

Finance Report July 2023

SUMMARY

This report provides an update on financial and operational matters. The key points are:

- Day to day financial performance for YTD is showing a deficit largely due to 2 factors
 - Contracted rates for waste disposal are higher than budgeted
 - Business rates are significantly higher than budgeted
- Tracking return on investments on funded programmes. Spending has not met expectations but direct borough savings are being achieved. We are seeking to do more collaborative working with Boroughs to achieve our year end targets.
- Operational performance is shown in the KPIs and is largely on track with one key exception on food waste as lower volumes continue to be collected than anticipated.
- There were no delegated decisions to note.
- The treasury management information reflects the continuing simple, low risk approach.

RECOMMENDATION(S)

The Authority is asked to:-

- 1) Note the current financial position and forecast for 2023/24
- 2) Note the KPIs to date
- 3) Note the delegated decisions
- 4) Note the Treasury Management outturn for 2022/23 and update for 2023/24

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.

High Level Summary

	P4 Budget £ 000s	P4 Actual £ 000s	P4 Variance £ 000s	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
Expenditure						
Employees	872	863	(9)	2,616	2,773	156
Premises	867	1,154	287	2,601	3,449	849
Waste Transfer and Disposal	17,177	17,596	419	51,531	52,603	1,072
MRF Waste Transfer and Disposal	752	1,534	782	2,256	3,038	782
Supplies and Services	397	324	(73)	1,190	1,131	(59)
Depreciation	3,458	3,458	0	10,375	10,375	0
Financing and Other	1,985	1,985	0	5,955	5,955	0
Concession Adjustment	(1,523)	(1,523)	0	(4,570)	(4,570)	0
	23,985	25,390	1,405	71,954	74,754	2,800
Income						
Levies	(22,372)	(22,708)	(336)	(67,116)	(67,452)	(336)
MRF Service Charge	(752)	(1,534)	(782)	(2,256)	(3,038)	(782)
Trade and Other	(861)	(1,154)	(294)	(2,582)	(2,954)	(372)
	(23,985)	(25,396)	(1,412)	(71,954)	(73,444)	(1,490)
(Surplus) / Deficit	(0)	(7)	(7)	(0)	1,310	1,310
PPP Contract Income	0	0	0	0	0	0
Disbursement to boroughs	0	0	0	0	0	0
Net (Surplus) / Deficit	(0)	(7)	(7)	(0)	1,310	1,310
HRRC Fund	0	71	71	0	815	815
Actuarial (loss)/gain on pension liability	0	0	0	0	0	0
Total Income & Expenditure after Reserve	(0)	64	64	(0)	2,125	2,125
Programme of work funded by PPP income						
Depreciation	36	36	0	107	107	0
Premises	15	15	0	45	45	0
Employees	103	80	(22)	308	285	(23)
Supplies and Services	220	220	(0)	660	660	(0)
Programme costs funded by PPP income	(373)	(373)	0	(1,120)	(1,120)	0
Programmes Total	0	(22)	(22)	0	(23)	(23)
Disbursement to boroughs in Jul (relates to 22/23)	0	3,301	3,301	0	3,301	3,301

From a year to date activities perspective, the overall performance for the period shows a favourable variance (i.e. underspend) of £7k compared to budget. However, total expenditure is overspent by £1.4m. This is largely due to higher Waste Transfer and Disposal costs reflective of increased prices compared to budget and business rates within Premises costs being higher than budget.

It is also worth noting that the MRF Waste Transfer and Disposal costs are overspent by £782k. This is due to the inclusion of Brent's contract which was not budgeted. However, this cost is a nil effect to the authority as these costs are directly recovered back from the boroughs. Higher Trade income (recognising £294k more than budget) has contributed to reduce the overall deficit to a surplus.

The first four months of the year have seen slightly higher than budgeted waste volumes. To put in to perspective, levy costs have been 1.5% higher than budgeted to the end of July. Therefore, we have taken a prudent approach and forecasted for a slight increase in volume compared to budget, as we have seen in the first quarter. This has resulted in a forecasted overspend on levies at year end by 0.5%.

There is a overspend in Waste Transfer and Disposal costs which is primarily reflective of higher than budgeted disposal costs.

