

Finance Update**SUMMARY**

This report provides an update on financial and corporate matters

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 delegated decisions
- 4) Approve the Treasury Management Plan for 2022/23

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

	P08 Budget £ 000s	P08 Actual £ 000s	P08 Variance £ 000s	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
Expenditure						
Employees	1,501	1,484	(17)	2,252	2,305	53
Premises	1,747	1,849	102	2,620	2,722	101
Waste Transfer and Disposal	33,576	31,401	(2,175)	50,363	47,109	(3,255)
MRF Waste Transfer and Disposal	1,646	1,368	(278)	2,469	2,052	(417)
Supplies and Services	646	470	(176)	968	1,034	66
Depreciation	6,160	6,160	(0)	9,240	9,240	(0)
Financing and Other	4,114	4,114	0	6,171	6,171	0
Concession Adjustment	(2,921)	(2,921)	0	(4,382)	(4,382)	0
	46,468	43,924	(2,543)	69,702	66,249	(3,452)
Income						
Levies	(43,413)	(41,432)	1,981	(65,120)	(62,148)	2,972
MRF Service Charge	(1,646)	(1,368)	278	(2,469)	(2,052)	417
Trade and Other	(1,409)	(2,041)	(633)	(2,113)	(2,522)	(409)
	(46,468)	(44,841)	1,626	(69,702)	(66,721)	2,980
(Surplus) / Deficit	0	(917)	(917)	0	(472)	(472)

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 8 (November 2021) shows a favourable variance (i.e. underspend) of £0.92 million compared to budget. The forecast surplus of £0.47 million continues to be principally reflected by unanticipated lower Waste Transport and Disposal (WTD) costs.

We continue to review the impact of the Covid-19 pandemic against performance, 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 remain 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 variances 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.

Residual waste tonnage continues to be the main component of PAYT waste and explains a large portion of the variance against budget. The current level of tonnages for residual waste continues to be lower than budgeted (as at the end of November, residual waste collected is 4% lower than the budget). 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. 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 £49.6m against a budget of £52.6m. This reflects the refunds in levies predicted due to lower tonnages collected.

Food waste costs are £14k (6%) lower than budgeted to the end of November, due to lower tonnages collected against budget (3,000 less tonnes). However if we look at the same period of April to November in 2020-21, we can see there has been an increase of 10% in food waste collected year on year, principally Hillingdon's. We will continue to monitor food waste collection with each borough and ensure that the £500k investment provided can see food waste tonnages increase and removed from residual waste.

Year to date, green waste has seen 5,000 tonnes increase against budget, but we need to consider seasonality, and do expect a decrease over the winter months.

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 £428k lower than budget. The largest variance is against residual waste which makes up the main bulk of HRRC waste costs and this is £373k lower than budget (11%).

Trade waste is up by 45% against budget as at November 21, indicative that there is a continuation of more waste from businesses resuming again after the height of the Covid-19 pandemic.

Whilst the impact of the Covid-19 pandemic remains, for forecasting we have used current levels of waste collected and calculated run rates. Being two thirds in to the financial year, it is evident the budgets were produced with caution on waste levels reflecting the impact of the pandemic last year. The high volumes of waste budgeted have not materialised and we have forecasted reduced costs in areas where tonnages have not materialised.

Looking at 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 £2.9m less than the budget.

For HRRCs (FCL), once again the main component is residual waste. The average of the last eight months has been used in forecasting. The resulting forecast shows a decrease against budget of £600k.

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 £3.26 million in the year.

We will also continue to monitor the impact of Covid-19, in line with the new government guidance of people working from home if they can. This may impact on tonnages over the coming months.

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.

The internal audit for Health and Safety identified two minor recommendations to be actioned, which will be addressed by the end of March 2022.

The suite of indicators and metrics, including those reported in other meetings, will be reviewed and reported for consideration at the March Authority meeting.

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. Treasury Management

The plan for 2022/23 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) provide both a return and quick access to cash. The arrangement also allows the Authority to tap into money market rates of Ealing Council's high rated counterparties (UK government gilts, large UK high street banks) offering a better return i.e. funds can be placed for fixed periods to achieve better returns.

