

Finance Update July 2021**SUMMARY**

This report provides an update on financial and corporate

RECOMMENDATION(S)

The Authority is asked to:-

- 1) Note the current financial position and forecast for 2021/22
- 2) Note the 2021/22 KPI performance
- 3) Note the financial decisions taken under the Scheme of Delegation
- 4) Approve the appointment of Robin Pritchard as the new Independent Member of the Audit Committee
- 5) Note the Treasury Management out turn for 2020/21 and update for 2021/22
- 6) Approve the 2020/21 Statement of Accounts

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	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
Expenditure						
Employees	751	748	(3)	2,252	2,237	(15)
Premises	873	870	(3)	2,620	2,637	17
Waste Transfer and Disposal	16,788	15,966	(822)	50,363	47,896	(2,468)
MRF Waste Transfer and Disposal	823	693	(130)	2,469	2,080	(389)
Supplies and Services	323	223	(100)	968	1,029	61
Depreciation	3,080	3,072	(8)	9,240	9,240	(0)
Financing and Other	2,057	2,057	0	6,171	6,171	0
Concession Adjustment	(1,461)	(1,461)	0	(4,382)	(4,382)	0
	23,234	22,169	(1,065)	69,702	66,908	(2,794)
Income						
Levies	(21,707)	(21,334)	372	(65,120)	(64,003)	1,116
MRF Service Charge	(823)	(693)	130	(2,469)	(2,080)	389
Trade and Other	(704)	(904)	(200)	(2,113)	(2,301)	(188)
	(23,234)	(22,932)	302	(69,702)	(68,384)	1,318
(Surplus) / Deficit	0	(764)	(764)	0	(1,476)	(1,476)

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 4 shows a favourable variance (i.e. underspend) of £0.76 million compared to budget. The forecast surplus of £1.48 million continues to be principally reflected by 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.

Considering PAYT waste, the key driver of the variance is the residual waste tonnage, with the budgeted tonnage being considerably more than the current levels of activity. This is because the 2021/22 budget was set using borough tonnage forecasts in the midst of the pandemic at the height of waste volumes. The tonnages at that time were the basis of the 2021/22 budget. The current volumes reflect very different place in the pandemic, with most people now vaccinated and gradual easing of lockdown so are considerably lower resulting in an underspend.

It should be noted that the uncertainty of forecasting was identified at budget setting and the Authority report included sensitivity analysis to help illustrate the financial impacts of higher/lower residual waste volumes.

In terms of PAYT activities the decreased volume of household collected waste and associated costs will be mirrored by a reduction in the amount boroughs will have to pay via the PAYT levy. Through the usual quarterly reconciliation process boroughs will only pay for the waste that is disposed and will therefore see quarterly refunds of any overpaid levies. The forecast for the full financial year PAYT levy totals £51.5m against a budget of £52.6m.

In terms of FCL waste, there has been lower than budgeted volumes in turn leading to decreased costs against budget. Year to date WTD costs were £463k lower than budget. The largest variance is against residual waste which makes up the main bulk of HRRC waste costs and this is £411k lower than budget (24%).

Trade waste is up by 28% against budget as at July 21, indicative of more waste from businesses resuming again after the Covid-19 pandemic.

In terms for forecasts, uncertainty in forecasting remains as the impact of pandemic continues to unfold and with only 4 full months of waste flows this year. However, for residual waste collections (PAYT), we have looked at current levels of activity and reflected this in the remainder for the year. This has resulted in the forecast being £1.56m less than the budget, anticipating 4% less residual waste being collected. For HRRCs (FCL), once again the main

component is residual waste. The average of the last 4 months has been used in forecasting. The resulting forecast shows a decrease against budget of £1.23m.

Waste flows will continue to be monitored throughout the year however the total of the above WTD forecasting results in an overall current WTD projected underspend of £2.47 million the year.

