

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

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

Author: Christian Evans, Strategic Manager Finance

Contact Details: [cevans@somerset.gov.uk](mailto:cevans@somerset.gov.uk)

<b>Forward Plan Reference:</b>	<b>23/11/2021</b>
<b>Summary:</b>	<p>The report sets out the financial performance against the approved Annual Budget for the first 7 months of the current financial year (April to the end of October), 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> <p>Appendix 1 shows the detailed draft 2022/23 budget.</p>
<b>Recommendations:</b>	<p><b>The Joint Waste Scrutiny Panel considers and comments on the following recommendations in this report.</b></p> <p><b>That the Somerset Waste Board: -</b></p> <ul style="list-style-type: none"><li><b>i) Notes the summary financial performance for 2021/2022 to the end of month 7 (October) and the potential outturn position for each partner authority.</b></li><li><b>ii) Considers the draft budget for 2022/2023 and the key factors that will influence the budget setting process, the final budget will be submitted to the February Waste Board.</b></li></ul>

<p><b>Reasons for recommendations:</b></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>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 to consider their individual contributions to the Board budget, and to progress their own financial planning processes.</p>
<p><b>Links to Priorities and Impact on Annual Business Plan:</b></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><b>Financial, Legal and HR Implications:</b></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, though the national driver shortage (and cost of measures SUEZ have put in place to mitigate this) are the subject of ongoing commercial dialogue</p>

	with SUEZ.
<b>Equalities Implications:</b>	None.

<b>Risk Assessment:</b>	<p>Members will be aware from previous reports and presentations that the waste budget and actual costs, particularly disposal volumes and recycling credits, remain highly volatile, which has also been further impacted by Covid-19.</p> <p>Members will be aware that SWP and SUEZ interpret Force Majeure and Qualifying Change in Law clauses differently in how they apply to the impacts of Covid and the national driver shortage. SWP and SUEZ are currently in an informal dialogue to seek a commercial resolution that avoids a formal dispute. SWP expect to have further commercial dialogue with SUEZ in 2022 informed by clarity on national legislative change and greater clarity on the longer-term changes in behaviour that have resulted from Covid-19, and once the roll-out of Recycle More has been completed and the medium-term impacts of the driver shortage are clearer. All these issues have potential financial consequences.</p>
-------------------------	---

## **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 7 (excluding Recycle More fund)**

	<b>SCC</b> <b>£'000</b>	<b>MDC</b> <b>£'000</b>	<b>SDC</b> <b>£'000</b>	<b>SSDC</b> <b>£'000</b>	<b>SWaT</b> <b>£'000</b>	<b>Total</b> <b>£'000</b>
Head Office	(1)	(0)	(0)	(0)	(0)	<b>(1)</b>
Disposal Costs	157	0	0	0	0	<b>157</b>
Collection Costs	0	(2)	(2)	(3)	(3)	<b>(10)</b>
Covid - 19	0	139	139	207	190	<b>675</b>
Collection Contract						
Indexation	0	70	70	104	96	<b>340</b>
Other - includes E-RCV*	(15)	8	9	12	11	<b>25</b>
	<b>141</b>	<b>215</b>	<b>216</b>	<b>320</b>	<b>294</b>	<b>1,186</b>

E-RCV = Electric Refuse Collection Vehicle

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.

Overall, the end of October position shows that the Somerset Waste Partnership budget is forecast to be **overspent by £1.186m** (2.5% 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.

## **2.1. Waste Collection**

Estimated figures for the collection indicate a predicted combined **£1.045m overspend** across the 4 District partners at this stage.

There are still additional Suez collection covid related contract costs which fall to District partners (£675k for 2021/22). The current agreement with Suez, is that payments for direct costs related to Covid (safe staggered starts, extra vehicle cleansing, staggered debriefs, cover for covid absence) will continue. This is considered prudent in order to maintain service stability and has been discussed and agreed with SMG and partner s151 officers. SWP continue to negotiate this position with SUEZ.

The collection contract has been reviewed and an additional estimated cost of £340,000 has been added in 2021/22, relating to an incorrect allocation of inflation since the commencement of the collection contract. Indexation relates to the correction of an error in the application of indexation (whether figures used are those published in October or for October) since the commencement of the contract (related to the precise timing of the figures used) and whilst this is still the subject of negotiation with SUEZ, it is expected to be resolved by the time of the Board meeting. SMG and partner s151 officers are aware of the issue.

