

Budget Monitoring Report Period 10 (January)**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
- 2) Note the KPIs
- 3) Note the financial decisions taken under the Scheme of Delegation to Officers
- 4) Note closure of 2019/20 external audit and proposed additional fees
- 5) Note the external audit planning report for 2020/21 the accounts
- 6) Delegate the recruitment and selection of the Independent Audit Committee member to the Chair of Audit Committee and Treasurer

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

	P10 Budget £ 000s	P10 Actual £ 000s	P10 Variance £ 000s	Year Budget £ 000s	Year Forecast £ 000s	Year Variance £ 000s
Expenditure						
Employees	1,810	1,766	(44)	2,173	2,176	4
Premises	2,173	2,263	90	2,607	2,725	118
Waste Transfer and Disposal	39,931	40,423	493	47,917	48,494	577
MRF Waste Transfer and Disposal	0	1,682	1,682	0	2,403	2,403
Supplies and Services	750	1,189	439	900	1,498	598
Depreciation	7,315	7,323	8	8,778	8,806	28
Financing and Other	5,233	5,278	44	6,280	6,286	6
Concession Adjustment	(3,580)	(3,580)	0	(4,296)	(4,296)	0
	53,632	56,345	2,713	64,359	68,093	3,735
Income						
Levies	(51,894)	(53,249)	(1,355)	(62,273)	(63,948)	(1,675)
MRF Service Charge	0	(1,682)	(1,682)	0	(2,403)	(2,403)
Trade and Other	(1,738)	(2,008)	(270)	(2,085)	(2,331)	(246)
	(53,632)	(56,940)	(3,308)	(64,359)	(68,683)	(4,324)
(Surplus) / Deficit	0	(595)	(595)	0	(589)	(589)
Food waste projects	0	0	0	0	2,000	2,000
Net Position	0	(595)	(595)	0	1,411	1,411

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

Whilst the net position for the period shows a small surplus of £0.6 million, the forecast for the year shows a deficit of £1.4 million. This reflects the agreed contribution of £0.5 million towards each borough's food waste projects, to be paid as agreed with boroughs, mostly in March.

The main feature of performance for the year remains the impact of the Covid-19 pandemic. 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.

The budget also includes the financial effects of a new dry mixed recycling (DMR) contract providing services to Ealing. The materials from collections are processed at the contractors Materials Recycling Facility (MRF). This is cost neutral for the Authority but creates off-setting variances of £2.4 million in both MRF WTD costs and MRF Income.

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. A summary of the key points from Appendix 1 follow.

Firstly, considering Waste Transport and Disposal budgets, the principal activity and area of spending.

In terms of PAYT waste, almost all materials from borough collections have seen higher than budgeted volumes of waste - in overall terms volumes are 5% higher. By far the largest spend relates to residual waste and the additional costs to date total £1.4 million.

Food, mixed organic, and green collections spending combined were £0.3 million 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 pay through the PAYT levy and this totals £1.4 million for the period.

For the PAYT budget the pass through of costs in the form of levies based on actual volumes leaves a broadly neutral position (£0.2 million overspend).

In terms of FCL waste, the closure of HRRCs to the public earlier in the year together with lower overall ongoing volume of waste received at sites following their re-opening, have resulted in spending at below budgeted levels.

Residual waste is the main component of HRRC waste costs and during the period this was £0.4 million lower than budgeted.

Wood waste and mattresses also showed significantly lower volumes and resulted in lower than budgeted spending of £0.2 million and £0.3 million respectively.

It should be noted that FCL costs are recovered through a fixed charge to boroughs which is set and agreed at the outset of the year. Therefore the effect of lower waste volumes at HRRCs is a key driver of an underspend in the FCL budget.

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.

So, in terms of the year's forecast of WTD costs, these have been built by focussing on the main waste streams (which account for the vast majority of the spend) and by separately considering the collections activity (PAYT) and HRRC activity (FCL).

The pattern of waste volumes has become far clearer as the year has progressed and we are now able to forecast with a little more certainty.

Once again residual waste is the key driver of spend and the variance. For borough collected residual waste (PAYT), the forecast variance is £1.7 million of additional costs. This is passed through to boroughs in the levies as described earlier.

For HRRC residual waste (FCL), the forecast spending is £0.4 million below budget.

Moving on to other key variances, there are two to note.

Firstly, the FCL includes the commencement of a dry mixed recycling (DMR) contract procured for LB Ealing as reported in Contract Updates to the Authority during the last year. This commenced in June and is cost neutral for the Authority. The forecast spend from this service will be £2.4 million which will be offset by income from Ealing of £2.4 million.