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 uses 4% of capital, the CIPFA standard method for calculating MRP to provide for a reduction in the borrowing need over the asset's life.

The impact of treasury management activities 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 lower than inflation rises in costs and therefore levies; and how all borrowing will be repaid whilst maintaining good levels of liquidity – all key requirements of the CIPFA codes.

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Appendix 1

Pay As You Throw	2021-22 YTD Period 08				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	27,771	25,860	(1,912)	Collected waste volume is 4% less than budgeted	41,657	38,790	(2,867)	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Food	232	218	(14)	Food waste tonnages collected are 3,000 tonnes less than budget YTD, but compared to the same period last year, overall tonnages have increased by 14%.	348	327	(21)	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Mixed Organic	29	83	54	Hillingdon budgeted 857 tonnes of mixed organic for FY21/22, but 1,670 tonnes collected in April and May hence the overspend.	43	124	81	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Green	925	972	47	5,000 tonnes more collected than budget YTD but need to take in to account seasonality so may reduce over coming months.	1,387	1,457	70	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Other	291	369	78	Over 34% tonnes more than budgeted of rubble, soil and wood collected	437	554	117	Full year forecast is based on 8 months actual and 4 months run rate
Depreciation	4,748	4,748	0		7,122	7,122	0	
Financing	2,811	2,811	0		4,216	4,216	0	
Premises	860	860	0		1,289	1,289	0	
Concession Accounting Adjustment	(2,600)	(2,600)	0		(3,900)	(3,900)	0	
Levy Income	(35,066)	(33,085)	1,981	Accounted for refunds to be given back to boroughs as lower tonnages of waste collected through PAYT.	(52,599)	(49,627)	2,972	Levy rebate to reflect tonnage
PAYT Net Expenditure	0	234	234		0	351	351	
Fixed Cost Levy	2021-22 YTD Period 08				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	1,501	1,484	(17)	Savings of £134k YTD from vacancies not filled, but overspends on agency staff costs equate to £126k, recruitment costs come to £11k and training comes to £25k YTD.	2,252	2,305	53	
Premises	887	990	102	Booking system licence not budgeted, reactive maintenance spend at Abbey Road, and rates at Victoria Road higher than budgeted.	1,331	1,432	101	
Waste - Residual	3,393	3,021	(373)	Lower tonnages collected than budgeted.	5,090	4,531	(559)	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Green	119	173	54	Higher tonnages collected than budget.	178	259	81	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Wood	445	474	30	Higher tonnages collected than budget.	667	712	44	Full year forecast is based on 8 months actual and 4 months run rate
Waste - Other	371	232	(139)	Lower tonnages collected than budgeted.	557	356	(201)	Full year forecast is based on 8 months actual and 4 months run rate
Waste - MRF	1,646	1,368	(278)		2,469	2,052	(417)	Full year forecast is based on 8 months actual and 4 months run rate
Supplies and Services	646	470	(176)	£211k savings made YTD on consultant fees.	968	1,034	66	
Depreciation	1,412	1,412	(0)		2,118	2,118	(0)	
Financing	676	676	0		1,014	1,014	0	
Revenue Funding of Debt	627	627	0		941	941	0	
Concession Accounting Adjustment	(322)	(322)	0		(482)	(482)	0	
Trade Waste and Other Income	(1,409)	(2,041)	(633)		(2,113)	(2,522)	(409)	
MRF Income	(1,646)	(1,368)	278		(2,469)	(2,052)	417	Full year forecast is based on 8 months actual and 4 months run rate
Levy Income	(8,347)	(8,347)	0		(12,521)	(12,521)	(0)	
Fixed Cost Levy Net Expenditure	0	(1,151)	(1,151)		0	(823)	(823)	
(Surplus) / Deficit	0	(917)	(917)		0	(472)	(472)	

