

**Finance Update January 2022****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) Approve the proposed 2022/23 KPI targets
- 4) Note the delegated decisions

**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	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
<b>Expenditure</b>						
Employees	1,877	1,890	13	2,252	2,310	58
Premises	2,184	2,326	142	2,620	2,719	98
Waste Transfer and Disposal	41,970	37,941	(4,029)	50,363	45,538	(4,825)
MRF Waste Transfer and Disposal	2,058	1,696	(362)	2,469	2,035	(434)
Supplies and Services	807	608	(199)	968	1,072	104
Depreciation	7,700	8,168	469	9,240	9,802	562
Financing and Other	5,142	5,142	0	6,171	6,171	0
Concession Adjustment	(3,652)	(3,652)	0	(4,382)	(4,382)	0
	<b>58,085</b>	<b>54,119</b>	<b>(3,966)</b>	<b>69,702</b>	<b>65,265</b>	<b>(4,437)</b>
<b>Income</b>						
Levies	(54,266)	(51,684)	2,582	(65,120)	(62,021)	3,099
MRF Service Charge	(2,058)	(1,696)	362	(2,469)	(2,035)	434
Trade and Other	(1,761)	(2,507)	(746)	(2,113)	(2,465)	(352)
	<b>(58,085)</b>	<b>(55,886)</b>	<b>2,198</b>	<b>(69,702)</b>	<b>(66,521)</b>	<b>3,181</b>
<b>(Surplus) / Deficit</b>	<b>0</b>	<b>(1,768)</b>	<b>(1,768)</b>	<b>0</b>	<b>(1,256)</b>	<b>(1,256)</b>
PPP Contract Income and Adjustments	0	0	0	0	(8,100)	(8,100)
<b>Net (Surplus) / Deficit</b>	<b>0</b>	<b>(1,768)</b>	<b>(1,768)</b>	<b>0</b>	<b>(9,356)</b>	<b>(9,356)</b>
Actuarial (loss)/gain on pension liability	0	0	0	0	0	0
<b>Total Income &amp; Expenditure</b>	<b>0</b>	<b>(1,768)</b>	<b>(1,768)</b>	<b>0</b>	<b>(9,356)</b>	<b>(9,356)</b>

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

The performance shows the same patterns as reported to previous meetings apart from one item, an £8.1 million forecast for PPP income for the year. This is principally the result of the recent higher electricity prices.

Otherwise, the overall performance for period 10 (January 2022) shows a favourable variance (i.e. underspend) of £1.77 million compared to budget. The forecast surplus of £9.36 million is principally reflected by unanticipated lower Waste Transfer and Disposal (WTD) costs and anticipated income from our PPP contract detailed in the Contract report.

The impact on waste flows (principally residual waste which accounts for the majority of spend) has stabilised from the Covid-19 pandemic. This is reflected in the tonnages and waste transfer and disposal costs which are at similar levels to pre pandemic. Other spending budgets remain broadly on target, apart from depreciation which was under budgeted with the SERC being depreciated over 21 years instead of 20 years.

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 operational variance against budget. The current level of tonnages for residual waste continues to be lower than budgeted (as at the end of January 2022, residual waste collected is 4% lower than the budget). The 2021/22 budget was set using borough tonnage forecasts in the midst of the pandemic when waste volumes were higher than usual. The tonnages budgeted have not materialised and it should be noted, that the uncertainty of forecasting was identified at budget setting. 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 £49.5m against a budget of £52.6m. This reflects the £3.1m of refunds in levies due to lower tonnages collected.

Food waste costs are £19k (7%) lower than budgeted to the end of January, due to lower tonnages collected against budget (4,000 less tonnes). However if we look at the same period of April to January in 2020-21, we can see there has been an increase of 4% in food waste collected year on year. It is important that we 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 1,500 tonnes increase against budget. Over the winter months we have seen the variance against budget decrease which would explain seasonality where there is less green waste collected.

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 £1.76m lower than budget. The largest variance is against residual waste which makes up the main bulk of HRRC waste costs and this is £1.5m lower than budget (35%).

Trade waste is up by 42% against budget as at January 22, indicative that there is a continuation of more waste from businesses resuming again post Covid-19.

Now that the impact of the Covid-19 pandemic has lessened, for forecasting we have used current levels of waste collected and calculated run rates. With only two months left 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 tonnages budgeted have not materialised meaning costs have not come through as anticipated, which has been reflected in the forecast.

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 £2.8m less than the budget.

For HRRCs (FCL), once again the main component is residual waste. The average of the last ten months has been used in forecasting. The resulting forecast shows a decrease against budget of £1.8m.

Waste flows will continue to be monitored throughout the remainder of the year. However the total of the above WTD forecasting results in an overall current WTD projected underspend of £4.83m in the year. This is considerably less than what was forecast in the same period last year, and reflects levels of costs pre pandemic. This underspend is also reflected in the large quarterly PAYT rebates to boroughs.

