

**Finance Update July 2022**

**SUMMARY**

This 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.

## High Level Summary

	P4 Budget £ 000s	P4 Actual £ 000s	P4 Variance £ 000s	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
<b>Expenditure</b>						
Employees	883	857	(26)	2,648	2,596	(53)
Premises	891	868	(22)	2,672	2,605	(67)
Waste Transfer and Disposal	16,519	15,613	(906)	49,558	46,848	(2,711)
MRF Waste Transfer and Disposal	716	648	(68)	2,148	2,080	(68)
Supplies and Services	399	316	(83)	1,198	939	(259)
Depreciation	3,270	3,490	220	9,809	10,469	660
Financing and Other	2,022	2,022	0	6,067	6,067	0
Concession Adjustment	(1,491)	(1,491)	0	(4,473)	(4,473)	0
	<b>23,209</b>	<b>22,323</b>	<b>(886)</b>	<b>69,628</b>	<b>67,131</b>	<b>(2,497)</b>
<b>Income</b>						
Levies	(21,517)	(20,990)	527	(64,552)	(62,970)	1,582
MRF Service Charge	(716)	(648)	68	(2,148)	(2,080)	68
Trade and Other	(709)	(1,044)	(334)	(2,128)	(2,995)	(867)
	<b>(22,943)</b>	<b>(22,682)</b>	<b>261</b>	<b>(68,828)</b>	<b>(68,045)</b>	<b>782</b>
<b>(Surplus) / Deficit</b>	<b>267</b>	<b>(359)</b>	<b>(625)</b>	<b>800</b>	<b>(915)</b>	<b>(1,715)</b>
PPP Contract Income and Adjustments	(667)	0	667	(2,000)	(2,000)	0
HRRC Fund	400	0	(400)	1,200	1,200	0
<b>Net (Surplus) / Deficit</b>	<b>0</b>	<b>(359)</b>	<b>(359)</b>	<b>0</b>	<b>(1,715)</b>	<b>(1,715)</b>

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.

## **2. 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.

## **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.

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.

## **4. 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.

**5. 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 <a href="mailto:jaypatel@westlondonwaste.gov.uk">jaypatel@westlondonwaste.gov.uk</a> Ian O’Donnell, Treasurer <a href="mailto:ianodonnell@westlondonwaste.gov.uk">ianodonnell@westlondonwaste.gov.uk</a> Emma Beal, Managing Director <a href="mailto:emmabeal@westlondonwaste.gov.uk">emmabeal@westlondonwaste.gov.uk</a> Adesh Swain, Finance Manager <a href="mailto:adeshswain@westlondonwaste.gov.uk">adeshswain@westlondonwaste.gov.uk</a>	01895 54 55 10
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# Appendix 1

Pay As You Throw	2022-23 YTD Period 4				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	12,965	13,015	50	Collected waste volume is 3.5k tonnes less than the budget. As it currently stands, due to ongoing issues at the transfer stations, more waste is being sent to Lakeside. This should lessen from August.	38,896	39,046	149	forecasts based on current level of activity
Waste - Food	131	111	(20)	YTD 11k tonnes of collected food waste which is 2k tonnes behind budget - this will be reviewed monthly. Last year YTD tonnage was 11.8k tonnes	392	334	(59)	forecasts based on current level of activity
Waste - Mixed Organic	0	0	0		0	0	0	
Waste - Green	622	536	(86)	Collected waste volumes are higher than budget but savings are due to lower actual rates.	1,866	1,609	(258)	forecasts based on current level of activity
Waste - Other	233	155	(78)	HRRC Trade waste for Wood, Mattresses, Rubble	699	466	(233)	
Depreciation	2,799	3,029	231	Higher costs in line with revaluations carried out in Mar22.	8,396	9,088	692	Higher costs in line with revaluations.
Financing	376	376	0		1,129	1,129	0	
Premises	464	464	0		1,392	1,392	0	
Concession Accounting Adjustment	(1,279)	(1,279)	0		(3,838)	(3,838)	0	
Levy Income	(16,810)	(16,283)	527		(50,430)	(48,848)	1,582	
<b>PAYT Net Expenditure</b>	<b>(499)</b>	<b>126</b>	<b>625</b>		<b>(1,498)</b>	<b>377</b>	<b>1,874</b>	

  