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. Any significant movements may affect the breakeven position which is currently the final quarter of 2022/23.

## **2.2. Waste Disposal**

Waste disposal costs are forecast to overspend by £141,000. This relates to increased waste volumes (predominantly residual waste) at the Household Waste Recycling Centres.

## **2.3. 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 still anticipated this will be in quarter 3 of 2022/23 (i.e., no change from previous forecasts and hence part year savings expected for partners in 2022/23).

There are a number of potential significant variables which may affect the breakeven point, including the ongoing dispute with Kier (A verbal update will be provided to the Board), commercial negotiations with Suez as well as tonnages (significantly affected by Covid-19 induced behaviour/lifestyle change) and recycle income (affected by market prices and tonnages). The breakeven point is continually being reviewed and any resolution of outstanding issues may affect the breakeven point and value of savings achievable.

## **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 disposal contract extension (previously agreed by the board in November 2018)
- £30,000 – Reduced gate fee at anaerobic 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 Draft Annual Budget for 2022/2023

		SCC	MDC	SDC	SSDC	SWaT
21/22 Base Budget		31,443,997	3,208,321	3,236,920	4,803,484	4,352,935
Correct Base Indexation		0	34,928	35,790	52,292	48,200
Inflation - Collection	6.11%	0	257,539	263,748	385,355	355,208
Inflation - Disposal	-1.41%	(383,217)	0	0	0	0
Landfill Tax	2.95%	34,900	0	0	0	0
Household Growth	0.93%	0	29,006	39,401	66,809	39,895
Garden Waste	11.9%	0	63,912	73,699	128,091	105,148
Volume Growth	0.79%	185,000	0	0	0	0
Recycling Credits		103,940	(21,912)	(21,743)	(33,454)	(26,840)
Salaries	2.00%	11,440	2,744	2,914	4,084	3,818
Transfer Station & Other		10,520	1,642	(843)	3,041	71
Garden & Bulky Income	12.0%	0	(65,909)	(73,535)	(131,839)	(103,257)
Financing - PV & E-RCV		0	8,227	8,241	12,295	11,237
Covid-19 Costs		0	125,867	126,086	188,119	171,927
Proposed Savings		(715,300)	(123,799)	(123,961)	(169,573)	(157,667)
22/23 Draft Budget		30,691,280	3,520,566	3,566,716	5,308,703	4,800,676
<b>Increase / (Decrease)</b>		<b>(752,717)</b>	<b>312,245</b>	<b>329,797</b>	<b>505,219</b>	<b>447,740</b>
<b>Percentage</b>		<b>-2.4%</b>	<b>9.7%</b>	<b>10.2%</b>	<b>10.5%</b>	<b>10.3%</b>

#### 3.1 Collection Factors

The table above shows the draft indicative budget requirements for 2022/2023. The inflation and growth assumptions are as listed.

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 6.1%, this is a basket of indices which includes labour, fuel, and CPI. This percentage is the government published figures in October 2021.

Household growth figures are provided by each individual District partner. The current average of these figures is growth of 0.93%. The actuals applied to the 2022/23 budget will be known in January. The figures will relate to the December household numbers provided by HMRC (Valuation office agency).

SUEZ have claimed that they are collecting from a larger number of households than they are being paid for through the contract. SUEZ have not yet provided any detail to evidence this claim and SWP are already working with Districts to understand and reconcile any differences. There is therefore much work needed before any financial risk could be quantified, and it is highlighted here for information only.

Garden waste is based on current subscriber numbers with growth of 0.93% across all District Partners as with household growth. With the 8 week service extension (due to the disruption over the Summer) the vast majority of subscribers will start their subscription on 4<sup>th</sup> July. This means that most income will be received in the 2022/23 financial year. National Government have still not confirmed whether they intend to impose free garden waste collections on local authorities (despite consensus from the sector that this is not the right direction) and clarity is expected in 2022, and this is not expected to impact on 2022/23 income or costs.

Tonnages for recycling credits reflect the 0.93% 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.

Funding costs have been included for Photovoltaic Panels (PV) at our two main depots and the new electric refuse vehicle (e-RCV); this includes a contract saving on diesel fuel costs against the lower cost of electric charging.

