



Dorset Waste Partnership Joint Committee

Date of Meeting	13 June 2016
Officers	Treasurer to the Dorset Waste Partnership and Finance and Commercial Manager, Dorset Waste Partnership
Subject of Report	Financial Report June 2016
Executive Summary	<p>This report presents and discusses the following -</p> <p><u>The 2015/16 revenue outturn</u> (including garden and trade waste trading accounts), which shows <u>an underspend</u> of £519,584 (around 1.6% on an original budget of £32.456M agreed by the Joint Committee in January 2015). This continues the recent trend of a more optimistic financial position against the budget. The report discusses the factors that occurred in the final stages of 2015/16 which have caused the budget to be underspent when previous projections suggested an overspend.</p> <p>In summary –</p> <ul style="list-style-type: none"> • Trade waste income was more buoyant than the last prediction; • Recyclate prices (cost) fell, unexpectedly, from around £20 / tonne to around £13 / tonne at the end of the year; • Tonnages of waste arising were lower than expected in February and March; and • Capital financing charges were significantly lower than expected due to further slippage on infrastructure schemes and the delivery of vehicles in early 2016/17,

	<p>rather than, as previously expected, the final quarter of 2015/16.</p> <p>The most significant areas of adverse variation from budget, which have previously been highlighted to the Joint Committee, were:</p> <table data-bbox="520 454 1166 622"> <tr> <td>Vehicle Hire</td> <td>£390k</td> </tr> <tr> <td>Garden Waste</td> <td>£312k</td> </tr> <tr> <td>Waste disposal costs (tonnages) including recyclate costs</td> <td>£199k</td> </tr> <tr> <td>Savings not achieved</td> <td>£370k</td> </tr> </table> <p>The most significant areas of favourable variation were –</p> <table data-bbox="520 723 1166 824"> <tr> <td>Fuel costs</td> <td>£280k</td> </tr> <tr> <td>Trade Waste</td> <td>£286k</td> </tr> <tr> <td>Capital charges</td> <td>£960k</td> </tr> </table> <p><u>Final capital expenditure for 2015/16</u> - Expenditure of £3.516M was incurred during 2015/16 against an approved capital budget of £5.915M as agreed at Joint Committee January 2015.</p> <p><u>Discontinuation of the 1% reserve</u> – Under the previous Inter Authority Agreement there was a requirement to maintain a reserve equivalent to 1% of the current budget ostensibly to smooth, to an extent, year-end overspends. However the requirement to maintain the reserve at 1% implied immediate top up by partners in the event of some or all of the reserve being called upon, negating the smoothing originally intended. Therefore, in anticipation of the formal adoption by all partners of the updated Inter Authority Agreement, the report discusses the discontinuation of this reserve.</p> <p><u>Establishment of a budget equalisation reserve</u> – Notwithstanding the fact that partners make their own contingencies for budget variations it is still felt to be prudent to establish a ‘Budget Equalisation’ reserve and the report discusses and recommends how this can be achieved.</p> <p><u>2016/17 budget forecast</u> – Based on limited early 2016/17 data, an indication of the 2016/17 projection against the agreed budget is given. It suggests that the budget for 2016/17 is projected to be underspent by £546k.</p> <p>(An updated Medium Term Financial Plan is presented as a separate report on the agenda for this meeting)</p>	Vehicle Hire	£390k	Garden Waste	£312k	Waste disposal costs (tonnages) including recyclate costs	£199k	Savings not achieved	£370k	Fuel costs	£280k	Trade Waste	£286k	Capital charges	£960k
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<p>Impact Assessment:</p>	<p>Equalities Impact Assessment:</p> <p>This report contains no new proposals and has no equalities implications.</p>														

	<p>Use of Evidence:</p> <p>The report is based on data from the County Council's financial system and the management information systems used by the Dorset Waste Partnership. This is supplemented by information from service managers where necessary.</p> <hr/> <p>Budget:</p> <p>The final outturn for 2015/16 was £520k (around 1.6%) underspent on an original budget of £32.456m.</p> <p>Capital expenditure for 2015/16 was £3.516m against an approved budget of £5.915m.</p> <p>A revenue budget of £34.205m was agreed by the DWP Joint Committee for 2016/17. Early budget monitoring for 2016/17 shows that there is a forecast underspend of £546k.</p> <hr/> <p>Risk Assessment:</p> <p>Having considered the risks associated with this information using the County Council's approved risk management methodology, the level of risk has been identified as:</p> <p>Current Risk: HIGH Residual Risk HIGH</p> <hr/> <p>Other Implications:</p> <p>None</p>
<p>Recommendations</p>	<ol style="list-style-type: none"> 1) To note the outturn position for 2015/16. 2) To note the final capital expenditure position for 2015/16. 3) To approve the discontinuation of the 1% reserve, in anticipation of the adoption of the new Inter Authority Agreement, and return appropriate shares to partners in accordance with Appendix 3. 4) To transfer the 2015/16 revenue underspend of £519,584 to a Budget Equalisation Reserve. 5) To note the early 2016/17 budget forecast.
<p>Reason for Recommendations</p>	<p>The Joint Committee monitors the Partnership's performance against budget and scrutinises actions taken to manage within budget on behalf of partner Councils.</p>

