

Finance Update May 2021**SUMMARY**

This report provides an update on financial and operational matters

RECOMMENDATION(S)

The Authority is asked to:-

- 1) Note the current financial position and forecast for 2021/22
- 2) Approve the KPIs for 2021/22 and note the performance to date
- 3) Note the financial decisions taken under the Scheme of Delegation
- 4) Note the update for recruiting an Independent Member of the Audit Committee
- 5) Approve the Annual Treasury Management Plan for 2021/22

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	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
Expenditure						
Employees	375	353	(22)	2,252	2,212	(41)
Premises	437	451	14	2,620	2,613	(8)
Waste Transfer and Disposal	8,394	8,026	(368)	50,363	49,997	(367)
MRF Waste Transfer and Disposal	412	453	42	2,469	2,719	250
Supplies and Services	161	93	(69)	968	1,018	50
Depreciation	1,540	1,540	0	9,240	9,240	0
Financing and Other	1,028	1,028	0	6,171	6,171	0
Concession Adjustment	(730)	(730)	0	(4,382)	(4,382)	0
	11,617	11,214	(403)	69,702	69,586	(115)
Income						
Levies	(10,853)	(10,853)	0	(65,120)	(65,120)	0
MRF Service Charge	(412)	(453)	(42)	(2,469)	(2,719)	(250)
Trade and Other	(352)	(382)	(30)	(2,113)	(2,152)	(39)
	(11,617)	(11,689)	(72)	(69,702)	(69,990)	(289)
(Surplus) / Deficit	0	(475)	(475)	0	(404)	(404)

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

The overall performance for period 2 shows a favourable variance (i.e. underspend) of £0.48 million compared to budget. The forecast surplus of £0.40 million principally reflects unanticipated lower Waste Transport and Disposal (WTD) costs.

It is important to note that the impact of the Covid-19 pandemic remains the main feature of the performance and is monitored against budget. 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 as it did for financial year 2020/21, the financial effects of the 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.

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 and summarises the following.

If we look at PAYT waste firstly, it has been over a year since the Covid-19 pandemic began. Possibly as a result of more people returning back to work, residual PAYT loads have decreased which in turn means costs have decreased. Currently the forecast assumes the budgeted levels will continue for the year. This is on the basis that during the early months of the year, true waste patterns cannot easily be identified. We will be monitoring this and ensuring we are able to forecast trends more accurately.

Food and mixed organic waste spending combined were £127k more than budget reflecting the higher volumes of recyclable waste collected. However, green waste spending was £86k lower than budget, reflecting seasonality. We should see this increase over the summer months.

Secondly, in terms of FCL waste, there has been higher than budgeted volumes in turn leading to increased costs against budget. WTD costs were £133k higher than budget. Residual waste is the main component of HRRC waste costs. Once again, patterns, if any will become clearer over coming months.

2. KPIs for 2021/22

Following a review by the Senior Management Team, the 2021/22 KPIs contain a few familiar indicators and some new indicators which replace previous ones. The suite continues to provide wide ranging performance measures that facilitate oversight of the Authority's activities. It should be noted that because of the impact of pandemic on engagement activities, these indicators have been removed, at least for this year.

Appendix 2 summarises the targets for the year, how the targets have been determined and the performance in the year to date.

Most indicators are on target (green) and the performance is reflected in the RAG rating and commentary. There are no red indicators. There is one amber KPI which relates to the implementation of an internal audit recommendation where delays resulted from clarifying the change but which will be implemented shortly.

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.

As previously reported, the low value contract for internal audit services delivered by the London Borough of Hillingdon expires at the end of the month. Our experience of borough internal audit services is good, indeed local authorities have a far better knowledge and suitable experience to perform this service compared to the private sector. Previous procurements have also demonstrated they also offer far better value for money.

On this basis borough Finance Directors were approached to see if their teams could offer a service and quote for the work. Three boroughs initially expressed an interest. However, one withdrew following a change in their internal priorities and another did not submit a bid.

