

Finance Update October 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 outcome includes an estimate of PPP contract income.
- Operational performance is shown in the KPIs and is largely on track with two key exception on turnaround times and food waste
- There were no delegated decisions

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

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 an operational “day to day” activities perspective, the overall performance for the period shows a favourable variance (i.e. underspend) of £655k compared to budget. The key variance is an underspend of £878k 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. The continuing pattern of spending is very similar to previous periods and results in an estimated underspend of £935k for day to day activities.

Significantly, in other activities, PPP income for the year has been estimated at £9.4 million. The volatile electricity market and impact of any windfall tax create some uncertainty in this estimate and the value will only become clear in June 2023 when figures are finalised and paid over to the Authority. The 2023/24 Draft Budget report in today’s Authority agenda outlines how this will result in a payment to boroughs of approximately £1.0 million each in July 2023 and how the risks relating to the value of income described above will be managed.

High Level Summary

	P7 Budget £ 000s	P7 Actual £ 000s	P7 Variance £ 000s	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
Expenditure						
Employees	1,545	1,518	(27)	2,648	2,758	110
Premises	1,559	1,465	(93)	2,672	2,516	(156)
Waste Transfer and Disposal	28,909	28,031	(878)	49,558	48,059	(1,499)
MRF Waste Transfer and Disposal	1,253	1,132	(121)	2,148	2,027	(121)
Supplies and Services	699	641	(58)	1,198	1,098	(100)
Depreciation	5,722	6,107	385	9,809	10,469	660
Financing and Other	3,539	3,539	0	6,067	6,067	(0)
Concession Adjustment	(2,609)	(2,609)	0	(4,473)	(4,473)	0
	40,616	39,825	(792)	69,628	68,522	(1,106)
Income						
Levies	(37,655)	(37,064)	591	(64,552)	(63,538)	1,013
MRF Service Charge	(1,253)	(1,132)	121	(2,148)	(2,027)	121
Trade and Other	(1,241)	(1,816)	(575)	(2,128)	(3,092)	(964)
	(40,150)	(40,013)	137	(68,828)	(68,658)	170
Operational (Surplus) / Deficit	467	(188)	(655)	800	(135)	(935)
PPP Contract Income	(1,167)	0	1,167	(2,000)	(9,450)	(7,450)
HRRC Fund	700	0	(700)	1,200	1,200	0
Net (Surplus) / Deficit	0	(188)	(188)	0	(8,385)	(8,385)

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:

The residual waste variances in both PAYT and FCL activities are made up of reduced costs from lower than budgeted residual tonnages being partly offset by higher prices due to higher than budgeted inflation. The total residual waste underspend for the year is forecast at £1,063k and accounts for the majority of the day to day activities variance.

Another favourable variance relates to higher than budgeted level of trade and other income. This is expected to out-perform the budget by £964k by the year end.

Partly offsetting the above, depreciation charges are higher (£660k) as a result of the 2021/22 year end property valuations (an accounting requirement) which showed an increase in the value of assets.

Outside of day to day activities the forecast for the year for the improvements to HRRC's anticipates investments will be made by the year end by borough colleagues.

The PPP income forecast of £9,450k is the final most significant variance. The forecast is based on market electricity prices continuing at the present high rates and allowing for a 25% windfall tax. Electricity prices are volatile and the impact of any windfall tax unclear, so the level of income is subject to a high degree of uncertainty. The sum due will only become clear when finalised by the contractor in June 2023, when monies will be received by the Authority.

Note that when funds are received, they will be shared with boroughs in accordance with the Finance Strategy, so two thirds will pass through to boroughs. The payment is budgeted in the 2023/24 draft budget report, elsewhere on today's Authority agenda.

2. KPIs for 2022/23

Appendix 2 summarises the performance to the end this period.

Most indicators are on target (green) and the performance is reflected in the RAG rating and commentary. There are two red indicators.

Turnaround times are slower than target and are a result of a combination of factors including a crane failure, rail strikes and diversion of waste to manage planned maintenance at SERC.