<p>Appendices</p>	<p>Appendix 1 - Detail of spend by area (2015/16) Appendix 2 - Underspend - actual shares by partner for 2015/16 Appendix 3 - Shares of 1% reserve by partner Appendix 4 - Trade Waste trading account 2015/16 EXEMPT APPENDIX NOT FOR PUBLICATION Appendix 5 - Garden Waste trading account 2015/16</p>
<p>Background Papers</p>	<p>None</p>
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1. Background

- 1.1 The Dorset Waste Partnership has now completed its fifth year of operation. The Recycle for Dorset service has now been rolled out to all 201,000 properties in Dorset.

2. Budget Outturn for 2015/16

- 2.1 The 2015/16 revenue budget outturn (including garden and trade waste trading accounts) produced an underspend of £519,584 (around 1.6%), on an original budget of £32.456M, agreed by the Joint Committee in January 2015. This continues the recent trend of a more optimistic financial position against the budget. The factors that occurred in the final stages of 2015/16 which has caused the budget to be underspent, when previous reports still suggested a small overspend, are discussed below.
- 2.2 Vehicle Hire - This budget was set at £252k for the year 2015/16, pending the purchasing and delivery of the remaining domestic fleet vehicles and the street cleansing fleet. The final overspend, compared to the original budget, was due to the delays in the procurement and delivery of street cleaning vehicles and the hire of narrow access vehicles whilst they are being replaced. The overspend was £390k. It should be noted that there is some underspend in the capital charges budget where procurement has been delayed, which more than off-sets this (see Paragraph 2.20).
- 2.3 Leasing costs in relation to vehicles at Weymouth (Crookhill) depot, leased under the previous SFS contract arrangement have seen a favourable financial position of £146k against the estimate, partly from vehicles being returned early
- 2.4 Waste disposal tonnages and mix were more favourable in February and March than previously forecast. Data for the full 12 months now shows an underspend against budget of £49k.

- 2.5 Garden Waste service trading account – Joint Committee will be aware from previous reports of a potential adverse variance arising from a shortfall of income against the budget and additional resources that were required with the rollout of the service in the tranche 5 areas in western Dorset. There was, therefore, a shortfall of £312k against the budget. Whilst this adverse variance is not welcome news, it is important to note that the actual income level has increased by about £256k from the last financial year, and growth of customer numbers continues. Details of the Garden Waste trading account can be seen at Appendix 5 to this report. Appendix 5 demonstrates a contribution to overheads of almost £245k, before disposal costs.
- 2.6 General Training Costs – Were previously predicted to equal the budget, but the year-end position showed an underspend of £22k.
- 2.7 Management and Administration costs were expected to reduce following the implementation of a new staffing structure from 1st September 2015. There were a number of vacancies both before and after the implementation date, resulting in a savings of around £38k. In addition, there were small underspends across a broad range of central DWP budgets including supplies and services and property related costs, resulting in a total beneficial financial effect of around £223k. This excludes the additional interim management costs that have been incurred during the year (see next paragraph).
- 2.8 Unbudgeted interim management and HR costs were £183k.
- 2.9 Bournemouth depot – there was a delay in moving from Christchurch depot facilities to the Southcote Road depot in Bournemouth. The move was completed in mid-October 2015, incurring additional costs of £16k.
- 2.10 The December 2014 and May 2015 RPI's were lower than the 2015/16 budget assumption, which has brought favourable price variances against elements of the budget including management fees, haulage costs, landfill gate fees and composting gate fees. The benefit of this was £105k.
- 2.11 Recyclate material - increased costs. The Joint Committee are reminded that the 2015/16 budget was set to reflect that such material, which previously generated an income, was now costing (on average) £10 per tonne. The pattern of costs in 2015/16 have seen a sharp increase up to £28 per tonne for disposal at the start of the year, followed by a number of significant fluctuations. The price reduced to around £13 per tonne at the end of the year. Therefore additional costs of £245k against the budget were incurred. It is also important to note that the DWP has been successful in avoiding costs in this area through proactive price negotiation in a time of adverse market conditions.
- 2.12 Operational resources - were £13k below the budgeted figure. This is after the saving of £100k has been achieved in relation to the target for improved absence/sickness in the operational workforce.
- 2.13 The recycling initiatives budget – was previously predicted to equal the budget, but the year-end position showed savings of £22k.
- 2.14 Fuel costs – The trend of reduced fuel costs continued right up to the year-end producing a favourable variance of £280k.
- 2.15 Implementation budget – There was a final underspend of £28k following the completion of the roll out of the Recycle for Dorset service.

