

**Budget Monitoring Report Period 2 (May)****SUMMARY**

This report provides an update on financial and operational matters

**RECOMMENDATION(S)**

The Authority is asked to:-

- 1) Note the current financial position, forecast for 2020/21 and sensitivity analysis
- 2) Note the KPIs will be reported at the next Authority meeting
- 3) Note the financial decisions taken under the Scheme of Delegation to Officers

**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 below:

High Level Summary

	P02 Budget £ 000s	P02 Actual £ 000s	P02 Variance £ 000s	Year Budget £ 000s	Year Forecast £ 000s	Year Variance £ 000s
<b>Expenditure</b>						
Employees	362	345	(17)	2,173	2,120	(53)
Premises	435	443	9	2,607	2,604	(3)
Waste Transfer and Disposal	7,986	7,481	(505)	47,917	48,869	952
Supplies and Services	150	98	(52)	900	947	47
Depreciation	1,463	1,473	10	8,778	8,788	10
Financing and Other	1,047	1,065	19	6,280	6,299	19
Concession Adjustment	(716)	(706)	10	(4,296)	(4,286)	10
	<b>10,726</b>	<b>10,200</b>	<b>(526)</b>	<b>64,359</b>	<b>65,341</b>	<b>983</b>
<b>Income</b>						
Levies	(10,379)	(10,644)	(265)	(62,273)	(63,128)	(855)
Trade and Other	(348)	(308)	39	(2,085)	(2,020)	66
	<b>(10,726)</b>	<b>(10,952)</b>	<b>(226)</b>	<b>(64,359)</b>	<b>(65,148)</b>	<b>(789)</b>
<b>(Surplus) / Deficit</b>	<b>0</b>	<b>(752)</b>	<b>(752)</b>	<b>0</b>	<b>193</b>	<b>193</b>

The summary shows how financial performance compares to the budget for both the period and the forecast for the year. The impact of the Covid-19 crises is the main feature of the performance so far this year and in particular its impact on waste flows and so the Waste Transport and Disposal (WTD) costs and Levies. All other budgets are broadly on target.

In terms of WTD, whilst the overall picture shows a 6% underspend (£505k) in the period, there are underlying adverse and favourable variances.

Firstly, in terms of PAYT waste, with more people working and studying from home and the introduction of the furlough scheme, there were increased volumes of household collected waste.

During the period collected residual waste was £199k or 3% more than budget reflecting the additional volumes collected.

Similarly, mixed organic collections were £84k or 60% more than budget reflecting additional volumes collected.

For green waste three boroughs saw very large increases compared to budget through the period. This was offset by the commencement of green waste collections later in the period by two boroughs. Hence a small underspend of £8k. All green waste services are now running and considering May data alone, this shows collection volumes at 23% above budgeted levels.

The increased volume and growth in costs of household collected waste is mirrored by an increase in the amount boroughs will have to pay through the PAYT levy and this totals £265k for the period. This has been shared with borough Finance Directors to help them with planning and making any claims for additional costs to the government. The PAYT charge is adjusted on a quarterly basis to reflect actual tonnages.

Secondly, in terms of FCL waste, the closure of HRRCs to the public in March resulted in significantly reduced overall waste volumes across all waste materials for the period. This was partly offset by the subsequent opening of HRRCs to the public in May and increased volumes for that short period.

Residual waste is the main component of HRRC waste costs. So focussing on that, during the period it was £425k or 51% lower than budgeted.

All of the above will be familiar patterns from the weekly services reports which have been shared with members and borough EDs over the last two months.

Looking ahead, under the current circumstances forecasting is subject to considerable uncertainty. Therefore the forecast has been produced with a little more sophistication (to try and highlight some of the variables) and with the assumptions detailed below for the WTD. The impact on WTD of changing key assumptions has also been provided to give a flavour of the range of possible outcomes.

So, in terms of WTD costs the forecast in the summary above has been built as follows.

The collections activity (PAYT) and HRRC activity (FCL) have been considered separately with a focus on the main waste streams which account for the vast majority of spend.

For residual waste collections (PAYT) the forecast uses the current level of activity e.g. residual waste for April and May is 3% up on budget and fairly stable. This level has been projected for the first half year with the second half year forecast at budgeted levels.

For green waste collections (PAYT) most boroughs were collecting waste throughout May but not April, therefore just May's data (which is 23% above budget) has been used in forecasting green spend for the first half year with the remainder of the year at budgeted levels.

For mixed organic collections (PAYT) volumes are 60% above budget. This level has been used for the first half year and budgeted levels for the rest of the year.

All of the above have been mirrored in the PAYT levy which is forecasting that boroughs in total will have to pay £855k million through the quarterly reconciliation exercises for the additional volumes of waste delivered.

For HRRCs (FCL), sites were closed to the public for April and only opened in mid May, so there is very little data for forecasting (only two weeks) and therefore focuses on the largest component, the residual waste.

This shows weekly residual waste was 30% higher than the budgeted weekly level. The residual forecast assumes this level for the remainder of the first half of the year with HRRC waste flows returning to budgeted levels for the second half of the year.

Other HRRC waste materials are forecast at budgeted levels.