2. KPIs for 2021/22

Appendix 2 summarises the targets for the year and the performance in the year to date.

All indicators continue to be on target (green) and the performance is reflected in the RAG rating. There is nothing to note for period 4 with all indicators at green indicating operations are on track.

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 were none.

4. Independent Member for Audit Committee

Following the recruitment process, as identified in previous meetings, 31 applications were received and five experienced candidates were shortlisted for interview.

The Chair of Audit Committee and Treasurer interviewed the candidates in early September. There were a number of strong performing candidates and a clear best candidate, Robin Pritchard.

On this basis the recommendation is to appoint Robin Pritchard as the new Independent Member of Audit Committee for a term of three years. At the end of the term this can be extended up to a maximum of eight years of service in accordance with the Audit Committee Terms of Reference.

Robin will bring significant Audit Committee and Board level experience to the role.

As the next Audit Committee meeting is in January, induction activities and introductions will take place before the end of December.

5. Treasury Management out turn 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 2020/21 was 0.4% returning £68 investment income. The amount held during the year was £17.5 million.

So far, in 2021/22 operations have been steady and excess cash balances have remained unchanged ensuring liquidity has been maintained whilst still delivering a small return.

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

For 2020/21 the Authority commenced the year with a total of £90.3 million of repayment loans from four London boroughs and the PWLB. The payments during the year reduced this to a balance of £89m by the end of 2020/21.

The interest on borough loans is fixed at 7.604% and the PWLB loan is fixed at 2.24%. 2020/21 saw £5.4m 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 commercial way 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.

6. 2020/21 Statement of Accounts

At its meeting in June the Audit Committee considered:

- The draft Statement of Accounts for 2020/21
- A summary of the out-turn position compared to budget
- The Annual Internal Auditors assurance report
- The risk register highlighting the mitigation and controls in relation to key risks

Members may recall that due to delays in the external audit (sector wide issue) the plan was to bring the 2020/21 accounts for approval at a subsequent Authority meeting once the audit was close to completion.

EY have now substantially completed their work and their draft report can be found in Appendix 4. This confirms the Statement of Accounts provide a true and fair view of the Authority's finances for the year ending 31 March 2021.

The only notable change from the draft accounts reported in June relates to the treatment of the £3 million disbursement to boroughs for the food projects. This was originally shown as essentially a rebate of levies. On discussion with EY it was agreed to show this as

expenditure. Please note this is simply a reclassification of a sum already accounted for and that it has no effect on the overall results.

Therefore, the report recommends that the Authority approve the statement of accounts (Appendix 5).

Additionally, to provide further assurance to support the approval of the accounts, Appendix 6 provides the usual annual statements from Chief Officers and Senior Managers attesting to the systems in operation during the year.

