

Somerset Waste Board meeting
24th June 2022
Report for decision

Financial Outturn and Use of Balances 2021/22

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Forward Plan Reference:	08.06.22
Summary:	<p>A Joint Committee such as the Somerset Waste Board is not required to produce full statutory accounts in accordance with the CIPFA Code of Practice or undergo a full external audit. It was agreed by the Board that we would bring a report and summary financial statements to the Annual General Meeting.</p> <p>As part of the end of year financial reporting, we ask the Board to note the proposed use of balances held as of 31 March 2022.</p>
Recommendations:	<p>That the Somerset Waste Board: -</p> <ol style="list-style-type: none"> 1. Approve the financial outturn position of the Partnership overall and the individual partners' balances at year end, and the summary accounts for 2021/2022 as presented in Appendix A. 2. Approve the recommendations of the partner authorities as to the use of the individual surpluses and deficits as of 31st March 2022. Detailed in paragraph 2.5. 3. Note the outturn position of the Recycle More fund in paragraph 2.4. 4. Note the outcome of internal audit reports set out in Appendix B.
Reasons for recommendations:	<p>The Board should be aware of the final financial performance of the Somerset Waste Partnership for 2021/2022, and some of the key reasons behind the performance.</p> <p>It is for the Board to approve recommendations of the partners</p>

	<p>as to the usage of any useable balances at the end of the 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>
Links to Priorities and Impact on Annual Business Plan:	<p>The Annual Budget is entirely 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. The financial outturn position will show how the Partnership has managed its resources as it delivered the Annual Business Plan.</p>
Financial, Legal and HR Implications:	<p>If the recommendations in this report are approved, particularly regarding balances, the impact on each partner is set out in 2.5.</p> <p>There are no specific legal or HR implications of this report.</p>
Equalities Implications:	<p>There are no specific equality impacts of this report.</p>
Risk Assessment:	<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, potential national roll out scheme for packaging, inflation including fuel and energy costs, and national driver shortages.</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, a carry forward from 20/21 for £112,900 was granted by Somerset County Council in year for delayed work with schools resulting in a revised budget of £47,158,558. 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. The Annual Budget is predominantly spent on making payments to our main contractors, these were Viridor and Suez for 2021-2022.

- 1.3.** A number of assumptions are made in the setting of each Annual Budget, such as the tonnage arising, amounts going through each disposal option, household numbers, inflation, the amount of kerbside recycling achieved for recycling credits and the number of green waste customers. Some of these cost drivers are quite volatile and will account for the variations from budget reported below.

2. Financial performance and options for balances

2.1. Summary of budget variances

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	(19)	(5)	(5)	(7)	(6)	(42)
Disposal Costs	(136)	0	0	0	0	(136)
Collection Costs	0	6	1	7	5	19
Covid - 19	0	145	145	217	199	706
Other - includes PV & E-RCV	0	(4)	1	(5)	(3)	(12)
	(155)	142	142	212	195	537

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 Somerset Waste Partnership was an **overspend by £536,776** for 2021/22 (1.14% of the original budget), this figure excludes two carry forward requests totalling £185,000 (see 2.3 below). Also excluded is the Recycle More project work which was funded from a separate project fund. The reasons for the outturn variances to budget are set out in sections 2.2. and 2.3 below.

2.2. Waste Collection Variations

The overall position for District partners was an **overspend of £690,841**. This was a favourable movement from the overspend position of £1,044,000 reported at the February Board, this movement was as a result of the additional inflation correction cost amounting to £340,000 being recharged by invoice to the district partners in year.

The overspend position was in the main due to Covid-19 costs of £706,005. This related to contractor costs to provide a safe working environment and the impacts of covid including staggered starts, extra vehicle cleansing, staggered debriefs, cover for covid absence. The balance was several other small budget variances.

2.3. Waste Disposal variations

The waste disposal position for the year was an **underspend of £155,065** subject to the agreement of the carry forwards below. This excludes waste streams directly impacted by the Recycle More roll out, such as kerbside collected residual waste, as these form part of the Recycle More project.