Food waste per person is also below target. Six borough food projects were expected to be in operation, however three have been slow in commencing and in overall terms not enough residents are using the food waste services that are there. This coupled with the potential impact of the cost of living crises reducing the amount of food waste produced by people means that it is unlikely the performance will recover this year.

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.

There were none

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Appendix 1

Pay As You Throw	2022-23 YTD Period 7				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	22,689	22,340	(349)	Lower residual volumes partially offset by high prices	38,896	38,297	(599)	forecasts based on current level of activity
Waste - Food	229	190	(39)	Tonnages collected are 18% lower than budget.	392	325	(67)	forecasts based on current level of activity
Waste - Mixed Organic	0	0	0		0	0	0	
Waste - Green	1,089	911	(178)	Lower volumes likely due to dry summer	1,866	1,561	(305)	forecasts based on current level of activity
Waste - Other	408	428	21		699	734	35	
Depreciation	4,898	5,302	404	Higher costs in line with revaluations carried out in Mar22.	8,396	9,088	692	Higher costs in line with revaluations.
Financing	659	659	0		1,129	1,129	0	
Premises	812	812	0		1,392	1,392	0	
Concession Accounting Adjustment	(2,239)	(2,239)	0		(3,838)	(3,838)	0	
Levy Income	(29,418)	(28,826)	591		(50,430)	(49,416)	1,014	
PAYT Net Expenditure	(874)	(424)	449		(1,498)	(728)	769	
Fixed Cost Levy	2022-23 YTD Period 7				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	1,545	1,518	(27)	Vacancies across organisation as staff members have left.	2,648	2,758	110	Overspend due to new starters and higher agency costs to cover vacant posts.
Premises	747	653	(93)		1,280	1,125	(156)	
Waste - Residual	3,288	3,017	(271)		5,637	5,173	(464)	forecasts based on current level of activity
Waste - Green	162	202	40		278	346	68	
Waste - Wood	487	348	(139)	Tonnages lower than budgeted	835	597	(238)	forecasts based on current level of activity
Waste - Other	557	595	38		955	1,025	71	
Waste - MRF	1,253	1,132	(121)	Nets out with income below.	2,148	2,027	(121)	
Supplies and Services	699	641	(58)		1,198	1,098	(100)	
Depreciation	824	806	(19)		1,413	1,381	(32)	Higher costs in line with revaluations.
Financing	2,319	2,319	0		3,976	3,976	(0)	
Revenue Funding of Debt	561	561	0		962	962	0	
Concession Accounting Adjustment	(370)	(370)	0		(635)	(635)	0	
Trade Waste and Other Income	(1,241)	(1,816)	(575)	generating more trade income than budgeted	(2,128)	(3,092)	(964)	
MRF Income	(1,253)	(1,132)	121	Nets out with costs above.	(2,148)	(2,027)	121	
Levy Income	(8,238)	(8,238)	(0)		(14,122)	(14,122)	(0)	
Fixed Cost Levy Net Expenditure	1,340	236	(1,104)		2,298	593	(1,705)	
PPP Contract Income	(1,167)	0	1,167	Notional budget figure.	(2,000)	(9,450)	(7,450)	high electricity prices
HRRRC fund	700	0	(700)		1,200	1,200	0	boroughs utilise all funds
	(467)	0	467		(800)	(8,250)	(7,450)	
Total Income & Expenditure	0	(188)	(188)		0	(8,385)	(8,385)	

Appendix 2

Key Performance Indicators 22/23							
KPI	22/23 Target	Red Threshold	Description	Commentary about target	Cumulative		
					Oct-22	Commentary about performance	
Keep Waste Moving							
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.	99.9%	
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.	11.4%	Ongoing crane reliability issues at Victoria Road, Rail strikes increasing waste stocks on the site and reducing capacity for tipping
Increase Efficiency							
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.	£93.27	
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.	£27.72	
Divert From Waste							
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.	24.77	
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.	19.88	
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.	1.57	3 boroughs food projects not commenced and residents not using servicers that are there
Effective Control							
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	TBC	
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.	2.5%	
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.	1.4%	
11	Paying suppliers promptly	30	> 32 days = Red	Average number of days to pay suppliers in the month.	Statutory level	28.8	
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.	0.2%	
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.	1.00	
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	