

Somerset Waste Board meeting
24th September 2021
Report for Approval

Financial Performance Update 2021/2022 and Development of the Annual Budget 2022/2023

Lead Officer: Mickey Green, Managing Director and Christian Evans, Strategic Finance Manager

Author: Christian Evans, Strategic Finance Manager

Contact Details: cevans@somerset.gov.uk

Forward Plan Reference:	01/08/2021
Summary:	<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 2022/2023.</p>
Recommendations:	<p>That the Somerset Waste Board: -</p> <ul style="list-style-type: none">i) Notes the summary financial performance for 2021/2022 to the end of month 4 (April – July) and the potential outturn position for each partner authority.ii) Considers the draft budget for 2022/2023 and the key factors that will influence the budget setting process.iii) Notes the positive business case for an electric RCV and Photovoltaics at our two sorting and baling facilities, and the urgent need to clarify whether funding is available to progress these key business plan actions.
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>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>
<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. 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 2022/2023, current trends in demographic growth, service uptake, waste tonnages arising in 2021/2022 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>
<p>Equalities Implications:</p>	<p>None.</p>
<p>Risk Assessment:</p>	<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.
--

1. Background

- 1.1.** The Annual Budget for 2021/2022 was originally set at the Board meeting of 12 February 2021 at £47,045,658. 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 – Month 4 (excluding Recycle More fund)

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	1	0	0	0	0	2
Disposal Costs	291	0	0	0	0	291
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	(2)	(2)	(3)	(3)	(10)
Recycling Credits	0	0	0	0	0	0
Container Purchase & Delivery	0	0	0	0	0	0
Garden Income	0	0	0	0	0	0
Covid - 19	0	74	74	110	101	360
Other	(15)	0	0	0	0	(15)
	277	72	72	108	99	627

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 £627,000** (1.3% 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.

There are still additional Suez collection covid related contract costs which fall

to District partners. The current agreement with Suez, is that the final Covid related payment are due at the end of September. Clearly the future situation with Covid is uncertain, so this

2.1. Waste Collection

Estimated figures for the collection indicate a potential combined **£351,000 overspend** across the 4 District partners at this stage.

The total overspend relating to additional covid payments to Suez is predicted to be £360,000, with savings of £9,000 relating to general underspends across the service.

There is still uncertainty around yields due to the ongoing Recycle More roll out. As the year continues and the roll out progresses we will update the predicted yields. This affects the breakeven position.

2.2. Recycle More 2021/22

The figures in the above table 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 2020/21 the project balance was a deficit of £964,000. It is anticipated that during 2021/22 £741,000 will be spent on the roll out of the Recycle More project which will leave an anticipated deficit of £1,705,000 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 in quarter 3 of 2022/23.

2.3. Waste Disposal

Waste disposal costs are forecast to overspend by £277,000, this relates to increased waste volumes at the Household Waste Recycling Centres. Predominately due to residual waste. We are yet to see the impact of the kerbside garden service suspension, and how this impacts on tonnages received at HWRCs.

2.4. 2021/22 SCC savings update

The following SCC savings are built in to the 2021/22 budget totalling £230,000.

- £200,000 – Year 4 of the core services contract extension (previously agreed by the board in November 2018)
- £30,000 – Reduced gate fee at anerobic digester plant

All these savings have either been met or are on target to be achieved by the end of the financial year.

3. Indicative Annual Budget for 2022/2023

EARLY WASTE INFLATION ESTIMATES

		SCC	MDC	SDC	SSDC	SWAT
21/22 Base Budget		31,443,997	3,208,321	3,236,920	4,803,484	4,352,935
2020/21 Indexation	Est	0	39,150	39,111	58,266	53,473
2021/22 Indexation	Est	0	39,150	39,111	58,266	53,473
Inflation - Collection	7.0%	0	292,628	299,661	437,827	403,575
Inflation - Disposal	-1.4%	(387,487)	0	0	0	0
Household Growth	0.79%	0	20,592	19,917	30,011	27,369
Garden Waste	1.00%	0	5,861	6,841	9,353	8,765
Recycling Credits	3.79%	103,940	(21,912)	(20,893)	(32,038)	(29,107)
Salaries inc pensions	2.50%	11,673	2,800	2,974	4,167	3,895
Transfer Station Offset		10,520	(2,129)	(2,261)	(3,168)	(2,962)
Landfill Tax	2.95%	34,900	0	0	0	0
Volume Growth	0.79%	185,000	0	0	0	0
Fleet Maintenance - one off		0	(31,250)	(31,250)	(31,250)	(31,250)
Previously Agreed Savings		(395,300)				
Proposed Savings		(320,000)	(92,723)	(92,632)	(137,999)	(126,646)
22/23 Draft Budget		30,687,243	3,460,487	3,497,499	5,196,920	4,713,521
Increase / (Decrease)		(756,754)	252,167	260,579	393,435	360,586
Percentage		-2.4%	7.9%	8.1%	8.2%	8.3%