Employees is also showing a £156k overspend against budget for the full year. This is due to payments made for staff leaving, as well as agency staff used to cover gaps in services.

In June, we presented a deficit of £2.7m for the full year which was partially made up of a higher than budgeted cost for waste treated as 'deemed landfill' during the SERC site closure in April. The overall deficit has since reduced to £1.3m, as we have received a £1.5m credit from WLER for the landfill reconciliation for prior years. This has been an ongoing discussion with the contractor for some time, and has only been concluded in recent weeks.

Included within the budget monitoring, is also a disbursement of excess reserves from the previous financial year of £3.3m which was presented in June as part of the 2022/23 draft outturn report.

To note, the excess revenue share from the PPP contract which relates to 2022/23 has now been received (£19.1m). Two thirds of this has been paid to the boroughs in disbursements in July. It is too early to forecast if any excess revenue will come through for 2023/24 through the PPP contract so this has not been forecasted.

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:

Looking at the PAYT waste forecast, the overall residual waste variance of £833k is made up of higher waste tonnages than budgeted for the first 4 months coupled with the higher prices (due to inflation). The higher waste volumes are also reflected in the PAYT levy variance (£336k) which shows actual rebates paid from boroughs to WLWA for higher than budgeted tonnages.

Secondly, in terms of FCL waste, there has been higher than budgeted HRRC volumes leading to higher forecast costs against budget with residual waste making up £178k of the variance.

On a positive note, the level of trade and other income is healthy and forecast to out-perform the budget by £372k.

The forecast for the year for the improvements to borough HRRC's anticipates investments will be made by the year end.

It should be noted that the waste sector faces a challenging and volatile insurance market. Insurance premiums have been on the rise in recent years. There is a potential in year financial risk of the insurance premium coming in higher than previous years, which has not been budgeted. The costs of repairs caused by the fires, crane malfunction and break-in, are borne by the Contractor, although the Authority bears the risk of insurance premium increases above an agreed level – incidents like this will cause premiums to increase.

2. KPIs for 2023/24

Appendix 2 summarises the performance to the end of July, in both a summary table, and significant KPIs being shown graphically with a year on year trend.

Most indicators are on target (green) and the performance is reflected in the RAG rating and commentary. There are two red indicators one being for food waste and the other for sickness days. Lower volumes of food waste tonnages have been collected compared to budget. In terms of sickness days, an employee on long term sick has since returned to work.

Staff turnover is amber due to the outcome being pushed closer to the red threshold in coming months due to known leavers. People development is an amber and this will be monitored to ensure staff are continuing to develop and make a positive impact.

It is worth noting that from time to time the performance for a particular indicator may slip into amber or red, but the performance will be managed and actions undertaken to bring the indicator back to standard during the year. Additionally, given the cumulative nature of each individual indicator, an indicator is more likely to slip into amber or red in the early months.

3. 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 have been none to note.

4. Treasury Management Outturn and Update

The Authority limits its scale and variety of treasury management activities to simple, low risk and essential operations, as identified in each years' annual plan.

Essentially excess funds are invested through a service level agreement with Ealing Council with interest being paid annually based on the average return achieved by the borough over the year. The agreement also gives the opportunity for the deposit of funds for fixed periods to enjoy higher rates.

The average interest rate achieved for 2022/23 was 3.4% returning £554k investment income. This is reflective of the interest rates increasing throughout the year, and the high return on short term investments made via Ealing Council. The amount held at year end was £28.0 million.

So far, in 2023/24 operations have been steady and the main change in cash balances is from the receipt of £19.1 excess revenue share income from the PPP contract relating to 2022/23. Two thirds of this income has been passed through to boroughs leaving the Authority with suitable liquidity and reserves to develop projects for managing the risk of upcoming legislative changes.

In terms of borrowings, there have been no changes either last year or this.

For 2022/23 the Authority commenced the year with a total of £85.9 million of repayment loans from four London boroughs and the PWLB. The payments during the year reduced this to a balance of £83.6m by the end of the year.

The interest on borough loans is fixed at 7.604% and the PWLB loan is fixed at 2.24%. 2021/22 saw £5.2m paid in interest.

