

## Finance Update

### 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 forecast annual position includes an estimate of PPP contract income and two thirds disbursement to boroughs.
- Operational performance is shown in the KPIs and is largely on track with two key exceptions 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 £786k compared to budget. The key variance is an underspend of £862k for Waste Transfer and Disposal costs which is largely from lower than budgeted volumes of residual waste. This is also reflected in the variance in levies which shows boroughs are paying £632k 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 £955k 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. At that time two thirds will be passed on to boroughs in accordance with the Finance Strategy and as outlined in the 2023/24 Draft Budget.

## High Level Summary

	P8 Budget £ 000s	P8 Actual £ 000s	P8 Variance £ 000s	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
<b>Expenditure</b>						
Employees	1,766	1,721	(45)	2,648	2,744	96
Premises	1,781	1,654	(128)	2,672	2,490	(182)
Waste Transfer and Disposal	33,039	32,177	(862)	49,558	48,270	(1,288)
MRF Waste Transfer and Disposal	1,432	1,309	(123)	2,148	2,025	(123)
Supplies and Services	799	724	(75)	1,198	1,090	(108)
Depreciation	6,539	6,980	440	9,809	10,469	660
Financing and Other	4,045	4,034	(11)	6,067	6,056	(11)
Concession Adjustment	(2,982)	(2,982)	0	(4,473)	(4,473)	0
	<b>46,419</b>	<b>45,616</b>	<b>(802)</b>	<b>69,628</b>	<b>68,673</b>	<b>(955)</b>
<b>Income</b>						
Levies	(43,035)	(42,403)	632	(64,552)	(63,604)	948
MRF Service Charge	(1,432)	(1,309)	123	(2,148)	(2,025)	123
Trade and Other	(1,419)	(2,157)	(739)	(2,128)	(3,199)	(1,071)
	<b>(45,885)</b>	<b>(45,869)</b>	<b>16</b>	<b>(68,828)</b>	<b>(68,828)</b>	<b>(0)</b>
<b>(Surplus) / Deficit</b>	<b>533</b>	<b>(253)</b>	<b>(786)</b>	<b>800</b>	<b>(155)</b>	<b>(955)</b>
PPP Contract Income	(1,333)	0	1,333	(2,000)	(9,450)	(7,450)
HRRC Fund	800	0	(800)	1,200	1,200	0
<b>Net (Surplus) / Deficit</b>	<b>0</b>	<b>(253)</b>	<b>(253)</b>	<b>0</b>	<b>(8,405)</b>	<b>(8,405)</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:

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 £1,288k and accounts for the majority of the day to day activities variance. This is the main driver of the reduced PAYT levies payable by boroughs of £948k.

Another favourable variance relates to higher than budgeted level of trade and other income. This is expected to out-perform the budget by £1,071k by the year end with a key driver being the closure of a local commercial competitor's site.

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.

## 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 will continue to be lower than target and are a result of a combination of factors. In particular the impact of ongoing rail strikes, but also including a short term impact of a crane failure and diversion of waste to manage planned maintenance at SERC in the summer.

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.

Also worth noting is the people development indicator which has been flagged as amber. The indicator shows an improvement in performance on 2021/22 however it is unlikely to meet the target set for 2022/23. An exercise is currently in progress to ensure all the data has been gathered and included in the performance statistic.

## 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 was one delegated decision as detailed in the Part 2 paper later in today's agenda.

## 4. Financial implications / risk

The financial implications are as detailed in the report. For financial risks, if they materialise they will be reflected in an overspend or shortfall of income and ultimately an overall deficit. These key risks (i.e. the deficit) are managed through reserves as established in our Finance Strategy. Essentially the reserves are an amount is set aside to deal with the risks should they materialise.

