

Somerset Waste Board meeting  
11<sup>th</sup> February 2022  
Report for Decision

**Financial Performance Update 2021/2022 and Final Budget 2022/2023**

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<p><b>Forward Plan Reference:</b></p>	<p><b>25/01/2022</b></p>
<p><b>Summary:</b></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 2022/23 in accordance with its constitution and Inter Authority Agreement.</p>
<p><b>Recommendations:</b></p>	<p><b>That the Somerset Waste Board: -</b></p> <ul style="list-style-type: none"> <li>• <b>Notes the summary financial performance for 2021/2022 to date as contained in this report, and how this will impact on the budgetary requirements for 2022/2023.</b></li> <li>• <b>Approves a final budget of £48,902,332 for 2022/2023 as set out in Appendix 1 taking into account the savings included in the budget for both the Districts and the County Council as set out in section 3.</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>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>

	Partner authorities will need final budget figures for their overall financial planning processes.
<b>Links to Priorities and Impact on Annual Business Plan:</b>	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.
<b>Financial, Legal and HR Implications:</b>	<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 2022/2023. 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>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 with SUEZ.</p>
<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</p>

	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. The National Driver Shortage remains an ongoing issue and hence risk to SWP. All these issues have potential financial consequences.
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## 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 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** Our Annual Budget is predominantly spent on making payments to our main contractors.

## 2. Current Financial Position – Month 9 (excluding Recycle More fund)

	SCC £'000	MDC £'000	SDC £'000	SSDC £'000	SWaT £'000	Total £'000
Head Office	(5)	(1)	(1)	(1)	(2)	(10)
Disposal Costs	133	0	0	0	0	133
Collection Costs	0	4	4	5	6	19
Covid - 19	0	140	139	207	190	676
Collection Contract Indexation	0	70	70	104	96	340
Other - includes E-RCV*	(15)	0	6	3	5	(1)
	<b>113</b>	<b>213</b>	<b>218</b>	<b>318</b>	<b>295</b>	<b>1,157</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 December position shows that the Somerset Waste Partnership budget is forecast to be **overspent by £1.157m** (2.5% of the revised budget), This does not include the Recycle More roll out costs, which is accounted for separately. See paragraph 2.3 below.

### 2.1. Waste Collection

Estimated figures for the collection indicate a predicted combined **£1.044m overspend** across the 4 District partners at this stage. A very minimal movement from the £1.045m overspend reported to the board in December.

There are still additional Suez collection covid related contract costs which fall to District partners (£676k 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 agreed with SUEZ and an additional 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).

Bulky waste has been updated to reflect the increased usage of the service; this is a net nil impact as this is a full cost recovery service. Increased collection costs are covered by additional income from customer payments.

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.

## **2.2. Waste Disposal**

Waste disposal costs are forecast to overspend by £113,000. This relates to increased waste volumes (predominantly residual waste) at the Household Waste Recycling Centres; however, this is a reduction from the £141,000 overspend reported to the Board in December due to the receipt of more tonnage data.

## **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. Its

previously been reported that breakeven point would be reached in quarter 3 of 2022/23. A full review is being undertaken using the latest actual data from the current roll outs and trends analysis. Until a full analysis has been completed it would not be appropriate to update this anticipated breakeven point. A verbal update of where this work is at will be given at the board meeting.

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.

There are a number of potential significant variables which may affect the breakeven point, 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).

#### **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. Annual Budget for 2022/2023**

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 table below shows the total budget requirements for each partner for 2022/2023. The detailed line by line budget requirements for each partner are set out in Appendix 1