The key requirements of the CIPFA prudential code is for authorities to ensure that capital expenditure plans are affordable, prudent and sustainable.

It is worth noting that the Authority demonstrates this in its long term financial plans (20 years) which are approved alongside the budget at every January Authority meeting. The plans show:

- balanced annual budgets over the period
- good liquidity is maintained throughout
- all debt is repaid
- all capital expenditure is ultimately charged through levies
- the growth in levies is significantly less than inflation

This provides a complete picture in a typical way used by commercial businesses for long term planning.

The prudential code also prescribes a range of indicators to report. These are more pertinent to public bodies with complex treasury management arrangements and complex long term plans. They are less relevant to Authority’s operations, however the indicators and a brief explanation are provided in Appendix 3. The construction of the Energy from Waste plant accounts for the majority of the value in figures in this appendix.

5. Impact on Joint Waste Management Strategy – Improvements to financial management in the Authority will continue to ensure that the Authority addresses policies of the JWMS.

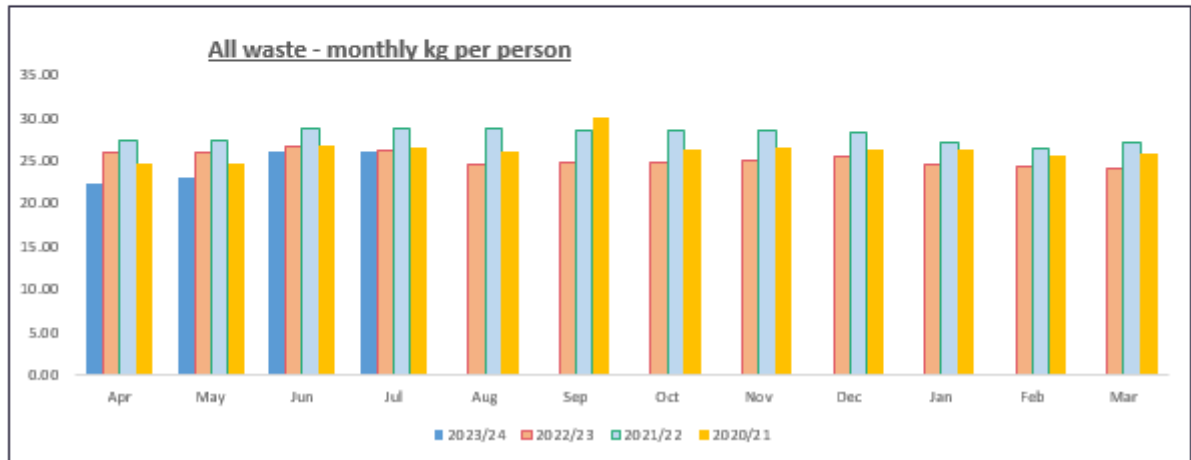
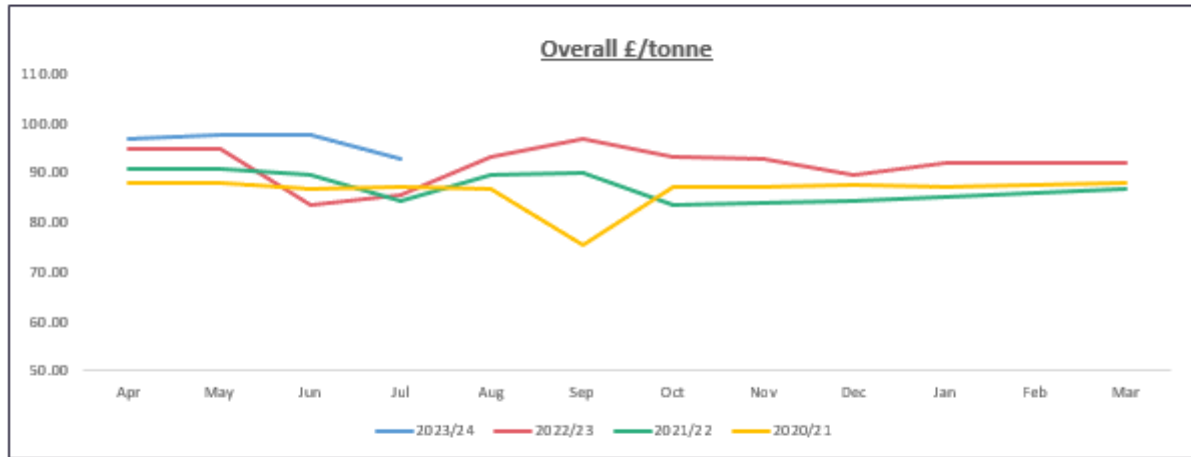
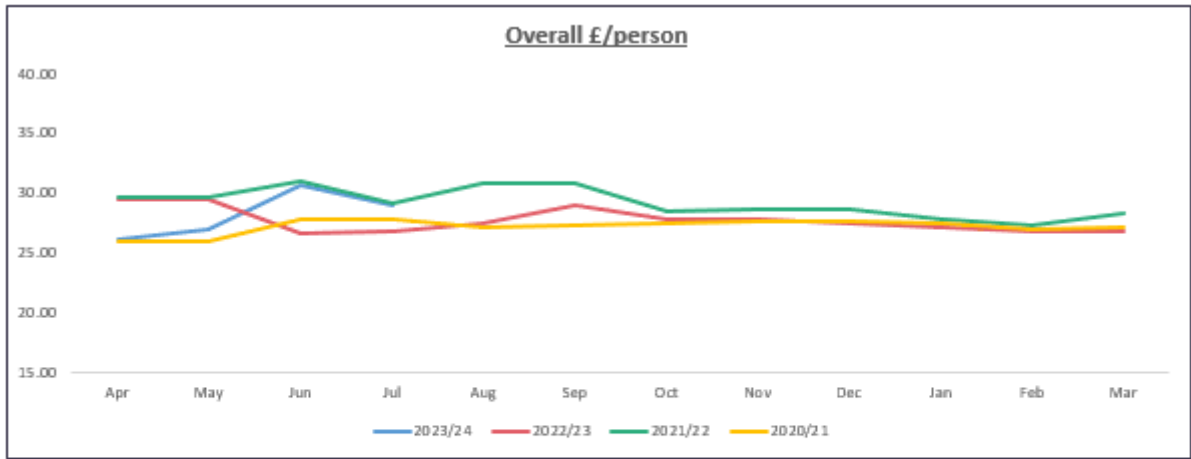
Contact Officers	Gurdeep Bhogil, Senior Accountant gurdeepbhogil@westlondonwaste.gov.uk Sapna Dhanani, Finance Manager sapnadhanani@westlondonwaste.gov.uk Ian O’Donnell, Treasurer ianodonnell@westlondonwaste.gov.uk Emma Beal, Managing Director emmabeal@westlondonwaste.gov.uk
------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Appendix 1