## **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.

## **3. Proposed KPIs for 2022/23**

Appendix 3 shows the KPI targets we are proposing for 2022/23. The proposed suite of KPIs will allow the Authority to have oversight of and manage operational performance, one of the corporate governance requirements.

Following a review of the current KPIs we have made some minor changes. We have removed the number of audit actions or recommendations overdue (as these were always nil because of the timing of audits, late in the year) and have included food waste (monthly kg per person), as this is an important metric which we need to ensure increases over time.

We have also added in the average time taken to complete the entire hazard card process, once again an important metric, for managing the key risk of health and safety.

It should be noted that a variety of other indicators and information will continue to be reported for specific purposes in separate reports and forums. This will continually evolve and will include any developments from the West London Waste Strategy Workshop later today.

#### 4. 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 are two procurements to note with both contracts being awarded following a competitive procurement process to the winning bidders. Colleagues from across the business and for one procurement, also from Hounslow Council, evaluated the bids.

The Health and Safety Advisor services contract was awarded to USP (our current provider) and the CCTV service contract was awarded to DSSL Group. Both awards are for 1 year plus an option for the Authority to extend the contract for 2 more years subject to satisfactory performance.

Both of these are covered in the Contracts and Operations report.

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# Appendix 1

Pay As You Throw	2021-22 YTD Period 10				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	34,714	32,389	(2,325)	Collected waste volume is 4% less than budgeted.	41,657	38,867	(2,790)	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Food	290	271	(19)	Budget was higher due to £500k investment but whilst there is a decrease against budget, YOY growth is 4%.	348	325	(23)	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Mixed Organic	36	83	47	Hillingdon budgeted 857 tonnes of mixed organic for FY21/22, but 1,670 tonnes collected in April and May hence the overspend.	43	99	56	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Green	1,156	1,103	(53)	Decrease against budget due to seasonality - in winter months less green waste collected.	1,387	1,323	(64)	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Other	364	443	79		437	532	95	Full year forecast is based on 10 months actual and 2 months run rate
Depreciation	5,935	5,935	0		7,122	7,122	0	
Financing	3,513	3,513	0		4,216	4,216	0	
Premises	1,074	1,074	0		1,289	1,289	0	
Concession Accounting Adjustment	(3,250)	(3,250)	0		(3,900)	(3,900)	0	
Levy Income	(43,832)	(41,250)	2,582		(52,599)	(49,500)	3,099	Levy rebate to reflect tonnage
<b>PAYT Net Expenditure</b>	<b>0</b>	<b>311</b>	<b>311</b>		<b>0</b>	<b>373</b>	<b>373</b>	
Fixed Cost Levy	2021-22 YTD Period 10				2021-22 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	1,877	1,890	13		2,252	2,310	58	New Commercial Manager starting in Feb21 and back dated pay uplift - NJC
Premises	1,109	1,251	142	Abbey Road - repairs and maintenance. HRRC Booking system	1,331	1,429	98	
Waste - Residual	4,241	2,757	(1,484)	Lower tonnages collected than budgeted.	5,090	3,309	(1,781)	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Green	148	188	40	Fall in tonnages in line with seasonality.	178	226	48	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Wood	556	488	(68)		667	585	(82)	Full year forecast is based on 10 months actual and 2 months run rate
Waste - Other	464	219	(245)		557	272	(284)	Full year forecast is based on 10 months actual and 2 months run rate
Waste - MRF	2,058	1,696	(362)		2,469	2,035	(434)	Full year forecast is based on 10 months actual and 2 months run rate
Supplies and Services	807	608	(199)	Timing difference on projects.	968	1,072	104	
Depreciation	1,765	2,233	469		2,118	2,680	562	
Financing	845	845	0		1,014	1,014	0	
Revenue Funding of Debt	784	784	0		941	941	0	
Concession Accounting Adjustment	(402)	(402)	0		(482)	(482)	0	
Trade Waste and Other Income	(1,761)	(2,507)	(746)		(2,113)	(2,465)	(352)	
MRF Income	(2,058)	(1,696)	362		(2,469)	(2,035)	434	Full year forecast is based on 10 months actual and 2 months run rate
Levy Income	(10,434)	(10,434)	0		(12,521)	(12,521)	(0)	
<b>Fixed Cost Levy Net Expenditure</b>	<b>0</b>	<b>(2,078)</b>	<b>(2,078)</b>		<b>0</b>	<b>(1,629)</b>	<b>(1,629)</b>	
<b>(Surplus) / Deficit</b>	<b>0</b>	<b>(1,768)</b>	<b>(1,768)</b>		<b>0</b>	<b>(1,256)</b>	<b>(1,256)</b>	
<b>PPP Contract Income and Adjustment</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>(8,100)</b>	<b>(8,100)</b>	
<b>Total Income &amp; Expenditure</b>	<b>0</b>	<b>(1,768)</b>	<b>(1,768)</b>		<b>0</b>	<b>(9,356)</b>	<b>(9,356)</b>	