		<b>SCC</b>	<b>MDC</b>	<b>SDC</b>	<b>SSDC</b>	<b>SWaT</b>
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	<b>6.11%</b>	0	257,539	263,748	385,355	355,208
Inflation - Disposal	<b>Various</b>	592,943	0	0	0	0
Landfill Tax	<b>2.00%</b>	25,400	0	0	0	0
Household Growth	<b>0.99%</b>	0	22,741	51,074	73,033	39,562
Garden Waste	<b>12.0%</b>	0	64,300	74,151	128,725	105,734
Volume Growth	<b>0.93%</b>	221,500	0	0	0	0
Recycling Credits		103,940	(21,912)	(21,743)	(33,454)	(26,840)
Salaries	<b>2.00%</b>	11,440	2,744	2,914	4,084	3,818
Transfer Station & Other		10,520	2,634	(1,272)	2,524	25
Garden & Bulky Income	<b>12.1%</b>	0	(67,263)	(73,589)	(131,998)	(103,821)
Financing - PV & E-RCV		0	8,208	8,261	12,301	11,229
Covid-19 Costs		0	125,580	126,397	188,212	171,811
Proposed Savings		(715,300)	(123,589)	(124,189)	(169,641)	(157,581)
22/23 Draft Budget		31,694,440	3,514,232	3,578,462	5,314,917	4,800,281
<b>Increase / (Decrease)</b>		<b>250,443</b>	<b>305,911</b>	<b>341,542</b>	<b>511,432</b>	<b>447,345</b>
<b>Percentage</b>		<b>0.8%</b>	<b>9.5%</b>	<b>10.6%</b>	<b>10.6%</b>	<b>10.3%</b>

### 3.1 Collection Factors

The table above shows the final 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 has now been agreed with the contractor and built into the forward budget.

Inflation for the collection contract has been calculated on 6.11%, 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 average of these figures is growth of 0.99% and has been applied to the final budget. The figures 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.

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	0.57%
Sedgemoor	1.32%
South Somerset	1.28%
Somerset West and Taunton	0.74%

Garden waste is based on current subscriber numbers with additional growth of 0.99% 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 housing growth applied for 2022/23 however does not include the increased growth from Recycle More as this currently feeds into breakeven. 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 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. Also included in this proposed savings line in the removal of the additional budget for Fleet Maintenance; this was a one of cost of £125,000 required for 2021/22 only and is therefore now a saving in the final budget.

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.

### **3.2 Disposal Factors**

The disposal budget for the 2022/23 has been set as usual using the following assumptions.

- 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 - 0.86%. 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 contract includes various indices including RPI, labour and fuel these have all been estimated using the latest data available.
- Volume growth is based on an estimate using volume trends and household growth resulting in a budget increase of £221,500.
- Landfill tax is now known for 2022/23 at £98.60 per tonne but this only affects the very small proportion of our waste that is not recycled and cannot go through the Energy from Waste plant. 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 an increase of £250,443. This is 0.80% of the SCC original element of the 2021/22 budget.

### 3.3. Recycle More

The final 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. As mentioned above a full detailed review of the breakeven model is being undertaken. 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**

	<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 recycle 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
- 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 (though these are unlikely to impact in the coming financial year)

#### **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 and one option may be to extend the useful life of the fleet. A paper will be brought to the June Board meeting on the partial re-fleet.

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 figures as set out in the budget in section 3 above will form the Annual Budget for 2021/2022.