Only the London Borough of Ealing quoted for the service. Their submission was evaluated by a panel and references obtained. All of these were positive and the pricing was comparable with the current provider. It is worth noting they also provide a service to the London Borough of Hounslow.

Under the procurement rules management have the authority to appoint boroughs to deliver services. On this basis the contract / service level agreement was awarded to the London Borough of Ealing and mobilisation of the contract and audit planning will commence shortly.

4. Independent Member for Audit Committee

Following the delegation of authority at the last meeting to the Chair of Audit Committee and Treasurer, a remuneration level of £1,500 per year was set for this role. The following factors were used in determining this:

- Independent member allowances paid in boroughs range from nil to £3,100.
- A similar role in a housing association paid £3,000 for attendance at 4 meetings and 2 awaydays
- The daily rate for senior qualified finance/risk professionals ranges from £600 to £760 per day
- The need to attract high calibre candidates

The role is advertised with a closing date in July and with interviews hopefully taking place later that month.

5. Annual Treasury Management Plan

The plan for 2021/22 continues the low risk and very simple approach of recent years.

There are no significant capital spending plans and no plans for any new borrowing. Therefore, the focus will be on managing cash to ensure adequate liquidity for day-to-day operations whilst also using low risk options to deliver a return.

The current arrangements (a service level agreement with Ealing Council) remain the best option and provide both a return and quick access to cash. The arrangement also allows the Authority to tap into money market rates offering a better return i.e. funds can be placed with the local authority for fixed periods to achieve better returns. Placing funds with constituent boroughs is a low risk option.

The CIPFA Prudential Code prescribes a range of indicators that must be reported. These are more pertinent to organisations with complex treasury management arrangements, however are provided in the table in Appendix 3. It is worth noting that the historic capital expenditure

and borrowing in relation to the construction of the Energy from Waste plant, accounts for the vast majority of the figures in this table.

Similarly the Minimum Revenue Provision (MRP) identifies that the Authority is required to pay off an element of the accumulated capital spend each year (CFR in the Prudential Code table above) through a revenue charge. The current approach of using depreciation accounting procedures and revenue funding of debt represent 4% of capital, the standard method for calculating MRP to provide for a reduction in the borrowing need over the asset's life.

The impact is reflected in the Authority's long term financial plans. This illustrates a strong financial outlook and in particular: how all capital spend will be paid off through revenue charges; how the Authority will only see significantly lower than inflation rises in costs; and how all borrowing will be repaid whilst maintaining good levels of liquidity – all key requirements of the CIPFA codes.

6. 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	2021-22 YTD Period 02				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	6,943	6,386	(557)	Collected waste volume is 5% less than budgeted	41,657	41,100	(557)	Full year forecast is based on 2 months actual and 10 months budget
Waste - Food	58	66	8		348	356		Full year forecast is based on 2 months actual and 10 months budget
Waste - Mixed Organic	7	126	119	Collected waste volume is 297% more than budgeted.	43	162	119	Full year forecast is based on 2 months actual and 10 months budget
Waste - Green	231	145	(86)		1,387	1,301	(86)	Full year forecast is based on 2 months actual and 10 months budget
Waste - Other	73	88	15		437	452	15	Full year forecast is based on 2 months actual and 10 months budget
Depreciation	1,187	1,187	0		7,122	7,122	0	
Financing	703	703	0		4,216	4,216	0	
Premises	215	215	0		1,289	1,289	0	
Concession Accounting Adjustment	(650)	(650)	0		(3,900)	(3,900)	0	
Levy Income	(8,766)	(8,766)	0		(52,599)	(52,599)	0	
PAYT Net Expenditure	0	(501)	(501)		0	(501)	(501)	