The underspend was related to reduced costs at the closed landfill sites, the mix and volumes of waste tonnages and small head office savings.

The outturn position excludes the two carry forward balances. The roll out of an enhanced recycling provision to schools was delayed and a carry forward of £175,000 has been requested to enable this work to be completed in 2022/23. A further carry forward of £10,000 has been requested for a signage review at the recycling centres which was delayed in 2021/22. This is funded from the annual Community Sector Integration Plan funding we receive from Viridor.

2.4. Recycle More

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.

The Recycle More fund balance as of 31st March 2022 was a surplus of £853,792. However, there are several commitments to approximately the same value as the surplus which are expected early in 2022/23. A key element of this is commercial negotiations with SUEZ about appropriate sharing of the additional costs incurred in responding to the national driver shortage and its implications for the labour market – as previously highlighted to the board. This settlement is likely to be reached for a net amount of £547k, reflecting a fraction of the costs actually incurred by SUEZ and resulting in the removal of SUEZ's contractual claims against SWP (Qualifying Change in Law and Force Majeure) in relation to Covid and the National Driver Shortage. Additionally, SWP contributed an additional 0.5% (£65.5k) matched by SUEZ over the contractual inflation to increase the pay offer to Loaders from 4.0% to 5.0% (drivers received an 8.75% pay rise). This was undertaken to ensure that the pay offer was accepted in a union ballot, and SMG/s151 officers were consulted throughout the negotiations to achieve this result. SWP therefore successfully avoided the wave of industrial action sweeping waste contracts around the Country and hence were able to maintain the roll-out timetable for Recycle More. The communal roll out element of the project has also yet to be delivered and hence the Recycle More fund is not yet closed.

The key reasons for the movement in the breakeven model is due to changes since the last review in the variable elements that inform the breakeven model:

- Materials income yields and values increase - £400k
- Residual waste diversion - £100k
- Variable elements including container demand - £265k

There are a number of potential significant variables which may affect the the Recycle More fund, commercial negotiations with Suez (to reflect the potential claim from SUEZ on housing numbers and to review the adequacy of resourcing in light of post Covid-19 waste volumes and Recycle More, a potential claim on the small delay to the communal property roll-out, risks associated with the high inflationary context) and recyclate income (affected by market prices and tonnages). A contingency has been included within the breakeven model to cover the reasonable worst case scenario of these risks. This has been discussed and agreed with SMG and s151 officers. The previous forecast of savings for 2022/23 was £700k (shared with partners to reflect in their MTFP process) and we now expect savings of £1,025m to be achieved in 2022/23. SWP remain confident of achieving over £2m savings per annum from 2023/24 onwards. As set out above, uncertainties remain though prudent allowance has been made for them.

As agreed no savings because 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 set out above whilst the Recycle More fund was in surplus as of 31 March 2022 not all roll-out costs have yet been paid.

2.5. Use of Balances

Recommendations for use of individual surpluses and deficits

The recommendation for the use of balances has been discussed and agreed with SMG and s151 officers. As set out above, further Recycle More costs are expected in 2022/23 and the roll-out programme (communal properties) has not yet completed. The deficits relate to Covid-19 costs which partners are already aware of. The Somerset County Council surplus relates to the underspend of £155,065, the carry forward of £175,000 (delayed roll-out of schools Recycle More) and carry forward of £10,000 (delayed HWRC signage review).

All partners	To retain within the Somerset Waste Partnership the £853,792 surplus of the Recycle More project fund.
Mendip DC	To pay the year end deficit balance of £142,223 to the Partnership.
Sedgemoor DC	To pay the year end deficit balance of £142,568 to the Partnership.
South Somerset DC	To pay the year end deficit balance of £212,978 to the Partnership.
Somerset West and	To pay the year end deficit balance of £194,254 to

Taunton DC	the Partnership.
Somerset County Council	To receive the year end surplus balance of £340,065 from the Partnership.

3. Consultations undertaken

- 3.1.** 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. The outturn position has been shared with Finance colleagues within the District Partners.

4. Implications

- 4.1.** The table above shows the implications of the 2021/22-year end deficit and surplus balances for each partner.

5. Background papers

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