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## Appendix 1

Pay As You Throw	2022-23 YTD Period 8				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	25,931	25,949	18	Lower residual volumes partially offset by high prices Tonnes collected are 18% lower than budget.	30,896	30,798	(99)	forecasts based on current level of activity
Waste - Food	261	218	(44)	This time last year tonnages collected were 12% lower than budget.	392	326	(66)	forecasts based on current level of activity
Waste - Mixed Organic	0	0	0		0	0	0	
Waste - Green	1,244	1,050	(195)	Lower volumes likely due to dry summer	1,866	1,574	(292)	forecasts based on current level of activity
Waste - Other	466	283	(183)		699	424	(275)	
Depreciation	5,597	6,059	461	Higher costs in line with revaluations carried out in Mar22.	8,396	9,088	692	Higher costs in line with revaluations.
Financing	753	753	0		1,129	1,129	0	
Premises	928	928	0		1,392	1,392	0	
Concession Accounting Adjustment	(2,559)	(2,559)	0		(3,838)	(3,838)	0	
Levy Income	(33,620)	(32,988)	632		(50,430)	(49,482)	948	
<b>PAYT Net Expenditure</b>	<b>(998)</b>	<b>(309)</b>	<b>690</b>		<b>(1,498)</b>	<b>(589)</b>	<b>909</b>	

  

Fixed Cost Levy	2022-23 YTD Period 8				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	1,766	1,721	(45)	Vacancies across organisation as staff members have left. MAT leave pay in effect resulting in further savings against budget.	2,648	2,744	96	Overspend due to new starters and higher agency costs to cover vacant posts. Staff members returning back from MAT leave. Back dated pay award
Premises	854	726	(128)		1,280	1,099	(182)	
Waste - Residual	3,758	3,097	(661)		5,637	4,771	(866)	forecasts based on current level of activity
Waste - Residual (Adjustments)		583				1,000		moved to tie in with weekly reports that Tom reports
Waste - Green	185	262	77		278	393	115	
Waste - Wood	557	567	10	Tonnages lower than budgeted	835	850	15	forecasts based on current level of activity
Waste - Other	636	753	116		955	1,134	179	
Waste - MRF	1,432	1,309	(123)	Nets out with income below.	2,148	2,025	(123)	
Supplies and Services	799	724	(75)		1,198	1,090	(108)	
Depreciation	942	921	(21)		1,413	1,381	(32)	Higher costs in line with revaluations.
Financing	2,651	2,640	(11)		3,976	3,965	(11)	
Revenue Funding of Debt	641	641	0		962	962	0	
Concession Accounting Adjustment	(423)	(423)	0		(635)	(635)	0	
Trade Waste and Other Income	(1,419)	(2,157)	(739)	generating more trade income than budgeted	(2,128)	(3,199)	(1,071)	
MRF Income	(1,432)	(1,309)	123	Nets out with costs above.	(2,148)	(2,025)	123	
Levy Income	(9,415)	(9,415)	(0)		(14,122)	(14,122)	(0)	
<b>Fixed Cost Levy Net Expenditure</b>	<b>1,532</b>	<b>56</b>	<b>(1,476)</b>		<b>2,298</b>	<b>434</b>	<b>(1,864)</b>	

  

<b>(Surplus) / Deficit</b>	<b>533</b>	<b>(253)</b>	<b>(786)</b>		<b>800</b>	<b>(155)</b>	<b>(955)</b>	
PPP Contract Income	(1,333)	0	1,333	Notional budget figure.	(2,000)	(9,450)	(7,450)	Estimating income from PPP contract at year end of £9.45m of which £6.3m will be
HRRC fund	800	0	(800)		1,200	1,200	0	boroughs utilise all funds to make improvements
	<b>(533)</b>	<b>0</b>	<b>533</b>		<b>(800)</b>	<b>(8,250)</b>	<b>(7,450)</b>	

## Appendix 2

Key Performance Indicators 22/23							Cumulative
KPI	22/23 Target	Red Threshold	Description	Commentary about target	Nov-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.	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.	10.3%	Ongoing crane reliability issues at Victoria Road, a medium term fix is being put in place. Rail strikes increasing waste stocks on the site and reducing capacity for tipping
<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.	£92.86	
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.	£27.75	
<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.	24.91	
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.	20.04	
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.	1.50	3 boroughs food projects not commenced and impact of cost of living crises reducing food waste
<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	295.00	A check is being undertaken to ensure all the data has been collated. The current data shows that the performance for 22/23 will exceed the 21/22 performance of 338 but may be below the target.
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.	5.0%	
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 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	30.4	
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.	0.3%	
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	