Secondly, Supplies and Services includes £0.6 million for the Authority's share of an increase in the SERC insurance premium. Under the PPP contract the risk of increases in the insurance premium is shared. The contractor is responsible for all the increase up to a threshold. The amount above the threshold is then shared with the Authority. It should be noted that the waste sector faces a very challenging insurance market and premiums are likely to rise in coming years.

The overall forecast position after all of the above is a deficit of £1.4 million which will reduce reserves in the same way as disbursements have in previous years.

2. KPIs for 2020/21

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. Closure of 2019/20 external audit and plan for 2020/21

The 2019/20 accounts were presented to the June Authority meeting with delegated authority to the Chair to sign off any minor changes to the numbers resulting from the completion of the external audit by EY, principally pension fund confirmations.

EY have confirmed their external audit has now been completed. There were no changes to the numbers only minor additional commentary and accordingly the accounts have been published on our website.

On the matter of external audit fees, the Public Sector Auditor Appointments (PSAA) are the agency responsible for procuring the external audit service for most public sector organisations. The audit fee agreed between EY and PSAA for 2019/20 accounts was £15,223. EY have advised that they are in discussion with the PSAA and seeking additional fees totalling £48,286.

This is a common theme for many public sector organisations for the 2019/20 audit and the PSAA advise that all firms of auditors have requested significant additional fees. It is not a reflection of the Authority's audit. Indeed both ELWA (EY) and WRWA (Deloitte) are reporting similar very significant levels of additional fees.

The additional fees have been challenged. Progress with our discussions with the PSAA and EY will be reported to the Authority in due course.

Also note the external audit plan for work on the 2020/21 accounts in Appendix 3.

5. Independent Member for Audit Committee

A vacancy for this position arose in January when the previous post holder stepped down. The recruitment process for this role is identified below. It follows a similar approach as previously adopted, in particular giving borough Audit Committee (or similar) independent members the initial opportunity to apply given their relevant experience.

- Borough and Waste Authority Independent Members be invited to apply with cv and covering letter (February/March)
- WLWA members to delegate recruitment and selection process to Chair of Audit Committee and Treasurer (March)
- Chair of AC and Treasurer to hold interviews (April/May)
- Complete necessary HR paperwork - eligibility, references etc. (May)
- Induction (June)
- Recommendation for appointment to the Authority (June)
- Welcome to first meeting (June)

If the selection process above is unsuccessful then the position will need to be advertised and this will push out the timeframe for appointment.

6. Financial Implications – These are detailed in the report.

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Appendix 1

Pay As You Throw	Period 10				Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	31,733	33,163	1,431	5% more waste	38,079	39,830	1,750	average of July to January used to forecast until March
Waste - Food	268	359	91		322	432	111	
Waste - Mixed Organic	701	781	80	11% more waste	842	858	16	prior year average February to March used for seasonality
Waste - Green	699	793	93	growth for some boroughs offset by later start to collections in other boroughs	839	887	48	prior year average February to March used for seasonality
Waste - Other	484	364	(120)	much lower volume of mattresses	581	461	(120)	
Depreciation	5,405	5,405	0		6,486	6,486	0	
Financing	3,419	3,419	0		4,103	4,103	0	
Premises	1,021	1,021	(0)		1,225	1,225	(0)	
Concession Accounting Adjustment	(3,037)	(3,037)	0		(3,645)	(3,645)	0	
Levy Income	(40,693)	(42,048)	(1,355)	reflecting increased collection volumes	(48,831)	(50,506)	(1,675)	reflecting increased volumes forecast until March and factoring in seasonality for green and mixed organic waste
PAYT Net Expenditure	0	220	220		0	130	130	

Fixed Cost Levy	Period 10				Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	1,810	1,766	(44)	release of pension charge	2,173	2,176	4	
Premises	1,152	1,243	90		1,383	1,501	118	
Waste - Residual	4,172	3,793	(379)		5,006	4,600	(406)	average of July to January used to forecast until March
Waste - Green	326	205	(121)	closure of HRRCs to public	391	218	(173)	
Waste - Wood	861	618	(243)	closure of HRRCs to public	1,034	748	(286)	average of July to January used to forecast until March
Waste - Other	687	347	(339)	closure of HRRCs to public	824	461	(363)	average of July to January used to forecast until March
Waste - MRF	0	1,682	1,682	DMR for Ealing	0	2,403	2,403	DMR for Ealing
Supplies and Services	750	1,189	439	WLWA's share of the increase in SERC insurance premium is £663k	900	1,498	598	year to date reduced spend across waste minimisation and projects is offset by overspend on health and safety and a further £663k is the impact of WLWA's share of the increase in SERC insurance premium
Depreciation	1,910	1,918	8		2,292	2,320	28	
Financing	1,047	1,092	44		1,257	1,263	6	
Revenue Funding of Debt	767	767	0		920	920	0	
Concession Accounting Adjustment	(543)	(543)	0		(651)	(651)	0	
Trade Waste and Other Income	(1,738)	(2,008)	(270)	increased trade waste	(2,085)	(2,331)	(246)	increased trade waste
MRF Income	0	(1,682)	(1,682)	DMR for Ealing	0	(2,403)	(2,403)	DMR for Ealing
Levy Income	(11,202)	(11,202)	0		(13,442)	(13,442)	0	
Fixed Cost Levy Net Expenditure	0	(815)	(815)		0	(720)	(720)	

