

Budget Monitoring Report Period 4 (July)**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
- 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

	P04 Budget £ 000s	P04 Actual £ 000s	P04 Variance £ 000s	Year Budget £ 000s	Year Forecast £ 000s	Year Variance £ 000s
Expenditure						
Employees	724	710	(14)	2,173	2,211	38
Premises	869	878	9	2,607	2,698	90
Waste Transfer and Disposal	15,972	16,853	881	47,917	51,460	3,543
Supplies and Services	300	211	(89)	900	902	2
Depreciation	2,926	2,946	20	8,778	8,798	20
Financing and Other	2,093	2,093	(0)	6,280	6,280	0
Concession Adjustment	(1,432)	(1,432)	0	(4,296)	(4,296)	0
	21,453	22,260	807	64,359	68,052	3,693
Income						
Levies	(20,758)	(21,646)	(888)	(62,273)	(64,328)	(2,055)
Trade and Other	(695)	(941)	(246)	(2,085)	(3,090)	(1,005)
	(21,453)	(22,587)	(1,134)	(64,359)	(67,419)	(3,060)
(Surplus) / Deficit	0	(327)	(327)	0	633	633

The summary shows how financial performance compares to the budget for both the period and the forecast for the year.

Whilst the overall surplus/deficit for both P4 and the year's forecast are small, the impact of the Covid-19 pandemic remains the main feature of the performance so far this year. In particular its impact on waste flows (principally residual waste which accounts for the majority of spend) and therefore the large variances for Waste Transport and Disposal (WTD) costs and Levies. Other spending budgets are broadly on target.

The budget also includes the financial effects of a new dry mixed recycling (DMR) contract for Ealing. This is cost neutral for the Authority but creates further variations in the WTD costs and Trade/Other Income.

These 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 and summarises the following.

Firstly in terms of PAYT waste, with more people working and studying from home and on furlough, there were increased volumes of household collected waste. For P4 collected residual waste spending was £980k more than budgeted reflecting increased waste volumes of 6%.

Similarly, food, mixed organic and green collections spending combined were £209k more than budget reflecting the higher volumes of recyclable waste collected.

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 £888 for P4. 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 opening of HRRCs to the public in May and subsequent slightly higher than budgeted volumes. It should be noted that the picture for individual HRRC sites is varied with some seeing lower volumes and others higher.

Residual waste is the main component of HRRC waste costs. So focussing on that, during the period it was £89k or 5% lower than budgeted.

All of the above will be familiar patterns from the weekly services reports which have been shared with Members and borough Environment Directors since the start of the Covid-19 pandemic.

Looking ahead, 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 i.e. average for May to July where waste flows were a little more stable. This level has been projected to the end of December with the last quarter forecast at budgeted levels.

The resulting forecast for residual waste collections gives by far the largest forecast variance of £2.4 million representing 6% higher residual waste volumes.

The increased waste collections have been reflected in the PAYT levy which is forecasting that boroughs in total will have to pay £2.0 million more than budgeted through the quarterly reconciliation exercises for the additional volumes of waste delivered.

For HRRCs (FCL), once again the main component is residual waste. June and July were two of the two months where there was a reasonably full and stable level of service, so the average of these months has been used in forecasting. The resulting forecast shows how the initial shortfall in spending from closures to the public early in the year is partly eroded by rising waste volumes through the remainder of the year.

The FCL now also includes the commencement of a dry mixed recycling (DMR) contract procured for Ealing Council as reported in Contract Updates to the Authority during the last year. This commenced in June and will be cost neutral for the Authority. The forecast spend from this service will be £1.0 million which will be offset by charges to the Ealing Council of £1.0 million.

The total of the above WTD forecasting results in an overall WTD overspend of £3.5 million (i.e. £2.5 million from collections and £1.0 million for the new DMR service) for the year. This is largely offset by additional levies to boroughs which are forecast to be £2.0 million together with Trade and Other Income including an additional £1.0 million for the DMR service for Ealing Council

Given uncertainties ahead below is a table that shows how the WTD spend (excluding the DMR service) would change under three modified set of assumptions.

