|  |  |
| --- | --- |
| WEST LONDON WASTE AUTHORITY |  |
| Report of the Treasurer and Managing Director | 23 September 2022 |
| **Finance Update July 2022** |
| SUMMARYThis report provides an update on financial and operational matters. The key points are:* Day to day financial performance is broadly on track with lower than budgeted waste volumes accounting for the majority of the variance from operational activities.
* In other activities, the PPP contract income is subject to a high degree of uncertainty and we are awaiting data from contractor to help forecast this.
* Operational performance is shown in the KPIs and is largely on track with one key exception on turnaround times resulting from rail strikes, planned maintenance and crane failure
* There was one delegated decision
* The treasury management information reflects the continuing simple, low risk approach
 |
|  |
| **RECOMMENDATION(S)**The Authority is asked to:-1. Note the current financial position and forecast for 2022/23
2. Note the KPIs to date
3. Note the delegated decisions
4. Note the Treasury Management outturn for 2021/22 and update 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 over the page. The summary shows how financial performance compares to the budget for both the period and the forecast for the year.

From a “day to day" activities perspective, the overall performance for the period shows a favourable variance (i.e. underspend) of £625k compared to budget. The key variance is an underspend of £906k for Waste Transfer and Disposal costs which is largely from lower than budgeted HRRC volumes of residual waste. This is also reflected in the variance in levies which shows boroughs are paying less than was budgeted for their waste.

The forecast for the year is principally based on the current level of activity continuing throughout the year potentially delivering larger under spends. However, it should be noted that waste volumes do fluctuate from month to month and the picture for the remaining year is far from clear. It should also be noted that the forecast PPP income is notional and as budgeted. A wide range of outcomes are possible depending on the electricity market as described in the Finance Strategy and we are awaiting data from the contractor to facilitate better forecasting.



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. Notable items of detail from Appendix 1 include:

Looking at PAYT waste forecast first, the overall small residual waste variance of £149k is actually made up of reduced costs from lower than budgeted residual tonnages being offset by higher prices (due to inflation). The reduced waste volumes are also reflected in the PAYT levy variance (£1,582k) which shows forecast rebates to boroughs for lower than budgeted tonnages.

The depreciation variance (£692k) is a result of the 2021/22 year end property valuations (an accounting requirement) which showed an increase in the value of assets.

Secondly, in terms of FCL waste, there has been lower than budgeted HRRC volumes leading to lower forecast costs against budget with residual waste making up £1,706k of the variance.

On another positive note, the level of trade and other income is healthy and forecast to out-perform the budget by £867k.

The forecast for the year for the improvements to borough HRRC’s anticipates investments will be made by the year end.

It is worth noting that the risk register is currently being reviewed to consider the impact of high inflation and mitigations that may be necessary. The financial implications will be largely reflected in next year’s budget and work is in already progress with boroughs and managers to build the draft 2023/24 budget for the next Authority meeting.

1. **KPIs for 2022/23**

Appendix 2 summarises the performance to the end of July.

Most indicators are on target (green) and the performance is reflected in the RAG rating and commentary. There is one red indicator for turnaround times which is a result of a combination of factors including a crane failure, rail strikes and diversion of waste to manage planned maintenance at SERC. There is one amber KPI on food waste. As reported previously, food waste tonnages should increase as the year goes on and projects progress and we will continue to monitor this indicator.

It is worth noting that from time to time the performance for a particular indicator may slip into amber or red, but the performance will be managed and actions undertaken to bring the indicator back to standard during the year. Additionally, given the cumulative nature of each individual indicator, an indicator is more likely to slip into amber or red in the early months.

1. **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.

A Rubble, hard core and soil contract has been procured as detailed in the Contracts and Operations Report and will deliver savings of £90,000.

1. **Treasury Management Outturn 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 2021/22 was 0.1% returning £19k investment income and reflecting the historically low interest rates during the year. The average amount held during the year was £20.1 million.

So far, in 2022/23 operations have been steady and the main change in cash balances is from the receipt of £10.6m income (i.e. electricity) from the PPP contract relating to 2021/22. Two thirds of this income will pass through to boroughs leaving the Authority with suitable liquidity and reserves to develop projects for managing the risk of upcoming legislative changes.

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

For 2021/22 the Authority commenced the year with a total of £88.2 million of repayment loans from four London boroughs and the PWLB. The payments during the year reduced this to a balance of £85.9m by the end of 2021/22.

The interest on borough loans is fixed at 7.604% and the PWLB loan is fixed at 2.24%. 2021/22 saw £5.3m 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 way used by commercial businesses 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.

1. **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.

|  |  |
| --- | --- |
| Contact Officers | Jay Patel, Finance Director 01895 54 55 10jaypatel@westlondonwaste.gov.ukIan O’Donnell, Treasurer ianodonnell@westlondonwaste.gov.uk Emma Beal, Managing Director emmabeal@westlondonwaste.gov.uk Adesh Swain, Finance Manageradeshswain@westlondonwaste.gov.uk |

**Appendix 1**

 

**Appendix 2**

****

**Appendix 3**

****