- 2.16 Sherborne Waste Management centre costs re tranche 4 - An additional unbudgeted cost of £12k was incurred.
- 2.17 Redundancy costs – Following a management restructuring process a few members of staff had, unfortunately, not been offered a post in the new staffing structure. As is normal practice, efforts were made to redeploy those that have been identified for compulsory redundancy during the period that ran from June until August 2015 with some success. The cost was £111k, which is cost shared in the normal way. This cost should be seen as outside of normal service delivery.
- 2.18 Household Recycling Management Fees - were previously predicted to equal the budget, but the year-end position showed an underspend of £24k.
- 2.19 Trade waste activities were particularly buoyant and exceeded previously overly pessimistic forecasts. An improved contribution to overheads of £286k over and above the budgeted level was achieved.
- 2.20 Capital Charges – Very little cost was actually incurred on infrastructure works, and expected fees and preliminary works in relation to the proposed Blandford Waste Management Centre were not incurred, pending approval of the business case to proceed (elsewhere on the Joint Committee agenda of today's date). In addition, capital financing charges in respect of expected vehicle purchases were much less than previously forecast as the delivery of new mechanical sweepers and caged tippers having slipped into 2016/17. As a result, the revenue budget has seen a favourable variance of £960k in respect of capital financing costs. It should be noted that this expenditure is only postponed, as the Blandford scheme and vehicle/plant purchase and delivery are still expected.
- 2.21 Part of the 2015/16 revenue budget was the need to achieve £1.136M of savings on a number of areas of operation. £766k of savings were secured but, as previously reported, £370k of savings were not achievable.
- 2.22 The items discussed above and underlined totals the year end underspend of £519,584.
- 2.23 The major items of variance against budget are summarised in the table below, together with a comparison of the February 2016 predictions –

Item	Final 2015/16 variance £k	Prediction of variance as at February 2016 £k
Vehicle Hire	390	240
Vehicle lease costs – SFS contract	-146	-175
Extra tonnage of materials collected.	-49	57
Garden Waste contribution to overheads	312	192
General training costs	-22	0
Interim management costs	183	200

Bournemouth depot delay	16	16
December / May RPI – favourable variances	-105	-105
Recyclate material costs	245	199
Operation resources	-13	-62
Savings on Recycling Initiatives budget	-22	0
Fuel costs – favourable variance	-280	-200
Balance of Implementation budget	-28	0
Sherborne Waste Management claim – additional cost	12	12
Redundancy Costs	111	113
Management & Admin salaries underspend due to vacancies	-223	-30
HRC management fees	-24	0
Trade Waste trading account	-286	-21
Favourable capital charges	-960	-450
Savings not achievable	370	370
Total	-519	356

2.24 Further detail on areas of spend is given in Appendix 1, with the proportion of the overall underspend attributable to each partner shown on Appendix 2. The Trade Waste and Garden Waste trading accounts are shown at Appendix 4 and 5 respectively.

3. Final capital spend for 2015/16

- 3.1 The financial year 2015/16 saw just over £3.5m of capital expenditure incurred. This is considerably less than the £4.7m that was forecast in December 2015. Further details of specific items are given further below in paragraph 3.3.
- 3.2 Actual capital expenditure incurred in 2015/16 is shown in the table below, together with the most recent forecast of expenditure was reported to Joint Committee in December 2015.

**Forecast of capital spend as per
Joint Committee December 2015:**

	£	Actual final spend 2015/16: £
Infrastructure	432,200	15,000
r4D containers	476,543	715,902
Garden Waste containers	129,200	69,911
Commercial Waste containers	83,000	50,946
Vehicles - non r4D rollout	1,791,541	872,784
Vehicles - r4D rollout	1,789,058	1,791,258
	<u>4,701,542</u>	<u>3,515,801</u>

3.3 Infrastructure spend was minimal, at just £15k, as the DWP property team were primarily focused on the completion of the new site at Broomhills. The unspent balance will be rolled forward into 2016/17 and a programme of work devised to address infrastructure issues around closed landfill sites, Household Recycling Centres and existing depots.

3.4 The purchase of containers for the Recycle for Dorset rollout has now concluded. At first glance, looking at 2015/16 container spend in isolation, it may appear as if capital spend on containers has been higher than anticipated. In fact, when viewed over the four year rollout period, spend has been less than estimated, with the total spend for the rollout period being £7.5m compared to the almost £8m as originally estimated. This can be seen in the tables below. The first table is taken from the Joint Committee report of October 2013 of expected container spend over the four year period. The second table is actual spend on containers over the same period.

