

Somerset Waste Board meeting
9th December 2022
Report for Approval

Financial Performance Update 2022/2023 and Draft Annual Budget 2023/2024

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Forward Plan Reference:	<i>SWB/22/05/03</i>
Summary:	<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 sets out the first draft of the waste budget that will ultimately lead to the Annual Budget for 2023/2024 for waste in the new Somerset Council.</p>
Recommendations:	<p>That the Somerset Waste Board: -</p> <ul style="list-style-type: none"> i) Notes the summary financial performance for 2022/2023 to the end of month 7 (April – Oct) and the potential outturn position for each partner authority. ii) Considers the draft budget for 2023/2024 and the key factors that will influence the setting of the final budget over the next few months. iii) To discuss the draft 23/24 Budget & Month 6 Budget Monitoring Report Confidential Appendix A
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>Normally partners request savings from the Board, and the Board has discretion on how to achieve the savings. However, with the transition to a unitary council in April 2023 the Somerset Waste Board will not exist from that point forward. Accordingly, decisions on any Medium-Term Financial Plan (MTFP) savings rests with Somerset County Council as the Continuing Authority. All savings proposals, including those related to waste therefore have to follow the County Council's timetable, culminating in decisions at February Full Council. To maintain the Board's overview a range of savings options are being put to the board for confidential discussion to help shape what is put through the County Council's 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 constitutionally 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. All partners are aware of their forecast underspend for the current financial year and will be accounting for them appropriately, and the LGR programme is also aware given that the balances are returned after year end. The approach here has been discussed and agreed through our regular meetings with all s151 and SMG officers.</p> <p>When considering the draft Annual Budget for 2023/2024, contract inflation, current trends in demographic growth, material prices, service uptake, waste tonnages arising in</p>

	<p>2022/2023 will be a key contributory factor in shaping the forward budget.</p> <p>There are no direct HR implications of this report. Clearly if MTFP savings are taken forward there may be legal and HR implications, but these will depend upon which savings proposals are put forward and which are agreed. Note that national legislative change may impact on our future costs – potentially increasing them if charges for DIY waste are outlawed, potentially providing significant (multi-million) income when packaging Extended Producer Responsibility is introduced in 2024, and unknown on consistency until national government finalises its position.</p>
<p>Equalities Implications:</p>	<p>Equalities Impact Assessments will be undertaken as part of any MTFP savings at the point that they are submitted, but the confidential appendix does highlight potential equalities implications where these are known at this early stage of working up possible options.</p>
<p>Risk Assessment:</p>	<p>Members will be aware from previous reports and presentations that the waste budget and actual costs, particularly disposal volumes and recycling credits, remain volatile.</p> <p>Inflation is a very high risk in the present financial climate. This will have a major impact on the base calculation of the collection and disposal contract costs with Biffa, Viridor and Suez. The national legislative environment remains very uncertain, as does the funding outlook for local authorities and the impact of a recession and cost of living crisis on public behaviour – all of these are risks to accurately forecasting a budget.</p>

1. Background

- 1.1.** The Annual Budget for 2022/2023 was originally set at the Board meeting of 11 February 2022 at £48,902,332. 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. The County Council is the responsible authority for waste disposal.
- 1.2.** Our Annual Budget is predominantly spent on making payments to our main contractors.

2. Current Financial Position – Month 7

	SCC	MDC	SDC	SSDC	SWaT	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Head Office	(3)	(1)	(1)	(1)	(1)	(7)
Disposal Costs	(1,567)	-	-	-	-	(1,567)
Collection Costs	-	(252)	(317)	(465)	(420)	(1,453)
Recycling Credits	463	(100)	(99)	(153)	(133)	(22)
Container Purchase & Delivery	-	59	54	79	62	254
Covid - 19	-	(62)	(63)	(93)	(85)	(303)
Other - includes PV & E-RCV	-	(1)	-	(1)	(1)	(3)
	(1,107)	(356)	(426)	(634)	(578)	(3,101)

