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| WEST LONDON WASTE AUTHORITY |  |
| Report of the Finance Director | 24 March 2023 |
| **Finance Update January 2023** | |
| SUMMARY This report provides an update on financial and operational matters. The key points are:   * Day to day financial performance is as reported throughout the year with lower than budgeted waste volumes accounting for the majority of the variance from operational activities. * In other financial activities, the forecast annual position includes an estimate of PPP contract income with the two thirds disbursement to boroughs. * Also in other financial activities, there is a recommendation to roll over any borough’s unused HRRC funding into 2023/24 * Operational performance is shown in the KPIs and is largely on track with two key exceptions on turnaround times and food waste * There were no delegated decisions | |
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| **RECOMMENDATION(S)**  The Authority is asked to:-   1. Note the financial position and forecast for 2022/23 2. Approve a reserve to carry forward unspent HRRC funding so it remains available for boroughs to use in 2023/24 3. Note the KPIs 4. Note the delegated decisions | |

1. **Financial position – high level summary**

A summary of the financial performance for the period and forecast to the end of the year is provided over the page. The summary shows how financial performance compares to the budget for both the period and the forecast for the year.

From an operational “day to day" activities perspective, the overall performance for the period shows a favourable variance (i.e. underspend) of £1.2m compared to budget. The key variance is an underspend of £1.6m for Waste Transfer and Disposal costs which is largely from lower than budgeted volumes of residual waste. This is also reflected in the variance in levies which shows boroughs are paying £986k less than was budgeted for their waste, year to date.

The forecast for the year is principally based on the current level of activity continuing throughout the year potentially delivering larger under spends. The continuing pattern of spending is very similar to previous periods and results in an estimated underspend of £1.7m for day to day activities.

Significantly, in other activities, PPP income for the year has been estimated at £9.4 million. The volatile electricity market and impact of any windfall tax create some uncertainty in this estimate and the value will only become clear in June 2023 when figures are finalised and paid over to the Authority. At that time two thirds will be passed on to boroughs in accordance with the Finance Strategy.



The main variances are detailed in the standard breakdown in Appendix 1 which separates out the main types of waste streams and distinguishes between PAYT and FCL activities. Notable items of detail from Appendix 1 include:

The residual waste variances in both PAYT and FCL activities are made up of reduced costs from lower than budgeted residual tonnages being partly offset by higher prices due to higher than budgeted inflation. The total residual waste underspend for the year is forecast at £1.3m and accounts for the majority of the day to day activities variance. This is the main driver of the reduced PAYT levies payable by boroughs of £1.2m.

Another favourable variance relates to higher than budgeted level of trade and other income. This is expected to out-perform the budget of £2.1m by £1.1m by the year end with a key driver being the closure of a local commercial competitor’s site.

Partly offsetting the above, depreciation charges are higher (£660k) as a result of previous year end property valuations (an accounting requirement) which showed an increase in the value of assets. These variations arise because of a timing difference - the budget is set in January, two months before the year end valuations which are used to calculate the actual depreciation.

Outside of day to day activities the forecast for the year for the improvements to HRRC’s anticipates not all the £200,000 investment will be made by borough colleagues by the year end. In consultation with Environment Directors, there is confirmation that plans are in place and there is progress. Therefore borough Environment Directors have requested any unused funding to roll forward into 2023/24. Officers are supportive on the basis that work has already commenced at most borough HRRCs and there is assurance that the funds will be used to make improvements the HRRCs. On this basis any unspent HRRC funding will be set aside in reserves for boroughs’ plans.

The PPP income forecast of £9,450k is the final most significant variance. The forecast is based on market electricity prices continuing at the present high rates and allowing for a 25% windfall tax. Electricity prices are volatile and the impact of any windfall tax unclear, so the level of income is subject to a high degree of uncertainty. It should be noted that this total forecast income comprises of our share of income from increased volumes of third party waste (i.e. from Suez’s other customers) delivered at SERC as well as the windfall gain from higher electricity prices.

The sum due will only become clear when finalised by the contractor in June 2023, when monies will be received by the Authority. This will incorporate any adjustment for windfall tax, which at the time of writing have yet to be published. Note that when funds are received, they will be shared with boroughs in accordance with the Finance Strategy, so two thirds will be passed through to boroughs promptly.

1. **KPIs for 2022/23**

Appendix 2 summarises the performance to the end of the period as at February 2023.

Most indicators are on target (green) and the performance is reflected in the RAG rating and commentary. There is one amber indicator, and one red – both have been discussed in further detail below.

Turnaround times will continue to be lower than target and are a result of a combination of factors. However there is an improvement on the performance since this was last reported. The KPI will be lower than target due to the impact of rail strikes that have occurred, and also due to a short term impact of a crane failure and diversion of waste to manage planned maintenance at SERC in the summer.

Food waste per person is also below target. The current capture of food including borough projects tracking has been below expected. However we have seen an improvement from the last reported position. This is due to the remaining boroughs mobilising their food waste projects.

1. **Delegated decisions**

To provide further transparency of operational arrangements, this standard section of the report summarises any significant financial decisions made since those reported to the last Authority meeting and not reported elsewhere in the agenda.

There are no delegated decisions to report.

1. **Financial implications / risk**

The financial implications are as detailed in the report. For financial risks, if they materialise they will be reflected in an overspend or shortfall of income and ultimately an overall deficit. These key risks (i.e. the deficit) are managed through reserves as established in our Finance Strategy. Essentially the reserves are an amount is set aside to deal with the risks should they materialise. The Authority regularly reviews the level of reserves required to manage risk.

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**Appendix 1**







**Appendix 2** 