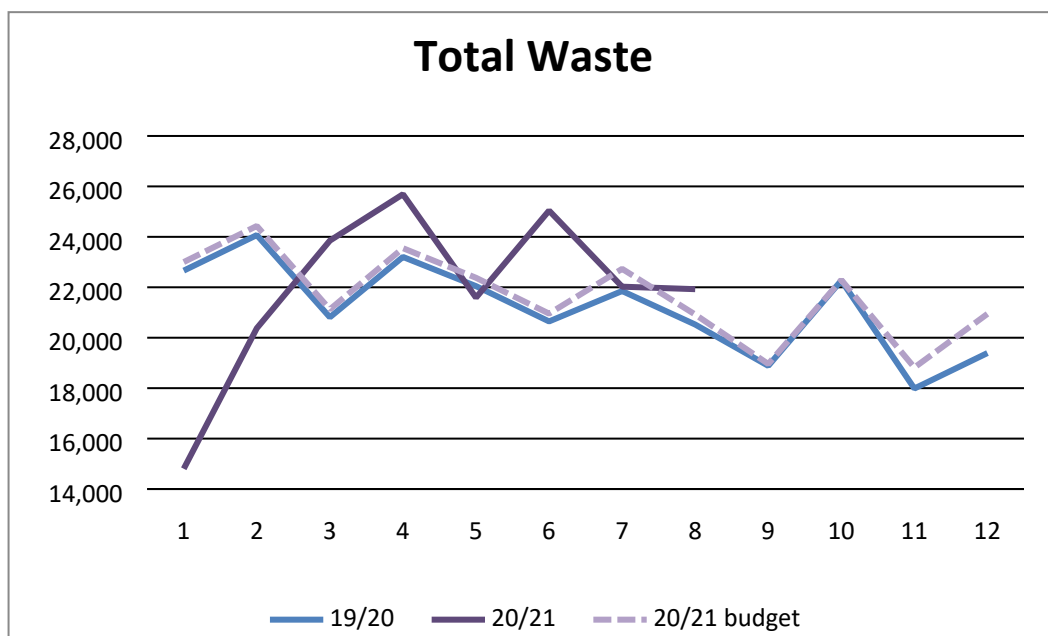
2.4 Waste Disposal

The waste disposal figure as at the end of December showed an Overspend of £151,000 which is an adverse movement on the figures reported to the December Board of an underspend of £332,000.

The overspend is due some tonnages being higher than that budgeted. The movement is due to updated tonnage data and further cost analysis of Covid-19 pressures on the service. Tonnage data will continue to be monitored and updated as the year progresses.

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 8 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.

3.0 Annual Budget 2021/2022

The February Waste Board is where our Constitution and Inter Authority Agreement require us to agree the 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 2021/2022 – Collection

The table below shows the total budget requirements for each partner for 2021/2022.

		MDC	SDC	SSDC	SWaT
20/21 Final Budget		3,157,678	3,880,520	5,671,714	5,195,799
Inflation - Collection	0.55%	22,708	23,314	33,991	31,478
Household Growth	0.68%	23,512	28,609	44,969	21,731
Garden Waste	1.00%	(7,929)	(10,878)	3,731	(7,394)
Recycling Credits		(23,179)	(25,974)	(35,157)	(30,609)
Salaries	2.00%	2,945	2,976	4,169	3,910
Pension Deficit		0	0	0	0
Transfer Station Offset		(2,068)	(2,196)	(3,078)	(2,877)
Bulkies / Containers		10,809	1,121	(7,865)	(4,064)
Subtotal		3,184,475	3,897,490	5,712,474	5,207,973

Garden & Bulky Income	(7,403)	(691,819)	(940,239)	(886,288)
Proposed Savings	0	0	0	0
Fleet maintenance	31,250	31,250	31,250	31,250
21/22 Budget	3,208,321	3,236,921	4,803,484	4,352,935
Increase / (Decrease)	50,643	(643,599)	(868,230)	(842,864)
Percentage	1.6%	-16.6%	-15.3%	-16.2%

The Annual Budget reflects the latest information regarding garden waste customers, bulky collections, containers and other contract cost changes. During 2021/22 there will be roll out costs for Recycle More which will be managed outside of the 'core' Somerset Waste Partnership budget.

There have only been a small number of changes required since the draft budget presented to the board in December. These changes result in an additional budget requirement of £29,800 to that presented in the draft budget to the December board.

Amendments have been made in relation to household growth (now 0.68% across the whole of Somerset) and the latest information available for inflation and the one-off cost previously included for additional fleet maintenance/ refurbishment on the small number of refuse trucks which transferred from Kier to Suez.

Household growth is based on the Household numbers provided by the district partners. Members are reminded that each collection partner will be charged according to their individual district housing growth. The growth figures for each area are as follows;

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

Inflation for the collection contract is 0.55% based on the basket of indices in the contract. This is a small increase from the 0.33% built into the draft budget brought to the December board.

3.2 Final Budget 2021/ 2022 - Disposal

Inflation indices are not finalised until February's figures are published, and are 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 on historic trends and the 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 2021/22 (no customer impact) This saving may be exceeded, if so it will be reported in budget monitoring through the year.
 - 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 was previously reported to the September and December board with an anticipated breakeven point in quarter 2 of 2022/23. As highlighted to the board, the prices which recycle is achieving have dropped significantly since we made our original forecasts. So, despite collecting more recycling and keeping 98% of it in the UK, it is likely that this means that breakeven will slip later in the 2022/23 financial year. We expected

Recycle More to save all partners over £2m a year once it has fully rolled out and we still expect to achieve that, especially as initial reductions in refuse levels have been higher than we expected (though Covid impacts on tonnages make applying current year results to the future need caution). The precise levels of first year (2022/23) saving are still being refined, a task made more challenging by the ongoing Covid crisis and what this means for tonnages, and how we ensure that we correctly allocate all costs between Covid costs and Recycle More. SWP expect to take a revised breakeven position through a joint meeting of s151 Officers and SMG representatives later in February, and will update the board after that and more formally at the next Board meeting. Once breakeven point is reached, contract savings will be shared on the basis currently stated in the IAA.

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

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 budget in section 3 above will form 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).