The current monthly Covid direct cost allocation to Suez for their additional processes has been extended for budgeting purposes in 2022/23, as this is deemed prudent given that we cannot predict with any confidence when we can safely take away these important measures to keep our workforce safe. Covid costs are the subject of ongoing review with SUEZ.

£450,000 has been included for part year 2022/23 District Council Recycle More savings. This is based on the latest modelling 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 as agreed by the Board in the September fees and charges paper. The additional predicted income represents an increase in number of garden waste subscribers.

### **Disposal Factors**

Estimating the disposal figures for the 2022/23 budget is a challenge at this stage. Volumes and mix have remained volatile for some time (weather, Covid-



**3.2** 19 etc). The roll out of the Recycle More programme will have an inevitable impact on tonnage levels across the different waste streams.

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 currently an average of 0.79%. This will be updated for the final budget.
- Landfill tax percentage is based on estimated RPI which the government releases during the year. There remains an ongoing risk that government may decide to introduce a tax on Energy from Waste, but this risk is not quantifiable at this point.
- 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 £752,717. 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.

<b>Recycle More Fund</b>				
	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
<b>Opening Balance</b>	(1,101,040)	139,995	964,210	1,546,282
Contract v Continuation Budget	-	1,210,652	2,414,768	539,266
Materials Income	-	(1,023,424)	(1,652,897)	(1,505,285)
Reduced Kerbside Costs	-	(202,804)	(728,102)	(1,280,263)
Roll Out Costs	-	218,925	343,823	-
Contract Mobilisation (including ongoing legal / consultant costs)	1,241,035	620,866	204,479	-
<b>Closing Balance</b>	139,995	964,210	1,546,282	(700,000)

- Contract v Continuation Budget is the variance between the actual cost paid to Suez for the collection service against the value of the continuation budget. The collection service is more expensive until we have fully rolled out Recycle More. All overspends during the initial start of the roll out program are held in the Recycle More fund and then as roll progresses and we start to see reduced expenditure which also feed into the Recycle More fund until breakeven point is reached.
- Materials Income is the income received for selling dry recyclate to the market. The rate received fluctuates on daily basis depending on the market demand.
- Reduced Kerbside Costs relates to the decrease in residual tonnages and the increase in recyclate materials as a result of Recycle More's three weekly collections. Residual waste is the most expensive disposal waste stream so diverting waste from the black bin to recycling reduces costs.
- Roll Out Costs includes the cost of staff time, communications, and other associated cost to ensure all households know how to use the new service and to enable the smooth roll out of the programme.

- Contract Mobilisation includes the costs of closing out the old contract and progressing through the new contract.

Current potential variables which may affect the breakeven point:

- Potential contractor costs due to covid and national driver shortage
- Resolution of dispute with previous collection contractor (Kier)
- Material income & yields
- Any future delays in the roll-out of Recycle More
- The future of garden waste funding and food waste funding
- Potential future government changes to charging companies for packaging responsibilities and the impact of a Deposit Return Scheme

#### **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 and their associated infrastructure) 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 Somerset. Until we have clarity on future national legislation (and hence tonnages) it will be challenging to finalise the exact vehicle requirements.

As part of SWPs Business Plan priority to decarbonise our operations funding has been agreed for 2 projects. The purchase of an electric refuse vehicle and the purchase and installation of photo voltaic panels at Evercreech Depot.