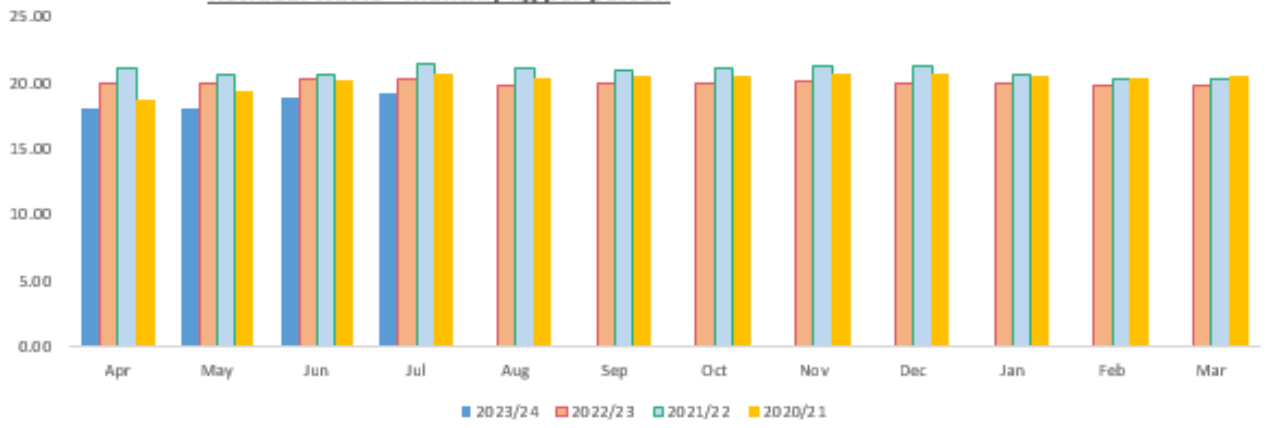
Pay As You Throw	24 YTD	Period 4		2023	Full Year	Forecast		
	Budget	Actual	Variance	Commentary	Budget	Estimate	Variance	Commentary
	£ 000s	£ 000s	£ 000s		£ 000s	£ 000s	£ 000s	
Waste - Residual	13,794	13,895	101	Higher tonnages for the first 4 months largely offset by £1.5m back dated credit received for the years 18-22 (4 years) relating to the landfill reconciliation.	41,382	42,215	833	Forecast based on tonnages continue to remain high throughout the year.
Waste - Food	126	125	(1)	4.5% lower tonnages collected than the same period last year.	379	375	(3)	Forecasts based on YTD current level of activity.
Waste - Mixed Organic	0	0	0		0	0	0	
Waste - Green	552	789	237	19% higher tonnages collected compared to the same period from last year.	1,657	1,802	146	Forecasts based on current level of activity for the 4 months - Green waste volumes to fall over the year.
Waste - Other	190	105	(85)		569	314	(255)	
Depreciation	2,938	2,938	0		8,814	8,814	0	
Financing	1,507	1,507	0		4,521	4,521	0	
Premises	425	655	230	Business rates increase significantly for FY 23/24 across organisation.	1,276	1,966	690	Forecasts based on YTD current level of activity.
Concession Accounting Adjustment	0	0	0		0	0	0	
Levy Income	(17,695)	(18,031)	(336)		(53,086)	(53,422)	(336)	
PAYT Net Expenditure	1,837	1,983	146		5,511	6,585	1,074	
Fixed Cost Levy								
	24 YTD Period 4			2023-24 Full Year Forecast				
	Budget	Actual	Variance	Commentary	Budget	Estimate	Variance	Commentary
	£ 000s	£ 000s	£ 000s		£ 000s	£ 000s	£ 000s	
Employees	872	863	(9)	Vacant posts compared to budget - HR Manager/Coordinator, Net Zero Planner, savings of 0.6 for CE Manager, Project manager, driver post at AR.	2,616	2,773	156	Allows for budgeted roles to be filled in, but also in line with the HR Paper, includes the costs of outsourcing HR services for 6 months. Includes Honorarium payments for staff and recognises redundancy of Finance Director.
Premises	442	498	57	Business rates increase significantly for FY 23/24 across organisation.	1,325	1,483	159	Forecasts based on YTD current level of activity.