## **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

Final SWP Budget 2022/23			SCC	MDC	SDC	SSDC	SWAT
<b>Expenditure</b>							
<b>Single Client Group</b>							
Salaries & on-costs	1,045,230	1,045,230	478,297	114,250	122,245	171,231	159,206
Salaries pension deficit	84,500	84,500	38,667	9,236	9,883	13,843	12,871
MDC customer services impact	7,230	7,230		7,230			
Travel & Subsistence	51,770	53,064	24,282	5,800	6,206	8,693	8,083
Admin, training, meetings & IT	85,420	87,556	40,065	9,570	10,240	14,343	13,336
Advertising & campaigns	47,000	48,175	22,045	5,266	5,634	7,892	7,338
Office rent & accommodation	70,380	72,140	33,011	7,885	8,437	11,818	10,988
<b>Support Services</b>							
Legal	10,400	10,660	4,878	1,165	1,247	1,746	1,624
Insurance	5,280	5,412	2,477	592	633	887	824
Finance	81,490	83,527	38,222	9,130	9,769	13,684	12,723
Internal Audit	10,920	11,193	5,122	1,223	1,309	1,834	1,705
Human Resources	5,200	5,330	2,439	583	623	873	812
ICT	5,360	5,494	2,514	601	643	900	837
Democratic Services	6,960	16,330		3,291	3,521	4,932	4,586
<b>Direct Services</b>							
<b>Waste Disposal</b>							
Disposal - Landfill includes clinical disposal	13,337,960	15,553,730	15,553,730				
Disposal - HWRCs	10,583,030	8,347,990	8,347,990				
Disposal - food waste	1,569,920	1,677,800	1,677,800				
Disposal - Hazardous waste	223,420	244,650	244,650				
Composting	1,941,890	1,951,390	1,951,390				
<b>Kerbside Recycling</b>							
Sort it+ SP5 all districts	10,656,950	10,656,950		2,186,772	2,200,994	3,277,389	2,991,795
<b>Communal Recycling SP5</b>	93,430	93,430		15,509	21,561	25,911	30,450
<b>Garden</b>	3,455,060	3,455,060		650,423	758,302	1,064,060	982,275
Garden sticker admin	18,000	18,000		3,399	3,966	5,561	5,074
<b>Household Refuse</b>							
Fortnightly	6,772,790	6,772,790		1,389,755	1,398,793	2,082,873	1,901,369
<b>Refuse - Communal SP5</b>	329,710	329,710		66,341	66,785	88,529	108,054
<b>Assisted Collections</b>	112,220	112,220		23,027	23,177	34,512	31,504
Assisted Collection Review	10,000	10,000		2,052	2,065	3,075	2,807
<b>Clinical Waste</b>	140,930	140,930		28,401	30,388	42,565	39,576
<b>Bulky Waste Collections</b>	99,040	99,040		23,476	17,317	28,054	30,193
<b>SWB Directed Collections</b>	3,690	3,690		744	796	1,114	1,036
<b>Day Works</b>	9,500	9,500		1,914	2,048	2,869	2,668
<b>Container Maintenance</b>	67,870	67,870		13,677	14,635	20,499	19,059
<b>Container Delivery</b>	201,060	201,060		46,606	42,263	62,670	49,521
<b>Container Supply</b>	528,490	528,490		112,885	126,045	163,726	125,833
<b>Admitted Body Pension Costs</b>							
Base pension cost	60,380	60,380				60,380	
Incremental pension cost	8,620	8,620		1,737	1,859	2,604	2,421
<b>Depot Costs</b>	209,440	209,440		42,207	45,161	63,257	58,815
<b>Village Halls</b>	5,500	5,500			5,500		
<b>Inter Authority Transfers</b>							
<b>Transfer Station Offset Cost</b>	361,340	361,340	361,340				
<b>Payment in lieu of Recycling Credits</b>	2,833,690	2,833,690	2,833,690				
<b>Third party Recycling Credits</b>	31,830	31,830	31,830				
<b>Advance Payment Saving</b>	- 31,900	- 31,900		- 6,429	- 6,878	- 9,635	- 8,958
<b>Lease Repayments - Sort It Plus Vehicles</b>	262,430	262,430		58,580	47,800	87,160	68,890
<b>Financing PV and E-RCV</b>	-	40,000		8,208	8,261	12,301	11,229
<b>Fleet maintenance - one off cost</b>	125,000	-		-	-	-	-
<b>Covid costs</b>	-	612,000		125,580	126,397	188,212	171,811
<b>Recycle More Saving</b>	- 450,000	- 450,000		- 92,339	- 92,939	- 138,391	- 126,331
<b>Total direct expenditure</b>	<b>55,088,430</b>	<b>55,753,471</b>	<b>31,694,440</b>	<b>4,878,350</b>	<b>5,024,685</b>	<b>7,421,972</b>	<b>6,734,024</b>
<b>Income</b>							
Kier Discount all Districts on SP5	- 80,000	- 80,000		- 16,122	- 17,250	- 24,162	- 22,466
Willton Transfer Offset	- 361,340	- 361,340		- 72,819	- 77,914	- 109,136	- 101,472
Garden Income	- 3,481,300	- 3,481,300		- 655,362	- 764,061	- 1,072,142	- 989,735
Bulky Income	- 94,810	- 94,810		- 22,474	- 16,577	- 26,856	- 28,904
District Recycling Credits	- 2,833,690	- 2,833,690		- 597,342	- 570,422	- 874,760	- 791,166
<b>Total income</b>	<b>- 6,851,140</b>	<b>- 6,851,140</b>	<b>-</b>	<b>- 1,364,118</b>	<b>- 1,446,224</b>	<b>- 2,107,055</b>	<b>- 1,933,742</b>
<b>Total net expenditure</b>	<b>48,237,290</b>	<b>48,902,331</b>	<b>31,694,440</b>	<b>3,514,232</b>	<b>3,578,461</b>	<b>5,314,917</b>	<b>4,800,281</b>