## Appendix 2

Key Performance Indicators 21/22							Cumulative		
KPI	19/20 Actual	20/21 Actual	21/22 Target	Red Threshold	Description	Commentary about target	Jan-22	Commentary about performance	
<b>Keep Waste Moving</b>									
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	1.0%	
<b>Increase Efficiency</b>									
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	£85.06	
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	£27.76	
<b>Divert From Waste</b>									
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	27.19	
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	20.57	
<b>Effective Control</b>									
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 1&d events per person. But 19/20 and 20/21 reflect days	40	
8	Staff turnover	22%	13%	15%	> 20% = Red	Cumulative leavers YTD against total budgeted staff.	maintain level	7.5%	
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	29	
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.	0.0%	
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	December saw 2 hazard cards completed. One of the cards was in respect of the fluorescent tube bin missing a lid, due to one not being provided by the relevant contractor. This hazard card has been closed out as Abbey Road staff have called the contractor and arranged for a lid to be brought to site. Abbey Road staff has also managed to provide a temporary solution, by using a different plastic lid, until the correct lid is brought to site. The second hazard card is in respect of the door on the 20-yard container, swinging open when the container was in transit from the WTS to the HRRC. Abbey Road have provided some corrective works in respect of provide secondary locking pins on all the containers. Further corrective actions are required in respect of the update of the relevant Risk Assessment and Safe Working Guidance to include the inspection of the locking pins, prior to the container being moved.
14	Number of audit actions or recommendations overdue	0	1	0	> 2 = Red		maintain level	0	

## Appendix 3

Key Performance Indicators 22/23							
KPI	19/20 Actual	20/21 Actual	21/22 Actual	22/23 Target	Red Threshold	Description	Commentary about target
<b>Keep Waste Moving</b>							
1	Diversion from Landfill %	97.94%	98.89%	99.90%	95.00%	< 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). Suez' contractual target is 3.9% max to landfill.
2	Turnaround times (% above 25 minutes) for borough vehicles	3.4%	4.2%	1.0%	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. Contract turnaround time is 15 minutes but breach of contract is at 25 minutes and over.
<b>Increase Efficiency</b>							
3	Overall £/tonne	£88.29	£88.12	£86.84	£85.09	> £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.
4	Overall £/person	£26.05	£28.89	£29.44	£28.92	> £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.
<b>Divert From Waste</b>							
5	All waste - monthly kg per person	25.73	27.76	28.25	28.34	> 30 kg = Red	Total cumulative waste collected divided by population (taken from ONS website). Reflects boroughs budgeted tonnages.
6	Residual waste - monthly kg per person	20.32	20.28	20.98	20.88	> 22 kg = Red	Total cumulative residual waste collected divided by population (taken from ONS website). Reflects boroughs budgeted tonnages. Food within residual should be reducing this figure.
7	Food waste - monthly kg per person			1.65	1.91	< 1.64 kg = Red	Total cumulative food waste collected divided by population (taken from ONS website). Reflects boroughs budgeted tonnages. The Food waste investment of £500k per borough should drive this up.
<b>Effective Control</b>							
8	People development	82.00	105.00	325.00	500.00	< 450 = Red	Total number of learning and development activities carried out in financial year (amongst total employees). Includes monthly team meetings which has driven this to increase in FY23
9	Staff turnover	22%	13%	8%	15%	> 20% = Red	Cumulative leavers YTD against total budgeted staff. Not a large staff number therefore can be skewed by minimal movement.
10	Sickness rate	1.6%	0.5%	2.3%	2.0%	> 3% = Red	Cumulative sick days lost year to date. In 2020, published figures show that sickness absence rates in public sector stood at at 2.7%. Have left target at 2% after considering the wide gap between the size of our workforce and those of other public sector organisations.
11	Paying suppliers promptly	29	24	32	30	> 32 days = Red	Average number of days to pay suppliers in the month. Statutory level
12	Maintaining cash flow (Minimising trade debt)	7%	4%	0%	8%	> 10% = Red	Debt at end of period (percentage of non levy income excluding borough debt). Reflects debt at end of period.
13	RIDDOR incidents at Abbey Road	1	0	0	0	> 1 = Red	Average over 3 years is 0.33. Given the fact that we have not had any in the past 2 years, the target is 0.
14	Average time taken to complete the entire hazard card process from start to finish			0	5	> 10 = Red	Time (days) taken from when hazard was raised through to comments from site manager and H&S advisor. Time (days) taken from when hazard was raised through to comments from site manager and H&S advisor.