Waste - Residual	1,680	1,717	38	Higher tonnages for the first 4 months largely offset by £1.5m back dated credit received for the years 18-22 (4 years) relating to the landfill reconciliation.	5,039	5,218	178	Forecast based on tonnages continue to remain high throughout the year.
Waste - Green	93	141	48		279	327	49	Forecasts based on current level of activity for the 4 months.
Waste - Wood	379	299	(80)		1,138	898	(240)	Forecasts based on YTD current level of activity.
Waste - Other	363	525	161	Higher volume of Mattresses collected.	1,090	1,454	364	Forecasts based on YTD current level of activity.
Waste - MRF Ealing	752	781	29		2,256	2,285	29	
Waste - MRF Brent	0	754	754	Nets out with income below.	0	754	754	
Supplies and Services	397	324	(73)		1,190	1,131	(59)	Costs being accrued for variety of services including IT, Software upgrades, Licences, Maintenance (machinery & site) and Audits.
Depreciation	520	520	0		1,561	1,561	0	
Financing	150	150	0		450	450	0	
Revenue Funding of Debt	328	328	0		984	984	0	
Concession Accounting Adjustment	(1,523)	(1,523)	0		(4,570)	(4,570)	0	
Trade Waste and Other Income	(861)	(1,154)	(294)	Backdated credit received for c. £1.5m for landfill reconciliation (years 2018 - 2022)	(2,582)	(2,954)	(372)	
MRF Income Ealing	(752)	(781)	(29)		(2,256)	(2,285)	(29)	
MRF Income Brent	0	(754)	(754)	Nets out with costs above.	0	(754)	(754)	
Levy Income	(4,676)	(4,676)	0		(14,029)	(14,029)	0	
Fixed Cost Levy Net Expenditure	(1,837)	(1,989)	(152)		(5,511)	(5,276)	236	
(Surplus) / Deficit	(0)	(7)	(7)		(0)	1,310	1,310	
PPP Contract Income	0	0	0		0	0	0	
Disbursement to boroughs	0	3,301	3,301		0	3,301	3,301	Payment to Boroughs relating to prior year 22/23
HRRC fund	0	71	71		0	815	815	
Total Income & Expenditure	(0)	3,365	3,365		(0)	5,426	5,426	
Social Value & Reuse	154	132	(22)		463	440	(23)	Forecasts based on YTD current level of activity.
Digital Twin	166	166	0		497	497	0	Forecasts based on YTD current level of activity.
Communications	53	53	(0)		160	160	(0)	
Programme costs funded by PPP inco	(373)	(373)	0		(1,120)	(1,120)	0	
Programs total	0	(22)	(22)		0	(23)	(23)	

