

Finance Update January 2023

SUMMARY

This report provides an update on financial and operational matters. The key points are:

- Day to day financial performance is as reported throughout the year with lower than budgeted waste volumes accounting for the majority of the variance from operational activities.
- In other financial activities, the forecast annual position includes an estimate of PPP contract income with the two thirds disbursement to boroughs.
- Also in other financial activities, there is a recommendation to roll over any borough's unused HRRC funding into 2023/24
- 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 financial position and forecast for 2022/23
- 2) Approve a reserve to carry forward unspent HRRC funding so it remains available for boroughs to use in 2023/24
- 3) Note the KPIs
- 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 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 £1.2m compared to budget. The key variance is an underspend of £1.6m 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 £986k less than was budgeted for their waste, year to date.

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 £1.7m 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.

High Level Summary

	P10 Budget £ 000s	P10 Actual £ 000s	P10 Variance £ 000s	Full Year Budget £ 000s	Full Year Forecast £ 000s	Full Year Variance £ 000s
Expenditure						
Employees	2,207	2,221	14	2,648	2,700	52
Premises	2,227	2,065	(162)	2,672	2,479	(193)
Waste Transfer and Disposal	41,298	39,730	(1,568)	49,558	47,679	(1,879)
MRF Waste Transfer and Disposal	1,790	1,657	(133)	2,148	2,015	(133)
Supplies and Services	999	875	(123)	1,198	1,059	(139)
Depreciation	8,174	8,724	550	9,809	10,469	660
Financing and Other	5,056	5,045	(11)	6,067	6,056	(11)
Concession Adjustment	(3,728)	(3,728)	0	(4,473)	(4,473)	0
	58,023	56,591	(1,432)	69,628	67,985	(1,643)
Income						
Levies	(53,793)	(52,807)	986	(64,552)	(63,368)	1,184
MRF Service Charge	(1,790)	(1,657)	133	(2,148)	(2,015)	133
Trade and Other	(1,773)	(2,696)	(922)	(2,128)	(3,211)	(1,083)
	(57,357)	(57,159)	197	(68,828)	(68,594)	234
(Surplus) / Deficit	667	(568)	(1,235)	800	(609)	(1,409)
PPP Contract Income	(1,667)	0	1,667	(2,000)	(9,450)	(7,450)
HRRC Fund	1,000	232	(768)	1,200	702	(498)
Disbursement to boroughs	0	0	0	0	6,300	6,300
Net (Surplus) / Deficit	0	(336)	(336)	0	(3,057)	(3,057)

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 £1.3m 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 £1.2m.

Another favourable variance relates to higher than budgeted level of trade and other income. This is expected to out-perform the budget of £2.1m by £1.1m 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 previous year end property valuations (an accounting requirement) which showed an increase in the value of assets. These variations arise because of a timing difference - the budget is set in January, two months before the year end valuations which are used to calculate the actual depreciation.

Outside of day to day activities the forecast for the year for the improvements to HRRC's anticipates not all the £200,000 investment will be made by borough colleagues by the year end. In consultation with Environment Directors, there is confirmation that plans are in place and there is progress. Therefore borough Environment Directors have requested any unused funding to roll forward into 2023/24. Officers are supportive on the basis that work has already commenced at most borough HRRCs and there is assurance that the funds will be used to make improvements the HRRCs. On this basis any unspent HRRC funding will be set aside in reserves for boroughs' plans.

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. It should be noted that this total forecast income comprises of our share of income from increased volumes of third party waste (i.e. from Suez's other customers) delivered at SERC as well as the windfall gain from higher electricity prices.

The sum due will only become clear when finalised by the contractor in June 2023, when monies will be received by the Authority. This will incorporate any adjustment for windfall tax, which at the time of writing have yet to be published. Note that when funds are received, they will be shared with boroughs in accordance with the Finance Strategy, so two thirds will be passed through to boroughs promptly.

2. KPIs for 2022/23

Appendix 2 summarises the performance to the end of the period as at February 2023.

Most indicators are on target (green) and the performance is reflected in the RAG rating and commentary. There is one amber indicator, and one red – both have been discussed in further detail below.