Scenario	WTD forecast overspend (000s)	Notes
Base case - as described above	£2,543k	
As base case but with residual collections continuing at May-Jul average throughout year – possible scenario	+ £622k	Passed on to boroughs through PAYT levy
As above plus 2% higher residual collections throughout the second half of the year e.g. as a result of second spike/lockdown – pessimistic scenario	+ £457	Passed on to boroughs through PAYT levy
As base case but with HRRC residual waste continuing at May-Jul average throughout year	+ £77k	Absorbed through Authority reserves

The above commentary and sensitivities highlight that the duration of the impact of the pandemic is fundamental to the outcomes with the residual waste collection 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

The KPI table (Appendix 2) illustrates the performance across a wide range of key activities together with their RAG rating. Most indicators are on target however a number of activities have been effected by the Covid-19 pandemic and this is reflected in the RAG rating and commentary. These are briefly summarised below:

- KPI5 and KPI6 site closures to public, changes in operations and waste flows together with varied performance across HRRCs have all contributed to the lower overall levels of reuse, recycling and composted rates and percentage diversion from residual waste.
- KPI17, KPI18 and KPI21 reflect the hold on some face to face waste minimisation activities (e.g. events) as a result of the pandemic to ensure the safety of employees and residents. Events are a key driver of social media activity, so this has also been significantly reduced.

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.

There were none.

4. Financial Implications – These are detailed in the report. Covid-19 is increasing costs due to increased waste, the JMWMS aims to decrease waste and therefore decrease costs e.g. through food waste and HRRC projects.

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.

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Appendix 1

Pay As You Throw	Period 04				Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	12,693	13,673	980	6% more waste	38,079	40,500	2,421	average of May to July used to forecast until December and Q4 then at budgeted levels
Waste - Food	107	131	24		322	391	70	
Waste - Mixed Organic	281	409	129	45% more waste	842	1,114	272	average of May to July used to forecast until December and Q4 then at budgeted levels
Waste - Green	280	336	56	growth for some boroughs offset by later start to collections in other boroughs	839	1,026	187	average of May to July used to forecast until December and Q4 then at budgeted levels
Waste - Other	194	101	(93)	much lower volume of mattresses	581	488	(93)	
Depreciation	2,162	2,162	0		6,486	6,486	0	
Financing	1,368	1,368	0		4,103	4,103	0	
Premises	408	408	(0)		1,225	1,225	(0)	
Concession Accounting Adjustment	(1,215)	(1,215)	0		(3,645)	(3,645)	0	
Levy Income	(16,277)	(17,165)	(888)	reflecting increased collection volumes	(48,831)	(50,886)	(2,055)	reflecting increased volumes forecast until December, then budget for Q4
PAYT Net Expenditure	0	208	208		0	802	802	

Fixed Cost Levy	Period 04				Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	724	710	(14)		2,173	2,211	38	
Premises	461	470	9		1,383	1,473	90	
Waste - Residual	1,669	1,579	(89)	closure of HRRCs to public	5,006	4,970	(35)	average of June to July used to forecast until December and Q4 then at budgeted levels
Waste - Green	130	80	(50)	closure of HRRCs to public	391	376	(15)	
Waste - Wood	345	203	(142)	closure of HRRCs to public	1,034	910	(123)	forecast at budgeted levels
Waste - Other	275	341	66	closure of HRRCs to public & DMR for Ealing @£100k per month	824	1,684	860	DMR for Ealing @£100k per month
Supplies and Services	300	211	(89)		900	902	2	year to date underspend across waste minimisation / projects offset by additional spending on health and safety
Depreciation	764	784	20		2,292	2,312	20	
Financing	419	419	(0)		1,257	1,257	(0)	
Revenue Funding of Debt	307	307	0		920	920	0	
Concession Accounting Adjustment	(217)	(217)	0		(651)	(651)	0	
Trade Waste and Other Income	(695)	(941)	(246)	DMR for Ealing @£100k per month	(2,085)	(3,090)	(1,005)	DMR for Ealing @£100k per month
Levy Income	(4,481)	(4,481)	0		(13,442)	(13,442)	0	
Fixed Cost Levy Net Expenditure	0	(535)	(535)		0	(169)	(169)	