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 £3,101,000**. This represents 6.3% of the original budget. The savings expected can be explained further as follows:

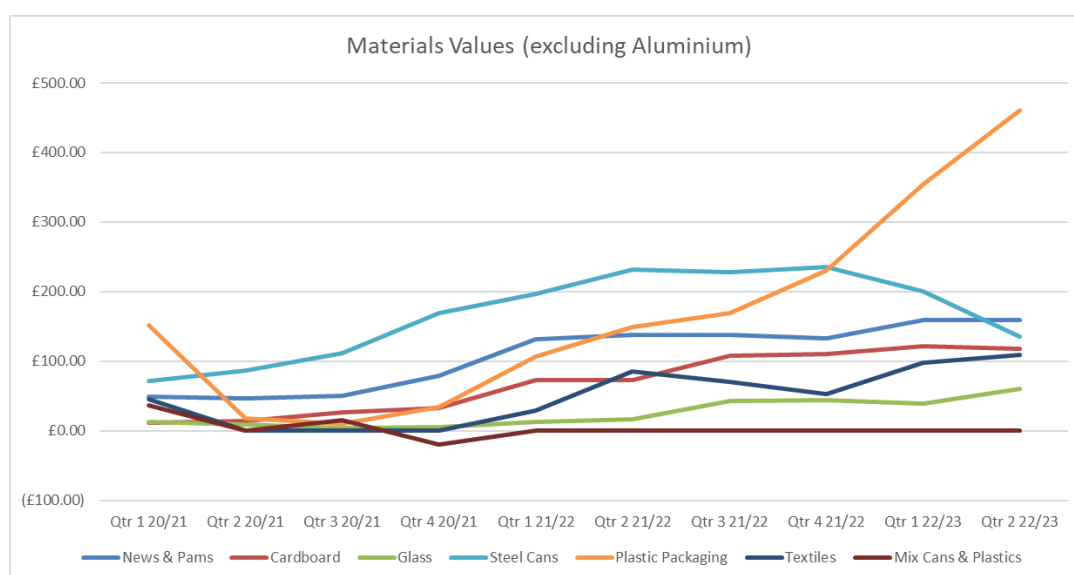
- Recycle More now fully rolled out and savings forecast of £2,759,000 (SCC £1,100,000 and Districts £1,659,000).
- Savings on Covid-19 costs in Districts of £320,000.
- Savings on year end accruals for the County Council Disposal contract (£290k), net of additional costs of timber disposal at HWRC sites

(£263k).

2.1. Waste Collection

Estimated figures for the collection indicate a potential combined **£1,994,000 underspend** across the 4 District partners at this stage.

High materials income, largely relating to high prices, for quarters 1 and 2 has increased the savings expected on the collections contract from previous forecasts. A graph is set out below showing the trends in material values (excluding Aluminium prices) over the last two and a half years. There is however still uncertainty around volumes as this is the first full year of the Recycle More rollout and prices are also subject to high volatility.



2.2. Waste Disposal

Waste disposal costs are forecast to **underspend by £1,107,000** This is the largely the Recycle More savings of £1,100,000, however there are also additional costs of timber at the recycling sites (£263k) offset by savings on prior year end accruals for the Disposal contract (£290k), as previously reported to the board.

Additionally, the budget is set on estimated inflation for the disposal contract and the actual inflation applied to the contract was higher than budgeted. Similarly, tonnages are estimated for budget setting and there has been an increase in timber volumes.

2.3. 2022/23 SWP savings update

The following SWP savings are built in to the 2022/23 budget

- £700,000 – Part year Recycle More saving for all partners
- £70,000 – Reduced gate fee at anaerobic digester plant

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

3. Annual Budget (LGR) Setting Update 2023/2024

Work is ongoing to prepare a budget for the new Somerset Unitary Council for 23/24. As explained in the September Board report, this year's process is complex due to Local Government Reform in Somerset, bringing together the four District Councils and Somerset County Council. In addition to this, the new Council is under significant budgetary pressure, with a forecast gap of £23.6m in the current year, 2022/23, and an estimated funding gap of £38.2m in the MTFP for 2023/24.