Fixed Cost Levy	2021-22 YTD Period 02				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	375	353	(22)		2,252	2,212	(41)	
Premises	222	236	14		1,331	1,323	(8)	
Waste - Residual	848	954	105		5,090	5,195	105	
Waste - Green	30	35	6		178	184	6	
Waste - Wood	111	142	31		667	698	31	
Waste - Other	93	84	(9)		557	550	(7)	
Waste - MRF	412	453	42	More waste collected than budget but offset by MRF income	2,469	2,719	250	Forecast run rated based on 2 months actuals
Supplies and Services	161	93	(69)		968	1,018	50	
Depreciation	353	353	0		2,118	2,118	0	
Financing	169	169	0		1,014	1,014	0	
Revenue Funding of Debt	157	157	0		941	941	0	
Concession Accounting Adjustment	(80)	(80)	0		(482)	(482)	0	
Trade Waste and Other Income	(352)	(382)	(30)		(2,113)	(2,152)	(39)	
MRF Income	(412)	(453)	(42)		(2,469)	(2,719)	(250)	Forecast run rated based on 2 months actuals
Levy Income	(2,087)	(2,087)	0		(12,521)	(12,521)	(0)	
Fixed Cost Levy Net Expenditure	0	27	27		0	97	97	

Appendix 2

Key Performance Indicators 21/22							Cumulative	
KPI	19/20 Actual	20/21 Actual	21/22 Target	Red Threshold	Commentary about target	May-21	Commentary about performance	
Keep Waste Moving								
1	Diversion from Landfill %	97.9%	98.9%	96.1%	< 95% = Red	contractual target 3.9% max to landfill	99.5%	
2	Turnaround times (% above 25 minutes) for borough vehicles	3.4%	4.2%	4.5%	> 5% = Red	close to performance during pandemic	2.4%	
Increase Efficiency								
3	Overall £/tonne	88.29	88.12	88.87	> £93.31 (i.e. +5%) = Red	reflects boroughs budgeted tonnages and 19/20 and 20/21 are indexed	£86.91	
4	Overall £/person	2.27	2.45	2.57	> £2.70 (i.e. +5%) = Red	reflects boroughs budgeted tonnages and 19/20 and 20/21 are indexed	£2.47	
Divert From Waste								
5	All waste - monthly kg per person	25.73	27.76	28.91	> 30 kg = Red	reflects boroughs budgeted tonnages	28.47	
6	Residual waste - monthly kg per person	20.32	20.28	21.63	> 22 kg = Red	reflects boroughs budgeted tonnages	20.60	
Effective Control								
7	People development	82	105	350	< 315 = Red	more granular metric reflecting aspirational 10 l&d events per person. But 19/20 and 20/21 reflect days	89	significant early corporate l&d, coaching, lss, team profile/feedback
8	Staff turnover	22%	13%	15%	> 20% = Red	maintain level	0.0%	
9	Sickness absence rate	1.6%	0.5%	2.0%	> 3% = Red	more typical level	2.0%	
10	Paying suppliers promptly (days to pay)	29	24	30	> 32 days = Red	statutory level	28	
11	Minimising trade debt (% of non levy income)	7%	4%	8%	> 10% = Red	level reflects 1 month debt - only 1 instance of non recovery in last 6 years. Really just timing difference.	6.9%	
12	RIDDOR incidents at Abbey Road	1	0	0	> 1 = Red	maintain level	0.00	
13	Average monthly safety observations and closeout actions	10	5	10	> 15 = Red	maintain level	9	
14	Number of audit actions or recommendations overdue	0	1	0	> 2 = Red	maintain level	1	Small delay in clarifying change and implimenting

Appendix 3

Prudential Indicator	Prudential code	Description	2020/21 Estimate £000s	2021/22 Estimate £000s	2022/23 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	9%	8%	8%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	515	2,767	0
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	196,276	204,047	194,839
Operational boundry for external debt	56	This is a projection of net debt supporting the capital financing requirement	188,396	185,848	175,689
Authorised limit for external debt	55	This provides headroom for net debt to deal with any unusual movements	198,396	195,848	185,689
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt and shouldbe less than the CFR	196,832	198,339	191,523