Appendix 2

KPI No	Measure	2020/21 Target	Outturn	Comments	Apr	May	Jun	Jul	Red Threshold
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Efficiency

If forecast performance is not on target then assume amber, if below target beyond this red threshold then will be flagged red

KPI1	Total waste handled by Authority (tonnes, +/- 5% of budget)	+/- 5% of 546,443	573,497		39,979	45,361	50,086	50,058	> +/- 10% is red
KPI2	Total kgs waste per dwelling	+/- 5% of 848	890		745	795	841	864	> +/- 10% is red
KPI3	HRRRC reuse, recycling, composted % (Abbey Road)	40%	42%		Site closed	45%	43%	39%	Red = below 19/20 actual (36%)
KPI4	HRRRC diversion from residual waste % (Abbey Road)	60%	65%		Site closed	65%	65%	65%	Red = below 55%
KPI5	Borough HRRRC Average reuse, recycling, composted % (excl Abbey Road)	40%	23%	This figure includes some very good performances of close to 50% recycling from Richmond and Ealing sites and low levels from Harrow and Hillingdon. When the queues were at their worst Harrow sent all waste as residual waste.	Sites closed	20%	24%	25%	Red = below 19/20 actual (29%)
KPI6	Borough HRRRC Average diversion from residual waste % (excl Abbey Road)	60%	40%	This figure includes some very good performances of close to 70% diversion from Richmond and Ealing sites and low levels from Harrow and Hillingdon. When the queues were at their worst Harrow sent all waste as residual waste.	Sites closed	35%	40%	44%	Red = below 55%
KPI7	Trade debt as proportion of non levy income	Max of 8% (1 month)	5%		5.4%	4.3%	5.4%	4.7%	> 16% (2 months debt)
KPI8	Average days to pay creditors	Max of 30 days	8		6	7	12	7	>35 days
KPI9	Number of audit actions or recommendations overdue	0	0		0	0	0	0	> 3 overdue recommendations

Service Delivery

KPI10	Residual waste landfill diversion rate	96%	100.0%		100.00%	100.00%	100.00%	100.00%	Below target
KPI11	Recycling rate for residual waste	2.00%	6%		5.69%	5.58%	5.47%	5.46%	Below target

Safety

KPI12	Lost Time injury frequency rate	0.00%	0%	No LTI reported within this timeframe	0.00%	0.00%	0.00%	0.00%	If above 5% is red
KPI13	RIDDOR incidents at Abbey Road (previously rate)	0	0		0	0	0	0	If goes above 1 then is red
KPI14	Safety observations and closeout actions	10 per month	0	Training on hazard reporting currently being rolled out. Hazard report boxes installed at A/R	0	0	0	0	Below target

Environment

KPI15	EA reported incidents at rail transfer stations	0	0		0	0	0	0	If goes above 1 then is red
KPI16	EA reported incidents at Abbey Road	0	0		0	0	0	0	If goes above 1 then is red

Education

KPI17	Number of people engaged at events	4,000	415	No events due to pandemic - first online engagements in August	0	0	0	0	2,800 and under (70% of target)
KPI18	Engagement on social media	9,000	2,577		413	147	153	146	6,300 and under (70% of target)
KPI19	Skills plan items completed	100	100	Significant L&D booked for later in year	0	2	7	1	< 80
KPI20	Number of visitors to our website	75,000	155,736		8,245	13,699	14,415	15,553	52,500 and under (70% of target)
KPI21	Number of nappy pack requests	300	154	Scheme on hold due to pandemic - request continue to come through but no packs being given out	17	11	14	5	210 and under (70% of target)