As a result of this all services have been asked to prepare proposals for savings of 5%, 10% and 20%. Some of these savings are set out in paragraph 3.3 below and should be considered in conjunction with the Confidential Financial Savings Report attached.

An indicative draft budget for waste services within the new Somerset Council has been prepared and a summary is set out below, with the detailed draft budget attached as Appendix 1.

The budget remains draft as several items are still being worked on, including several savings proposals as explained above and set out in the Confidential Financial Savings Report. A reconciliation is provided in the second table below showing how the current draft budget has been arrived at from the 2022/23 budget.

The draft budget as set out below was submitted on the 24th October 2022.

	£m
Garden Income	3.7
Materials Income	1.8
Bulky Income	0.1
Total Income	5.6
Waste Disposal	30.2
Collection Services	24.7

Head Office	1.5
Other Costs	0.2
Total Costs	56.6
23/24 Draft Budget	51.0

The following table sets out a reconciliation to the 2022/23 budget. The paragraphs below summarise the significant issues taken into consideration for savings and pressures in the collection and disposal contracts for the 2023/24 budgets.

		£m
22/23 Base Budget		48.9
Inflation Disposal	10-14%	3.7
Inflation Collection	10%	1.9
Garden & Bulky Income	10%	(0.4)
Collection Housing Growth	1%	0.2
Volume Growth	0.7%	0.3
Other savings:		
Recycle More		(3.1)
Food Waste		(0.0)
Covid-19 Costs		(0.6)
23/24 Draft Budget		51.0
Movement		2.1
Percentage change		4.3%

3.1 Collection Factors for 23/24 budget

Key factors considered for the collection contract budget for 2023/24 and explanations of changes since the September board paper are set out below:

Inflation

Inflation for the collection contract with Suez, which is based on a basket of indices including labour, fuel, and CPI, has been estimated at 10% for the draft budget set out above. Our previous estimate of inflation was 11%, therefore our initial estimate as set out in the September Board paper of £2.1m has been revised down to £1.9m.

Note that the final inflation figures for the collection contract were published at the end of October, which was too late for the draft budget above, however these have been calculated at 9.4% for most of the contract, with some elements at 10.1%

Growth

Household growth is applied to the contract based on the property numbers in December compared to the previous December. The budget increase for 23/24 is estimated at 1% reflecting expected growth in household numbers.

An increase in Garden waste subscription numbers has also been included of 1%. We propose to increase garden waste subscription charges in line with CPI at 10% for 2023/24. We have seen a 5% decrease in garden waste subscribers in the current year and discussions with other authorities indicate that many of them have as well. There is a risk that the ongoing cost of living crisis may impact on the number of customers renewing their subscriptions in 23/24 and this assumption will be reviewed before the budget is finalised.

Materials income

The budget for materials income has been based on predictions provided by Suez for tonnages and prices for 2023/24. Total income for 23/24 has been budgeted at £2.2m for the year. £0.4m of this amount (20%) has been set aside for a central materials equalisation reserve to cover any significant future fluctuations in prices. The amount of recyclate collected at the kerbside may also be affected in 23/24 by the predicted recession.

3.2 Disposal Factors for 23/24 budget

Volumes and mix have been volatile for some time in the disposal contract due to impacts such as Recycle More, Covid, weather and more recently the cost-of-living crisis.

Contract inflation for the disposal contract is based on several different indices. 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 2022 to February 2023 and are not published until March.