Appendix 2

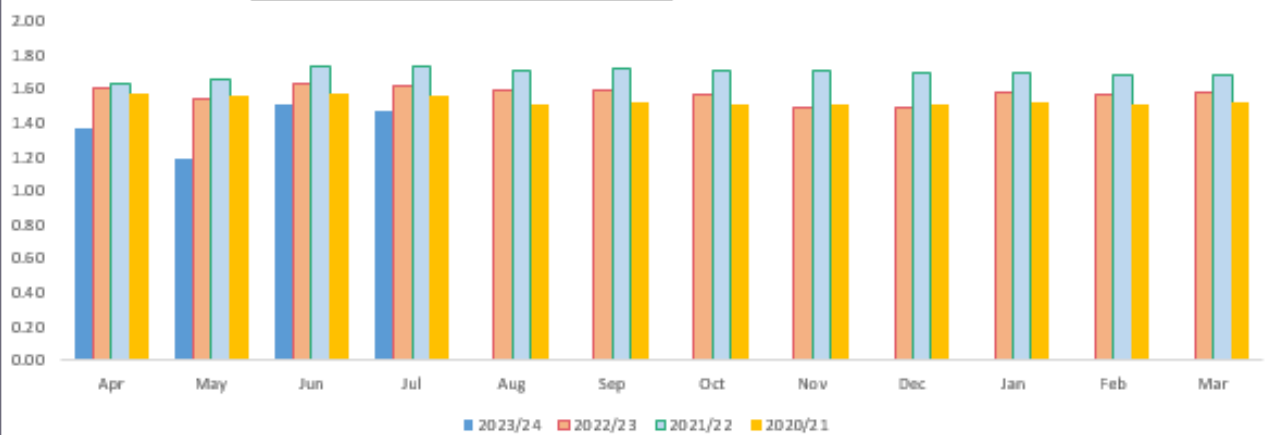
Key Performance Indicators 23/24							Cumulative	
KPI	23/24 Target	Red Threshold	22/23 Actual	Description	Commentary about target	Jul-23	Commentary about performance	
Keep Waste Moving								
1	Diversion from Landfill %	95.00%	< 95% = Red	99.89%	Percentage of residual waste collected in month sent to landfill (shows the tonnes of waste Suez have sent to landfill and the cumulative collected asbestos waste collected at Abbey Road).	Suez' contractual target is 3.9% max to landfill.	99.7%	
2	Turnaround times (% above 25 minutes) for borough vehicles	4.5%	>7.5% = Red	6.8%	Average vehicle turnaround times - taking waste to Transport Avenue, Victoria Road and Abbey Road. Total waste loads (cumulative) and over 25 mins	Contract turnaround time is 15 minutes but breach of contract is at 25 minutes and over. FY23 saw an increase due to crane issues at Victoria Road and rail strikes, but expecting to see an improvement to prior years in FY24.	3.5%	
Increase Efficiency								
3	Overall £/tonne	£93.47	> £98.15 (i.e. +5%) = Red	£92.07	Looks at total tonnes collected cumulatively and the total spend of waste transfer and disposal.	Reflects boroughs budgeted tonnages.	£93.02	Higher tonnages for residual and green waste for 4 months. This cost has been offset by the credit for the backdated landfill rec (without credit £/tonne would have been £97.15). More waste gone to Lakeside for July.
4	Overall £/person	£29.32	> £31.84 (i.e. +5%) = Red	£26.72	Total spend of waste transfer and disposal divided by total population of 6 boroughs (provided from ONS website).	Reflects boroughs budgeted tonnages.	£29.01	
Divert From Waste								
5	All waste - monthly kg per person	26.14	> 28 kg = Red	24.18	Total cumulative waste collected divided by population (taken from ONS website).	Reflects boroughs budgeted tonnages.	25.99	
6	Residual waste - monthly kg per person	19.61	> 21 kg = Red	19.73	Total cumulative residual waste collected divided by population (taken from ONS website).	Reflects boroughs budgeted tonnages. Food within residual should be reducing this figure.	19.24	
7	Food waste - monthly kg per person	1.64	< 1.55 kg = Red	1.58	Total cumulative food waste collected divided by population (taken from ONS website).	Reflects boroughs budgeted tonnages. The Food waste investment of £500k per borough should drive this up.	1.48	Lower volumes of food waste collection than budget.
Effective Control								
8	People development	125.00	< 450 = Red	515.00	Total number of learning and development activities carried out in financial year (amongst total employees).	Includes monthly team meetings.	80.00	Expected to pick up over the course of the year.