7. 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 04				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	13,886	13,366	(519)	Collected waste volume is 1% less than budgeted	41,657	40,099	(1,558)	Full year forecast is based on 4 months actual and 8 months run rate
Waste - Residual (Adjustments)								
Waste - Food	116	134	18		348	403	55	Full year forecast is based on 4 months actual and 8 months budget
Waste - Mixed Organic	14	98	84		43	294	251	Full year forecast is based on 4 months actual and 8 months budget
Waste - Green	462	489	27		1,387	1,467	80	Full year forecast is based on 4 months actual and 8 months budget
Waste - Other	146	177	31		437	530	94	Full year forecast is based on 4 months actual and 8 months budget
Depreciation	2,374	2,374	0		7,122	7,122	0	
Financing	1,405	1,405	0		4,216	4,216	0	
Premises	430	430	0		1,289	1,289	0	
Concession Accounting Adjustment	(1,300)	(1,300)	0		(3,900)	(3,900)	0	
Levy Income	(17,533)	(17,161)	372		(52,599)	(51,482)	1,116	Levy rebate to reflect tonnage
PAYT Net Expenditure	0	13	13		0	38	38	
Fixed Cost Levy	2021-22 YTD Period 04				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	751	748	(3)		2,252	2,237	(15)	
Premises	444	440	(3)		1,331	1,348	17	
Waste - Residual	1,697	1,285	(411)		5,090	3,856	(1,234)	Full year forecast is based on 4 months actual and 8 months run rate
Waste - Residual (Adjustments)								
Waste - Green	59	90	31		178	270	92	Full year forecast is based on 4 months actual and 8 months budget
Waste - Wood	222	223	1		667	669	2	Full year forecast is based on 4 months actual and 8 months budget
Waste - Other	186	103	(83)		557	307	(249)	Full year forecast is based on 4 months actual and 8 months budget
Waste - MRF	823	693	(130)		2,469	2,080	(389)	Forecast run rated based on 4 months actuals
Supplies and Services	323	223	(100)	Timing difference on projects	968	1,029	61	
Depreciation	706	698	(8)		2,118	2,118	(0)	
Financing	338	338	0		1,014	1,014	0	
Revenue Funding of Debt	314	314	0		941	941	0	
Concession Accounting Adjustment	(161)	(161)	0		(482)	(482)	0	
Trade Waste and Other Income	(704)	(904)	(200)		(2,113)	(2,301)	(188)	
MRF Income	(823)	(693)	130		(2,469)	(2,080)	389	Forecast run rated based on 4 months actuals
Levy Income	(4,174)	(4,174)	0		(12,521)	(12,521)	(0)	
Fixed Cost Levy Net Expenditure	0	(776)	(776)		0	(1,515)	(1,515)	
(Surplus) / Deficit	0	(764)	(764)		0	(1,476)	(1,476)	

Appendix 2

Key Performance Indicators 21/22							Cumulative	
KPI	19/20 Actual	20/21 Actual	21/22 Target	Red Threshold	Commentary about target	Jul-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	99.8%	
2	Turnaround times (% above 25 minutes) for borough vehicles	3.4%	4.2%	4.5%	> 5% = Red	close to performance during pandemic	4.8%	
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	£84.29	
4	Overall £/person	26.05	28.89	30.83	> £32.40 (i.e. +5%) = Red	reflects boroughs budgeted tonnages and 19/20 and 20/21 are indexed	£29.16	
Divert From Waste								
5	All waste - monthly kg per person	25.73	27.76	28.91	> 30 kg = Red	reflects boroughs budgeted tonnages	28.83	
6	Residual waste - monthly kg per person	20.32	20.28	21.63	> 22 kg = Red	reflects boroughs budgeted tonnages	21.43	
Effective Control								
7	People development	82	105	350	< 315 = Red	more granular metric reflecting aspirational 10 I&d events per person. But 19/20 and 20/21 reflect days	186	
8	Staff turnover	22%	13%	15%	> 20% = Red	maintain level	2.5%	
9	Sickness absence rate	1.6%	0.5%	2.0%	> 3% = Red	more typical level	0.1%	
10	Paying suppliers promptly (days to pay)	29	24	30	> 32 days = Red	statutory level	6	
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.	0.9%	
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	8	
14	Number of audit actions or recommendations overdue	0	1	0	> 2 = Red	maintain level	0	

Appendix 3

Prudential Indicator	Prudential code	Description	2020/21 Estimate £000s	2020/21 Actual £000s	2021/22 Estimate £000s	2021/22 Actual to date £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	9%	9%	8%	8%	8%	8%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	1,852	515	2,767	44	0	0
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	204,509	196,193	204,047	193,157	194,839	185,631
Operational boundry for external debt	56	This is a projection of debt supporting the capital financing requirement	189,331	174,623	185,848	175,853	175,689	165,508
Authorised limit for external debt	55	This provides headroom for debt to deal with any unusual cash movements	199,331	184,623	195,848	185,853	185,689	175,508
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt and should be less than the CFR	198,539	196,832	198,339	194,355	191,523	184,481