Turnaround times will continue to be lower than target and are a result of a combination of factors. However there is an improvement on the performance since this was last reported. The KPI will be lower than target due to the impact of rail strikes that have occurred, and also due to 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. The current capture of food including borough projects tracking has been below expected. However we have seen an improvement from the last reported position. This is due to the remaining boroughs mobilising their food waste projects.

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 are no delegated decisions to report.

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. The Authority regularly reviews the level of reserves required to manage risk.

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Appendix 1

Pay As You Throw	2022-23 YTD Period 10				2022-23 Full Year Forecast			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	32,414	32,183	(231)	Lower residual volumes partially offset by high prices	38,896	38,619	(277)	Forecasts based on current level of activity.
Waste - Food	327	273	(54)	Tonnages collected are 18% lower than budget. This time last year tonnages collected were 12% lower than budget.	392	328	(64)	Forecasts based on current level of activity.
Waste - Mixed Organic	0	0	0		0	0	0	
Waste - Green	1,555	1,180	(375)	Lower volumes likely due to dry summer	1,866	1,416	(450)	Forecasts based on current level of activity.
Waste - Other	582	323	(260)		699	387	(311)	
Depreciation	6,997	7,574	577	Higher costs in line with revaluations carried out in Mar22.	8,396	9,088	692	Higher costs in line with revaluations.
Financing	941	941	0		1,129	1,129	0	
Premises	1,160	1,160	0		1,392	1,392	0	
Concession Accounting Adjustment	(3,198)	(3,198)	0		(3,838)	(3,838)	0	
Levy Income	(42,025)	(41,039)	986		(50,430)	(49,246)	1,184	
PAYT Net Expenditure	(1,248)	(604)	644		(1,498)	(725)	773	

Fixed Cost Levy	2022-23 YTD Period 10				2022-23 Full Year Forecast			
	Budget	Actual	Variance	Commentary	Budget	Estimate	Variance	Commentary
	£ 000s	£ 000s	£ 000s		£ 000s	£ 000s	£ 000s	
Employees	2,207	2,221	14		2,648	2,700	52	higher agency costs to cover vacant posts and MAT cover
Premises	1,067	905	(162)		1,280	1,088	(193)	
Waste - Residual	4,697	3,865	(833)		5,637	4,638	(999)	Forecasts based on current level of activity.
Waste - Green	232	315	83		278	378	100	
Waste - Wood	696	675	(21)	Tonnages lower than budgeted.	835	810	(25)	Forecasts based on current level of activity.
Waste - Other	795	917	122		955	1,103	149	
Waste - MRF	1,790	1,657	(133)	Nets out with income below.	2,148	2,015	(133)	
Supplies and Services	999	875	(123)		1,198	1,059	(139)	
Depreciation	1,178	1,151	(27)		1,413	1,381	(32)	
Financing	3,313	3,303	(11)		3,976	3,965	(11)	
Revenue Funding of Debt	802	802	0		962	962	0	
Concession Accounting Adjustment	(529)	(529)	0		(635)	(635)	0	
Trade Waste and Other Income	(1,773)	(2,696)	(922)	Generating more trade income than budgeted. Closure of neighbouring commercial sites has boosted income.	(2,128)	(3,211)	(1,083)	
MRF Income	(1,790)	(1,657)	133	Nets out with costs above.	(2,148)	(2,015)	133	
Levy Income	(11,768)	(11,768)	(0)		(14,122)	(14,122)	(0)	
Fixed Cost Levy Net Expenditure	1,915	36	(1,879)		2,298	116	(2,182)	

PPP Contract Income	(1,667)	0	1,667	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 paid to boroughs - will only be finalised by the contractor in June 23.
Disbursement to boroughs	0	0	0		0	6,300	6,300	
HRRC fund	1,000	232	(768)		1,200	702	(498)	Boroughs pipeline spend (Estimated costs)
	(667)	232	899		(800)	(2,448)	(1,648)	

Appendix 2

Key Performance Indicators 22/23

						11			
						Cumulative			
KPI		22/23 Target	Red Threshold	Description	Commentary about target	Feb-23	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.	7.3%	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 - however the cumulative percentage has seen an improvement to prior months.		
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.	£92.08			
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.	£26.76			
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.	24.22			
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.	19.71			
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	Current capture of food including borough projects tracking below expected. Anticipated to increase as additional boroughs roll out their food projects.		
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	493.00			
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.	15.0%			
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.	2.5%			
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	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			