9	Staff turnover	15%	> 20% = Red	15%	Cumulative leavers YTD against total budgeted staff.	Not a large staff number therefore can be skewed by minimal movement. Counts employees who leave WLWA after their first probation review at 10 weeks of employment.	7.0%	3 leavers in next few months will push the outcome close to the red threshold.
10	Sickness rate	2.0%	> 3% = Red	2.4%	Cumulative sick days lost year to date.	In 2020, published figures show that sickness absence rates in public sector stood at 2.7%. This has increased to 4.4% in 2022. Have left target at 2% after considering the wide gap between the size of our workforce and those of other public sector	4.5%	Long term sickness skewing the figures. Employee has returned back to work in July.
11	Paying suppliers promptly	30	> 30 days = Red	27	Average number of days to pay suppliers in the month.	Statutory level	23.8	
12	Maintaining cash flow (Minimising trade	8%	> 10% = Red	0%	Debt at end of period (percentage of non levy income excluding borough debt).	Reflects debt at end of period.	0.0%	
13	RIDDOR incidents at Abbey Road	0	> 1 = Red	0		Average over 3 years is 0.33. Given the fact that we have not had any in the past 2 years, the target is 0.	0.00	
14	Average time taken in days to complete the entire hazard card process from start to finish	5	> 10 days = Red	0	Time (days) taken from when hazard was raised through to comments from site manager and H&S advisor.	Time (days) taken from when hazard was raised through to comments from site manager and H&S advisor.	1.28	



Residual waste - monthly kg per person



Food waste - monthly kg per person



Appendix 3

Summary for report

Prudential Indicator	Prudential code	Description	2022/23 Estimate £000s	2022/23 Actual £000s	2023/24 Estimate £000s	2023/24 Actual to date £000s	2024/25 Estimate £000s	2025/26 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	8%	9%	7%	6%	7%	7%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	1,044	71	3,000	13	2,000	2,000
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	194,372	229,766	186,997	229,779	178,254	169,511
Operational boundry for external debt	56	This is a projection of debt supporting the capital financing requirement	171,653	149,050	160,479	165,986	160,219	148,448
Authorised limit for external debt	55	This provides headroom for debt to deal with any unusual cash movements	181,653	159,050	170,479	175,986	170,219	158,448
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt	183,998	184,736	177,257	180,863	181,437	173,887

Note on terminology: debt is gross debt less cash