3.1 Collection Factors

The table below shows the indicative budget requirements for 2022/2023. The inflation and growth assumptions are as listed. During 2022/23 there will be roll out costs for Recycle More which will be managed outside of the 'core' Somerset Waste Partnership budget.

An adjustment is included to amend the inflation applied to the base prices at the start of the contract; this has a knock-on impact for both 2020/21 and 2021/22. This is still to be finalised with the contractor, so an estimate is included at this stage.

Inflation for the collection contract has been calculated on 7% at this stage, this is a basket of indices which includes labour, fuel and CPI. It is difficult to forecast future inflation given the current climate with Covid-19. The actual contract inflation will be known before the final budget is set.

Household growth is an indicative 0.79% across all District Partners, which is the average annual growth over the last 4 years. Members are reminded that each collection partner will be charged according to their individual district housing growth.

Garden waste is current shown with an indicative growth of 1% across all District Partners as with household growth this will be updated for actual customer numbers for each District before the budget is finalised.

Tonnages for recycling credits reflect the 0.79% housing growth applied for 2022/23. The majority of the increased income for collection partners relates to the agreed 3% annual payment uplift on recycling credits from the County Council.

£450,000 has been included for part year 2022/23 District Council Recycle More savings. This is based on the last model which shows a breakeven of quarter 3 2022/23. There are still a number of significant variables which may change this date such as materials values, yields, covid. The breakeven model will continue to be reviewed in line with the roll out programme.

It is proposed that fees and charges for bulky waste and garden waste subscriptions will not be increased for 2022/23. See fees and charges paper for details.

3.2 Disposal Factors

Estimating the disposal figures at this stage is difficult, because we are 8 months away from the start of the 2022/23 financial year, and volumes and mix have remained volatile for some time (weather, Covid-19 etc).

However, initial forecasts are: -

- 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 2021 to February 2022 and are not published until March. The 2021/22 budget included an estimated Baxter index uplift of 4.75% but the actual number published in March 2021 was an inflation reduction of -1.86%. The 2022/23 budget includes a rebasing for the actual 2021/22 contract inflation as well as the estimated inflationary uplift for 2022/23. The overall impact is a negative inflation estimate of 1.4%
- Volume growth is based on estimated household growth which is 0.79%.
- Landfill tax percentage is based on estimated RPI which the government releases during the year.
- Savings agreed previously by the board and SCC which apply to 2022/23 financial year are a further £400,000 saving for year 5 of the HWRC contract extension. The overall renegotiated contract savings is £1.3m.
- New savings for 2022/23 include £250,000 for part year Recycle More and £70,000 for renegotiated charges for the anaerobic food digester waste service.
- The standstill cost for the disposal budget is therefore a reduction of £760,250. This is 2.4% of the SCC original element of the 2021/22 budget.

3.3. Recycle More

The indicative annual budget excludes the costs of the roll out of Recycle More during 2022/23. 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 3 of 2022/23. Savings included above are reflected in the breakeven point. Once breakeven point is reached, contract savings will be shared on the basis currently stated in the IAA.