Projection of container spend as at October 2013:

	2012-13	2013-14	2014-15	2015-16	Total
	£	£	£	£	
r4d Containers	2,114,506	2,101,652	2,509,377	290,000	7,015,535
Garden Waste containers	455,054	219,057	199,857	90,000	963,968
					7,979,503

Actual container spend over same period:

	2012-13	2013-14	2014-15	2015-16	Total
	£	£	£	£	
r4d Containers	2,114,506	2,101,652	1,623,822	715,902	6,555,882
Garden Waste containers	455,054	219,057	164,073	69,911	908,095
Trade Waste containers	-	-	13,488	50,946	64,434
					7,528,411

3.5 For 2016/17 onwards, the capital programme includes a sum of around £0.5m for container purchases, to deal with new housing growth as well as stock replacement.

3.6 Containers for the Garden Waste service and the Commercial Waste service are ordered according to customer demand, and the resultant capital charges are charged to those trading accounts.

3.7 Vehicles purchased during the year include seven 26t RCVs and ten food waste trucks for the later stages of the Recycle for Dorset rollout. In addition, a fleet of twelve small caged vehicles arrived shortly before year-end, and nine medium sized caged vehicles that had been anticipated to arrive in financial year 2015/16 have now slipped into 2016/17.

4. Discontinuation of the 1% Reserve

4.1 Under the previous Inter Authority Agreement there was a requirement to maintain a reserve equivalent to 1% of the current budget ostensibly to smooth, to an extent, year-end overspends. The level of the reserve is currently £325k and the share attributable to each partner is shown in Appendix 3.

4.2 However the requirement to maintain the reserve at 1% implied immediate top up by partners in the event of some or all of the reserve being called upon, negating the smoothing originally intended.

4.3 Therefore, in anticipation of the formal adoption by all partners of the updated Inter Authority Agreement, which no longer contains a requirement for a 1% reserve, the Dorset Finance Officers Group are agreed that a 1% reserve, as previously operated, serves no useful purpose and can be discontinued. A recommendation is made to this effect.

4.4 Partner councils maintain their own contingencies and reserves for the services that they directly operate and for services that they obtain from third party suppliers (this would include the Waste Partnership). Therefore partners have made their own provision for unexpected adverse cost variations.

4.5 Section 5 of this report goes on to discuss the formation of a 'Budget Equalisation Reserve' instead of a 1% reserve previously described.

5. Establishment of 'Budget Equalisation' reserve

- 5.1 Notwithstanding the fact that partners make their own contingencies for budget variations it is still felt to be prudent to establish a 'Budget Equalisation' reserve.
- 5.2 Experience has shown that a number of elements of income and expenditure within the Waste Partnership's budget are particularly volatile and there is limited influence that the Waste Partnership can bring to bear on such items. Examples include recyclate prices, fuel costs, tonnages of waste arising and income that can be generated from trade and garden waste services.
- 5.3 The reserve can be used to smooth the effects of 'good' and 'bad' years, which is a pattern that is likely to continue for the foreseeable future.
- 5.4 Again, this concept has been supported by Dorset Finance Officers.
- 5.5 In future years recommendations can be brought to the Joint Committee on additions to or subtractions from the reserve, depending on the financial needs of the Waste Partnership and all partners prevalent at the time.
- 5.6 Therefore a recommendation is made to establish such a reserve using the underspend arising from 2015/16.

6. 2016/17 Budget forecast

- 6.1 Based on limited early 2016/17 data there is a forecast underspend for 2016/17 of £546k.
- 6.2 The table below shows the limited number of items where a variance has been identified –

Item	Significance (relative to the size of the overall budget)	Probability of occurrence	Current risk of variance £k	Notes / Management Action / Mitigation (where possible)
Support Service costs	Green	Highly Likely	9	Agreed additional support
Advertising costs	Green	Highly Likely	8	Need to advertise for Director
Savings from early route optimisation	Green	Highly Likely	-21	Additional saving
Recyclate price savings to date	Green	Possible	-67	Current price below assumed price

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HRC new contract	Green	Certain	-302	Favourable contract price
HRC contract – reduced winter hours	Green	Certain	-158	Joint Committee decision
Additional resources used on Garden Waste	Green	Possible	137	Close monitoring of resource required compared to take up of service being undertaken
Further slippage on Blandford Waste Management Centre	Green	Possible	-40	DWP managers to advance scheme as quickly as possible
Slippage on vehicle purchases	Green	Possible	-112	DWP managers to advance purchases as quickly as possible
TOTAL			-546	Forecast underspend

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