Appendix 2

KPI No	Measure	2020/21 Target	Outturn	Comments	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Red Threshold / RAG rating
forecast performance not on target is amber, if poorer than this red threshold then red															
Efficiency															
KPI1	Total waste handled by Authority (tonnes, +/- 5% of budget)	+/- 5% of 346,443	349,638		39,979	45,361	50,086	50,058	44,462	48,344	46,291	47,168	44,552	40,472	> +/- 10% is red
KPI2	Total kgs waste per dwelling	+/- 5% of 848	853		745	795	841	864	836	864	864	866	862	851	> +/- 10% is red
KPI3	HRRRC reuse, recycling, composted % (Abbey Road)	40%	35%		Site closed	45%	43%	39%	31%	32%	30%	32%	28%	34%	Red = below 19/20 actual (36%)
KPI4	HRRRC diversion from residual waste % (Abbey Road)	60%	57%		Site closed	65%	65%	65%	56%	52%	47%	49%	52%	62%	Red = below 55%
KPI5	Borough HRRRC Average reuse, recycling, composted % (excl Abbey Road)	40%	21%	impact of pandemic on operations	Sites closed	20%	24%	25%	23%	25%	20%	16%	19%	19%	Red = below 19/20 actual (29%)
KPI6	Borough HRRRC Average diversion from residual waste % (excl Abbey Road)	60%	35%	impact of pandemic on operations	Sites closed	35%	40%	44%	44%	43%	39%	35%	36%	37%	Red = below 55%
KPI7	Trade debt as proportion of non levy income	Max of 8% (1 month)	7%	The Authority started a new DMR contract for a constituent borough and recently issued bills (not overdue) account for 12.4% of this debt %. This large value arrangement (compared to all others) skews the calculation of this KPI.	5.4%	4.3%	5.4%	4.7%	4.3%	4.3%	15.7%	7.8%	8.5%	8.6%	> 16% (2 months debt)
KPI8	Average days to pay creditors	Max of 30 days	22	High volume of invoices pending queries resulted in back logs with a significant amount of invoices not being received within the 30 days from the date of invoice.	6	7	12	7	33	28	29	36	29	32	>35 days
KPI9	Number of audit actions or recommendations overdue	0	0		0	0	0	0	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%	100.00%	99.99%	99.99%	99.99%	99.99%	99.99%	Below target
KPI11	Recycling rate for residual waste	2.00%	6%		3.69%	5.38%	5.47%	5.46%	5.59%	5.66%	5.71%	5.75%	5.75%	5.79%	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%	0.00%	0.00%	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	0	0	0	0	0	0	If goes above 1 then is red
KPI14	Safety observations and closeout actions	10 per month	38	required number of observations made during this timeframe	0	0	0	0	10	10	10	6	3	6	Below target
Environment															
KPI15	EA reported incidents at rail transfer stations	0	0		0	0	0	0	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	0	0	0	0	0	0	If goes above 1 then is red
Education															
KPI17	Number of people engaged at events	4,000	352	Very few events due to pandemic - first online engagements in August, outdoor events in autumn	0	0	0	0	173	3	129	0	9	0	2,800 and under (70% of target)
KPI18	Engagement on social media	9,000	2,542	Limited events due to pandemic reducing engagement	413	147	153	146	100	426	503	83	57	90	6,300 and under (70% of target)
KPI19	Skills plan items completed	100	105	Significant L&D booked for final months will bring this closer to target	0	2	7	1	0	15	26	12	0	8	< 80
KPI20	Number of visitors to our website	75,000	201,594	Booking systems & bulky waste launches have increased online traffic significantly	8,245	13,699	14,415	15,353	27,467	27,747	23,921	14,609	11,168	11,171	52,500 and under (70% of target)
KPI21	Number of nappy pack requests (from Oct 2020 Newsletter sign ups instead as scheme completely on hold)	300	389	Scheme on hold due to pandemic - no packs given out since April and no new requests since mid-October, newsletter since October	17	12	15	5	17	14	8	11	218	7	210 and under (70% of target)