Recycle More Fund

	2019/20	2020/21	2021/22	2022/23
--	----------------	----------------	----------------	----------------

Opening Balance	(1,101,040)	139,995	964,210	1,731,049
Suez Contract	-	1,210,652	2,040,555	354,499
Materials Income	-	(1,023,424)	(1,163,327)	(1,505,285)
Reduced Kerbside Costs	-	(202,804)	(643,216)	(1,280,263)
Roll Out Costs	-	218,925	343,823	-
Contract Mobilisation (including ongoing legal / consultants costs)	1,241,035	620,866	189,005	-
Closing Balance	139,995	964,210	1,731,049	(700,000)

Current potential variables which may affect the breakeven point:

- Potential contractor costs due to covid and national driver shortage
- Resolution of dispute with previous contractor
- Material income & yields
- Any future delays in the roll-out of Recycle More

4. Capital Projects

The Board are reminded that a partial re-fleet (replacing the 23 2016 plate vehicles, which cost c£3m in 2016) will need to take place in 2024/25. With a long lead time on vehicles (especially electric vehicles) there will be a long run-in to this. SWP hopes that it can maximise the number of alternatively fuelled vehicles in this partial re-fleet, and to de-risk this it is important that SWP understands how these vehicles operate in reality in Somerset.

As part of SWP's Business Plan priority to decarbonise our operations there are two projects underway:

- 1) SWP are currently trialling a refurbished **electric refuse vehicle** – a Dennis Eagle e-Collect built on a refurbished chassis. The trial over the summer has enabled the vehicle to operate on one route from Bridgwater, and has been successful environmentally, operationally and with strong driver/staff feedback. Operating an electric vehicle for longer on a wider variety of routes will be crucial to enable us to understand the viability of purchasing further electric vehicles in 2024/25. A refurbished e-RCV, in addition to the carbon benefits from reusing a chassis, offers a significant cost saving over a fully new e-RCV (£305k compared to c£450k) but is more expensive than a diesel alternative (c£180k) – effectively purchasing a more expensive vehicle earlier than we need in order to de-risk the future partial re-fleet. Based on current (high) electricity prices SUEZ expect the savings compared to diesel to be £8,691 per year, and have committed that the saving to SWP will be no worse than this over the life of the vehicle. Whilst diesel vehicles are depreciated over 10 years SWP believe it is prudent to depreciate an e-RCV over 8 years in line with the estimated period of time when the batteries perform at 80% of full capacity (and aligning with the fixed price maintenance period from Denis Eagle) – noting that some e-ECVs on the continent have lasted longer. SUEZ estimate that the cost per tonne of carbon saved is £394. At the time of writing this report SWP was discussing with partner s151s the possible funding routes for this vehicle – noting that any partner that borrows capital will be entitled to a 1% return above the borrowing rate, and that all District partners would then share in the revenue cost of financing the borrowing in line with weighted household numbers (as other vehicles are charged). If SWP are unable to commit to purchasing the refurbished e-RCV by the end of November 2021 then it will be sold elsewhere. SWP may not be able to secure another electric vehicle to inform the re-fleet procurement (given the long lead time on these vehicles).
- 2) A full business case has been developed for the installation of **Photovoltaic panels** at the two depots we have sorting and baling facilities (and hence a high and stable demand for electricity) at a cost of £110k (inc 5% contingency). This would generate the electricity used to power the baling equipment and has a payback period of 5 ½ years and a useful life of 25 years. It is estimated that the payback over the lifetime of the panels will be

£490k – a significant financial return on investment for partners on top of the environmental benefits. The PV has been optimised to generate the power needed by SUEZ – 72.77kWp at Taunton and 70.84kWp at Evercreech – the payback of the scheme being made significantly more positive by optimising the array for our own use (and hence minimising export, noting that this means we will not be self-sufficient). It is expected to save 52 tonnes of carbon per year. At the time of writing this report SWP was discussing with partner s151s the possible funding routes for PV – noting that any partner that borrows capital will be entitled to a 1% return above the borrowing rate, and that all District partners would then share in the revenue cost of financing the borrowing. If funding is not secured until 2022/23 then prices may need revision to reflect current market prices, but this is not expected to significantly alter the very positive payback or return on investment.

5. Consultations undertaken

- 5.1** The Senior Management Group and S151 Officers receive a summary financial management report on a regular basis, and regularly covers financial topics on their agenda.

6. Implications

- 6.1.** Potential over and underspends as in section 2 above, if trends continue, would result in these figures at outturn for the individual partners.
- 6.2.** Financial trends as set out above will be incorporated in the setting of the Annual Budget for 2022/2023, as set out in section 3 above.

7. Background Papers

- 7.1.** Previous Financial Performance and Annual Budget reports to the Somerset Waste Board (all available on the website or from the author).