Fixed Cost Levy	2022-23 YTD Period 4				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	883	857	(26)	Savings made on vacancies not filled in budget within the operations team (service of delivery) and staff members on MAT leave.	2,648	2,596	(53)	
Premises	427	404	(22)		1,280	1,213	(67)	
Waste - Residual	1,879	1,310	(569)	Collected waste tonnage is much less than budgeted.	5,637	3,931	(1,706)	forecasts based on current level of activity
Waste - Green	93	51	(42)	Costs likely to increase and be in line with budget and seasonality.	278	152	(126)	
Waste - Wood	278	98	(180)	Tonnages lower than budgeted but expected to get back to budgeted levels.	835	295	(540)	forecasts based on current level of activity
Waste - Other	318	336	18		955	1,016	61	
Waste - MRF	716	648	(68)	Nets out with income below.	2,148	2,080	(68)	
Supplies and Services	399	316	(83)		1,198	939	(259)	
Depreciation	471	460	(11)	Higher costs in line with revaluations carried out in Mar22.	1,413	1,381	(32)	Higher costs in line with revaluations.
Financing	1,325	1,325	0		3,976	3,976	0	
Revenue Funding of Debt	321	321	0		962	962	0	
Concession Accounting Adjustment	(212)	(212)	0		(635)	(635)	0	
Trade Waste and Other Income	(709)	(1,044)	(334)	generating more trade income than budgeted	(2,128)	(2,995)	(867)	
MRF Income	(716)	(648)	68	Nets out with costs above.	(2,148)	(2,080)	68	
Levy Income	(4,707)	(4,707)	(0)		(14,122)	(14,122)	(0)	
<b>Fixed Cost Levy Net Expenditure</b>	<b>766</b>	<b>(484)</b>	<b>(1,250)</b>		<b>2,298</b>	<b>(1,291)</b>	<b>(3,589)</b>	

  

<b>(Surplus) / Deficit</b>	<b>267</b>	<b>(359)</b>	<b>(625)</b>		<b>800</b>	<b>(915)</b>	<b>(1,715)</b>	
<b>PPP Contract Income and Adjustments</b>	<b>(667)</b>	<b>0</b>	<b>667</b>		<b>(2,000)</b>	<b>(2,000)</b>	<b>0</b>	
<b>HRRC Fund</b>	<b>400</b>	<b>0</b>	<b>(400)</b>		<b>1,200</b>	<b>1,200</b>	<b>0</b>	
<b>Total Income &amp; Expenditure</b>	<b>0</b>	<b>(359)</b>	<b>(359)</b>		<b>0</b>	<b>(1,715)</b>	<b>(1,715)</b>	

## Appendix 2

Key Performance Indicators 22/23						Cumulative	
KPI	22/23 Target	Red Threshold	Description	Commentary about target	Jul-22	Commentary about performance	
<b>Keep Waste Moving</b>							
1	Diversion from Landfill %	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.	95.8%	
2	Turnaround times (% above 25 minutes) for borough vehicles	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	Contract turnaround time is 15 minutes but breach of contract is at 25 minutes and over.	10.1%	<ul style="list-style-type: none"> <li>Ongoing crane failure at Victoria Road</li> <li>Rail strikes in June followed immediately by a two week outage at SERC</li> </ul>
<b>Increase Efficiency</b>							
3	Overall £/tonne	£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.	£85.38	
4	Overall £/person	£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.	£26.74	
<b>Divert From Waste</b>							
5	All waste - monthly kg per person	28.34	> 30 kg = Red	Total cumulative waste collected divided by population (taken from ONS website).	Reflects boroughs budgeted tonnages.	26.09	
6	Residual waste - monthly kg per person	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.	20.19	
7	Food waste - monthly kg per person	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.	1.61	We are expecting the tonnages to increase as the year goes on. The food waste tonnage per person has increased since May from 1.54 to 1.61 kg per person.
<b>Effective Control</b>							
8	People development	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	32.00	
9	Staff turnover	15%	> 20% = Red	Cumulative leavers YTD against total budgeted staff.	Not a large staff number therefore can be skewed by minimal movement.	0.0%	
10	Sickness rate	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 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.	1.5%	
11	Paying suppliers promptly	30	> 32 days = Red	Average number of days to pay suppliers in the month.	Statutory level	27.50	
12	Maintaining cash flow (Minimising trade debt)	8%	> 10% = Red	Debt at end of period (percentage of non levy income excluding borough debt).	Reflects debt at end of period.	0.0%	
13	RIDDOR incidents at Abbey Road	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.	0.00	
14	Average time taken to complete the entire hazard card process from start to finish	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.	0.00	

## Appendix 3

Prudential Indicator	Prudential code	Description	2021/22 Estimate £000s	2021/22 Actual £000s	2022/23 Estimate £000s	2022/23 Actual to date £000s	2023/24 Estimate £000s	2024/25 Estimate £000s
Ratio of financing costs to net revenue stream	73/74	This is an indicator of affordability of plans	8%	8%	8%	8%	8%	7%
Capital expenditure	48/50	This is a summary of the Authority's capital spending plans	2,767	515	2,456	44	0	0
Capital financing requirement (CFR)	51/54	This is a measure of the Authority's underlying borrowing need	204,509	197,387	199,843	197,431	199,843	199,843
Operational boundry for external debt	56	This is a projection of debt supporting the capital financing requirement	185,848	161,473	154,953	159,240	148,253	141,553
Authorised limit for external debt	55	This provides headroom for debt to deal with any unusual cash movements	195,848	171,473	164,953	169,240	158,253	151,553
Gross debt (new Prudential Indicator replaces net debt)	60/62	This reflects the amount of gross debt and should be less than the CFR	198,339	190,518	183,998	188,285	177,298	170,598

*Note on terminology: debt is gross debt less cash*