Appendix 2

Key Performance Indicators 21/22								Cumulative	
KPI	19/20 Actual	20/21 Actual	21/22 Target	Red Threshold	Description	Commentary about target	Nov-21	Commentary about performance	
Keep Waste Moving									
1	Diversion from Landfill %	97.9%	98.9%	96.1%	< 95% = Red	Percentage of residual waste collected in month sent to landfill (shows the tonnes of waste Suez have sent to landfill and the cumulative collected asbestos waste collected at Abbey Road).	contractual target 3.9% max to landfill	99.9%	
2	Turnaround times (% above 25 minutes) for borough vehicles	3.4%	4.2%	4.5%	> 5% = Red	Average vehicle turnaround times - taking waste to Transport Avenue, Victoria Road and Abbey Road. Total waste loads (cumulative) and over 25 mins in the month.	close to performance during pandemic	1.4%	
Increase Efficiency									
3	Overall £/tonne	88.29	88.12	88.87	> £93.31 (i.e. +5%) = Red	Looks at total tonnes collected cumulatively and the total spend of waste transfer and disposal.	reflects boroughs budgeted tonnages and 19/20 and 20/21 are indexed	£83.99	
4	Overall £/person	26.05	28.89	30.83	> £32.40 (i.e. +5%) = Red	Total spend of waste transfer and disposal divided by total population of 6 boroughs (provided from ONS website).	reflects boroughs budgeted tonnages and 19/20 and 20/21 are indexed	£28.68	
Divert From Waste									
5	All waste - monthly kg per person	25.73	27.76	28.91	> 30 kg = Red	Total cumulative waste collected divided by population (taken from ONS website).	reflects boroughs budgeted tonnages	28.46	
6	Residual waste - monthly kg per person	20.32	20.28	21.63	> 22 kg = Red	Total cumulative residual waste collected divided by population (taken from ONS website).	reflects boroughs budgeted tonnages	21.17	
Effective Control									
7	People development	82	105	350	< 315 = Red	Total number of learning and development activities carried out in financial year (amongst total employees).	more granular metric reflecting aspirational 10 l&d events per person. But 19/20 and 20/21 reflect days	0	
8	Staff turnover	22%	13%	15%	> 20% = Red	Cumulative leavers YTD against total budgeted staff.	maintain level	0.0%	
9	Sickness absence rate	1.6%	0.5%	2.0%	> 3% = Red	Cumulative sick days lost year to date.	more typical level	2.3%	
10	Paying suppliers promptly (days to pay)	29	24	30	> 32 days = Red	Average number of days to pay suppliers in the month.	statutory level	23	
11	Minimising trade debt (% of non levy income)	7%	4%	8%	> 10% = Red	Debt at end of period - excluding borough debt.	level reflects 1 month debt - only 1 instance of non recovery in last 6 years. Really just timing difference.	0.4%	
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	6	There were a total of 8 hazard cards completed. Due to the date that some of the hazard cards were completed, whilst they were initially raised in October, that have been grouped in with November Statistics, as the full hazard card process was not completed until November. The majority of the hazard cards completed referred to an unsafe condition as a result of items not being placed in there relevant containers (i.e. gas bottles left outside of gas cage, chemical left outside of chemical store etc), with the remainder being in respect of broken glass, staff nearly slipping on grease and broken bars on site. There were no traffic related incidents during this period.
14	Number of audit actions or recommendations overdue	0	1	0	> 2 = Red		maintain level	2	2 recommendations for H&S audit - regular staff health screening and tests (inc. drug and alcohol random testing). Second recommendation was regular checks on drivers records - deadline is March 22.

Appendix 3

Prudential Indicator	Prudential code	Description	2021/22 Estimate £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	8%	8%	8%
Capital expenditure	48/50	This is a summary of the capital spending plans	1,044	2,456	2,000
Capital financing requirement (CFR)	51/54	This is the underlying borrowing need i.e. what will be charged through revenue	205,020	197,667	189,858
Operational boundary for external debt	56	This is a projection of net debt (i.e. after cash) supporting the capital financing requirement	183,440	168,965	156,171
Authorised limit for external debt	55	This is the net debt (i.e. after cash) limit	193,440	178,965	166,171
Gross debt	60/62	This reflects the amount of gross debt and should be less than the CFR	201,942	195,118	188,064