#### **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).

Appendix 1

Draft SWP Budget 2022/23		SCC	MDC	SDC	SSDC	SWAT
<b>Expenditure</b>						
<b>Single Client Group</b>						
Salaries & on-costs	1,045,230	478,297	114,514	121,948	171,152	159,319
Salaries pension deficit	84,500	38,667	9,258	9,859	13,836	12,880
MDC customer services impact	7,230		7,230			
Travel & Subsistence	53,064	24,282	5,814	6,191	8,689	8,088
Admin, training, meetings & IT	87,556	40,065	9,592	10,215	14,337	13,346
Advertising & campaigns	48,175	22,045	5,278	5,621	7,888	7,343
Office rent & accommodation	72,140	33,011	7,904	8,417	11,813	10,996
<b>Support Services</b>						
Legal	10,660	4,878	1,168	1,244	1,746	1,625
Insurance	5,412	2,477	593	631	886	825
Finance	83,527	38,222	9,151	9,745	13,677	12,732
Internal Audit	11,193	5,122	1,226	1,306	1,833	1,706
Human Resources	5,330	2,439	584	622	873	812
ICT	5,494	2,514	602	641	900	837
Democratic Services	16,330		3,298	3,513	4,930	4,589
<b>Direct Services</b>						
<b>Waste Disposal</b>						
Disposal - Landfill includes clinical disposal	15,072,070	15,072,070				
Disposal - HWRCs	8,018,900	8,018,900				
Disposal - food waste	1,612,890	1,612,890				
Disposal - Hazardous waste	231,280	231,280				
Composting	1,837,260	1,837,260				
<b>Kerbside Recycling</b>						
Sort it+ SP5 all districts	10,650,620		2,190,461	2,194,278	3,273,835	2,992,047
<b>Communal Recycling SP5</b>	93,370		15,499	21,547	25,894	30,430
<b>Garden</b>	3,453,000		650,035	757,850	1,063,426	981,689
Garden sticker admin	18,000		3,399	3,966	5,561	5,074
<b>Household Refuse</b>						
Fortnightly	6,768,770		1,392,100	1,394,525	2,080,614	1,901,530
<b>Refuse - Communal SP5</b>	329,520		66,303	66,747	88,478	107,992
<b>Assisted Collections</b>	112,150		23,065	23,106	34,473	31,506
<b>Assisted Collection Review</b>	10,000		2,057	2,060	3,074	2,809
<b>Clinical Waste</b>	140,850		28,450	30,297	42,521	39,582
<b>Bulky Waste Collections</b>	98,980		22,470	17,735	28,555	30,220
<b>SWB Directed Collections</b>	3,680		743	792	1,111	1,034
<b>Day Works</b>	9,500		1,919	2,043	2,868	2,670
<b>Container Maintenance</b>	67,820		13,699	14,588	20,474	19,059
<b>Container Delivery</b>	200,940		46,578	42,238	62,633	49,492
<b>Container Supply</b>	528,180		112,819	125,971	163,630	125,760
<b>Admitted Body Pension Costs</b>						
Base pension cost	60,380				60,380	
Incremental pension cost	8,620		1,741	1,854	2,602	2,422
<b>Depot Costs</b>	209,440		42,305	45,051	63,228	58,857
<b>Village Halls</b>	5,500			5,500		
<b>Inter Authority Transfers</b>						
<b>Transfer Station Offset Cost</b>	361,340	361,340				
<b>Payment in lieu of Recycling Credits</b>	2,833,690	2,833,690				
<b>Third party Recycling Credits</b>	31,830	31,830				
<b>Advance Payment Saving</b>	- 31,900		- 6,443	- 6,862	- 9,630	- 8,965
<b>Lease Repayments - Sort It Plus Vehicles</b>	262,430		58,580	47,800	87,160	68,890
<b>Financing PV and E-RCV</b>	40,000		8,227	8,241	12,295	11,237
<b>Fleet maintenance - one off cost</b>	-		-	-	-	-
<b>Covid costs</b>	612,000		125,867	126,086	188,119	171,927
<b>Recycle More Saving</b>	- 450,000		- 92,549	- 92,711	- 138,323	- 126,417
<b>Total direct expenditure</b>	<b>54,736,951</b>	<b>30,691,280</b>	<b>4,883,536</b>	<b>5,012,654</b>	<b>7,415,539</b>	<b>6,733,942</b>
<b>Income</b>						
Kier Discount all Districts on SP5	- 80,000		- 16,159	- 17,208	- 24,151	- 22,482
Williton Transfer Offset	- 361,340		- 72,987	- 77,725	- 109,085	- 101,543
Garden Income	- 3,479,230		- 654,973	- 763,607	- 1,071,504	- 989,147
Bulky Income	- 94,750		- 21,510	- 16,978	- 27,335	- 28,928
District Recycling Credits	- 2,833,690		- 597,342	- 570,422	- 874,760	- 791,166
<b>Total income</b>	<b>- 6,849,010</b>	<b>-</b>	<b>- 1,362,970</b>	<b>- 1,445,939</b>	<b>- 2,106,835</b>	<b>- 1,933,266</b>
<b>Total net expenditure</b>	<b>47,887,941</b>	<b>30,691,280</b>	<b>3,520,566</b>	<b>3,566,716</b>	<b>5,308,703</b>	<b>4,800,677</b>