The total of the above WTD forecasting results in an overall WTD overspend of £952k for the year.

The standard breakdown can be found in Appendix 1 which separates out the main types of waste streams and distinguishes between PAYT and FCL activities and summarises the above.

However, given uncertainties ahead below is a table that shows how the WTD spend would change under the modified set of assumptions, principally extending the current pattern throughout the whole year.

Scenario	WTD forecast overspend (000s)	Notes
Base case - as described above	£952k	
As base case but with residual collections continuing at higher level throughout year	+ £657k	Passed on to boroughs through PAYT levy
As base case but with green collections continuing at higher level throughout year	+ £63k	Passed on to boroughs through PAYT levy
As base case but with mixed organic collections continuing at higher level throughout year	+ £264k	Passed on to boroughs through PAYT levy
As base case but with HRRC residual waste extrapolated for the whole year	+ £824k	Absorbed through Authority reserves

It is important to note that HRRC waste forecasting is subject to greatest uncertainty as it uses a two week span of data which given it represented the first full weeks of HRRC opening clearly will have limitations.

However the above sensitivities highlight that the duration of the impact of the crises is fundamental to the outcomes with the residual waste volumes being the biggest component of that, so the key area of focus for managing financial impact of Covid-19.

## 2. KPIs for 2019/20

Gathering weekly data and information for the management of the Covid-19 crises has taken precedence during the last 2 months and at the time of writing the KPI performance for April and May are unavailable.

Management will ensure these are made available for the next Authority meeting.

## 3. Delegated decisions

To provide further transparency of operational arrangements, this standard section of the budget monitoring report summarises any significant financial decisions made by the Managing Director and/or Chief Officers under the Scheme of Delegations since those reported to the last Authority meeting.

In January the Authority delegated award of a Dry Recycling contract for LB Ealing to the Managing Director in consultation with the Chair. The contract was awarded to Viridor Waste Management in April with a total value of £9.7 million over 5 years. This was the best scoring bid in total and best priced bid out of the bids from three contractors. The procurement allows for boroughs to join at a later date under the same terms and conditions.

## 4. Financial Implications – These are detailed in the report.

## 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	Jay Patel, Finance Director	01895 54 55 11
	<a href="mailto:jaypatel@westlondonwaste.gov.uk">jaypatel@westlondonwaste.gov.uk</a>	
	Ian O'Donnell, Treasurer	
	<a href="mailto:ianodonnell@westlondonwaste.gov.uk">ianodonnell@westlondonwaste.gov.uk</a>	
	Emma Beal, Managing Director	01895 54 55 15
	<a href="mailto:emmabeal@westlondonwaste.gov.uk">emmabeal@westlondonwaste.gov.uk</a>	

## Appendix 1

Pay As You Throw	Period 02				Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	6,347	6,545	199	3% more waste	38,079	38,736	657	1st half year 3% up and 2nd half year at budgeted levels
Waste - Food	54	68	14		322	339	18	
Waste - Mixed Organic	140	224	84	60% more waste	842	1,106	264	1st half year 60% up and 2nd half year at budgeted levels
				growth for some boroughs offset by later start to collections in other boroughs				1st half year at May rate 2nd half year at budgeted levels
Waste - Green	140	132	(8)		839	891	52	
Waste - Other	97	22	(75)	much lower volume of mattresses	581	526	(55)	
Depreciation	1,081	1,089	8		6,486	6,494	8	
Financing	684	699	15		4,103	4,118	15	
Premises	204	204	0		1,225	1,225	(0)	
Concession Accounting Adjustment	(607)	(587)	20		(3,645)	(3,625)	20	
				reflecting increased collection volumes				reflecting increased volumes forecast for 1st half year
Levy Income	(8,139)	(8,404)	(265)		(48,831)	(49,686)	(855)	
PAYT Net Expenditure	0	(7)	(7)		0	125	125	

Fixed Cost Levy	Period 02				Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	362	345	(17)		2,173	2,120	(53)	
Premises	230	239	9		1,383	1,379	(3)	
								increased volume over last two weeks of May used to forecast for 1st half year then at budgeted levels
Waste - Residual	834	410	(425)	closure of HRRCs to public	5,006	5,317	311	forecast at budgeted levels
Waste - Green	65	0	(65)	closure of HRRCs to public	391	326	(65)	forecast at budgeted levels
Waste - Wood	172	37	(135)	closure of HRRCs to public	1,034	899	(135)	forecast at budgeted levels
Waste - Other	137	42	(95)	closure of HRRCs to public	824	729	(95)	forecast at budgeted levels
Supplies and Services	150	98	(52)		900	947	47	
Depreciation	382	384	2		2,292	2,294	2	
Financing	209	213	4		1,257	1,261	4	
Revenue Funding of Debt	153	153	0		920	920	0	
Concession Accounting Adjustment	(109)	(119)	(10)		(651)	(661)	(10)	
Trade Waste and Other Income	(348)	(308)	39		(2,085)	(2,020)	66	
Levy Income	(2,240)	(2,240)	0		(13,442)	(13,442)	0	
Fixed Cost Levy Net Expenditure	0	(745)	(745)		0	68	68	