Key factors in setting the budget for the waste disposal element of the budget are set out below:

- The current Baxter rates are 10.8% for Feb to Sep 22, RPI from Feb to Sep is 8.6%. Baxter indices form approximately 75% of the contract price increases.
- Inflation estimates in our budgets have been revised down reflecting the changes in Government policy on energy and some stability in fuel prices. As a result of these policy changes, it was considered that an 18% rate for our full year budget estimate was too high. The estimate for the Baxter inflation rate has been amended to 14%, and RPI to 13%. Contract inflation is now estimated at £3.7m for the disposal contract (previous estimate of £5.1m).
- It should be noted that the final 23/24 budget will be based on an estimate and therefore there is a risk that our estimates will not be accurate.
- Volume growth is based on estimated household growth in line with the collection contract which is anticipated to be in the 0.7% as explained above. The cost-of-living crisis may result in a further decrease in the amount of waste disposed by households.
- Landfill tax percentage is based on estimated RPI which the government releases during the year. Note this applies to a very small proportion of our waste budgets.
- Fees and charges on the disposal contract have been set at the prior year’s RPI increase of 8.18%.

3.3 Savings

Savings included in the 2023/24 draft budget are as follows:

- Recycle More savings – £3.1m
- Covid savings on collections contract –£0.6m
- Increase in (mainly) Garden waste subscription charges - £0.4m
- Contractual saving on AD plant - £20,000

Savings still under consideration are:

- Material equalisation reserve - £0.4m
- Capitalisation of bin/box purchases and delivery - £1.1m
- Other savings to be considered by the Board are set out in the Confidential Financial Savings Report.

3.4 Outstanding items

In addition to the savings still under consideration as set out above, the following items remain outstanding in the MTFP process. These are:

- Pay awards and utility increases are not yet included. These will be calculated, and budget will be allocated centrally.
- Several of the assumptions remain draft and are under review as set out above. A final budget will be prepared for the February Board meeting.

4 Capital Projects

The partial fleet has progressed as per the recommendations agreed by the Board in September. Unfortunately, the capital discount offered by SUEZ is not sufficient to make it worthwhile for Somerset Council to finance the vehicles – instead SUEZ will fund these and charge us through our contract. These costs are reflected in the forecast budget. SWP are submitting a bid for 2 e-RCVs as per the agreed recommendations in September, though it should be noted that capital is severely constrained. An update paper providing more information on the trials of the e-RCV is also on the agenda for the Board, but this is simply an update providing further detail as requested.

There have been several delays on our PV panels project and as a result we may need to revisit our business case, although we are still anticipating a net return on the panels once they are generating electricity. The key next step is to develop the Power Purchase Agreement and this has been impacted by capacity in the SCC legal team. This is under review by the SWP team and further information will be shared when it is available.

The remaining works outstanding at Wilton depot are in progress and expected to conclude in advance of vesting day of the new Unitary Council. Some delays have occurred due to finding historic contamination (asbestos) during the groundworks, which will delay the project slightly and result in an increased cost to the Council which is still to be confirmed.

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 2023/2024, 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 – Detailed Draft Budget 2023/24

Expenditure	£
Head Office	
Salaries & on-costs	1,136,960
Travel & subsistence	53,060
Admin, training, meetings & IT	87,560
Advertising & campaigns	48,170
Office rent & accommodation	72,140
Support services	137,940
Contracted Services	
Waste Disposal	
Residual waste	15,936,328
Recycling centres	9,751,783
Food waste	2,032,321
Composting	2,074,391
Hazardous waste	357,466
Collection Services	
Recycling	14,887,311
Garden	1,908,009
Refuse	7,020,698
Clinical waste collections	156,573
Bulky waste collections	138,875
Container delivery & supply	1,075,992
Other collection costs	644,132
Capital financing	(1,664,941)
Admitted body pension costs	81,910
Depot costs	410,700
Other Costs	
Third party recycling credits	10,344
Assisted collection review	10,000
Garden renewals	18,000
16 Plate vehicle loans	201,620
Covid costs	0
Total direct expenditure	56,587,343
Income	
Garden Income	(3,689,187)
Bulky Income	(138,875)
Materials Income	(1,776,000)
Total income	(5,604,062)
Total net expenditure	50,983,281