



## Dorset Waste Partnership Joint Committee

Date of Meeting	12 June 2017
Officers	Director of the Dorset Waste Partnership Treasurer to the Dorset Waste Partnership
<b>Subject of Report</b>	<b>Financial Report June 2017</b>
Executive Summary	<p>This report presents and discusses the following -</p> <p><u>The 2016/17 revenue outturn</u> (including garden and trade waste trading accounts), which shows <u>a favourable variance</u> of £3.002M (around 8.8% on an original budget of £34.2M). This continues the trend of an optimistic financial position against the budget. The report discusses the factors that occurred in the final stages of 2016/17 which have caused the budget to continue to be underspent, consistent with earlier forecasts presented to the Joint Committee.</p> <p>A summary of variances can be seen at Appendix 1 to this report.</p> <p><u>Final capital expenditure for 2016/17</u> - Expenditure of £3.289M was incurred during 2016/17 against an approved capital budget of £5.614M as agreed at Joint Committee October 2015.</p>

	<p><u>The budget equalisation reserve</u> – A budget equalisation reserve was established on closing the DWP accounts for 2015/16 to provide a “smoothing mechanism” for future potential year-end over and underspends, recognising that the DWP is subject to considerable uncontrollable risks in terms of, for example, market conditions relating to recycle prices / costs. Notwithstanding the fact that partners make their own contingencies for budget variations it was still felt to be prudent to establish a ‘Budget Equalisation’ reserve. This report makes a recommendation consistent with all partner officer’s advice around how the 2016/17 underspend of £3.002M should be distributed in terms of amounts returned to partners and an additional top up of the budget equalisation reserve for the reasons stated above.</p> <p><u>2017/18 budget forecast</u> – Based on very limited early 2017/18 data, an indication of the 2017/18 projection against the agreed budget is given. It suggests that the budget for 2017/18 is projected to be underspent by £264K, the main factor for which is a more favourable recycle price.</p> <p><u>Replacement ICT system</u> – Joint Committee are asked to approve the procurement and implementation of a replacement ICT system as described in paragraph 4.4, as a variation from the existing capital programme and revenue budget, subject to host authority acceptance of the business case and financing arrangements.</p>
<p>Impact Assessment:</p>	<p>Equalities Impact Assessment:</p> <p>This report contains no new proposals and has no equalities implications.</p> <hr/> <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 2016/17 was £3.002M (around 8.8%) underspent on an original budget of £34.2M.</p> <p>Capital expenditure for 2016/76 was £3.289M against an approved budget of £5.614M.</p> <p>A revenue budget of £33.1M was agreed by the DWP Joint Committee for 2017/18. Early budget monitoring for 2017/18 shows that there is a forecast underspend of £264K.</p>

	<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 around the 2017/18 budget has been identified as:</p> <p>Current Risk: HIGH Residual Risk: MEDIUM</p> <p>This assessment relates to the potential volatility of the revenue budget for 2017/18 where some factors (e.g. recycle costs, inflation and fuel) could move in an adverse direction for the remainder of the year.</p>
<p>Recommendations</p>	<p>Other Implications:</p> <p>None</p> <ol style="list-style-type: none"> <li>1) To note the outturn position for 2016/17.</li> <li>2) To note the final capital expenditure position for 2016/17.</li> <li>3) To transfer £480,416 of the 2016/17 revenue underspend of £3.002M to the Budget Equalisation Reserve.</li> <li>4) To return £2,521,885 of the 2016/17 revenue underspend of £3.002M to partners in accordance with the cost share mechanism set out in the Inter Authority Agreement.</li> <li>5) To approve the procurement and implementation of a replacement ICT system as described in paragraph 4.4, as a variation from the existing capital programme and revenue budget, subject to host authority acceptance of the business case and financing arrangements.</li> <li>6) To note the early 2017/18 budget forecast.</li> </ol>
<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 (2016/17) Appendix 2 - Underspend - actual shares by partner for 2016/17 Appendix 3 – Schedule of partner shares of the budget equalisation reserve and amounts proposed to be returned to partners in accordance with recommendations. Appendix 4 - Commercial Waste trading account 2016/17 (Not for publication – exempt information under paragraph 3 of schedule 12A Local Government Act 1972)</p>

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	<p>Appendix 5 - Garden Waste trading account 2016/17 – (Not for publication – exempt information under paragraph 3 of schedule 12A Local Government Act 1972)</p> <p>Appendix 6 – Key risks for the DWP budget 2017/18</p> <p>Appendix 7 – DWP Capital Programme</p> <p>Appendix 8 – ICT system financial evaluation</p> <p>Appendix 9 – 2016/17 financial performance infographic</p>
Background Papers	None
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## **1. Background**

- 1.1 The Joint Committee of 14 December 2015 agreed a revenue budget of £34.205m for 2016/17. This report sets out the details of the 2016/17 revenue outturn, and early budget monitoring for the 2017/18 revenue budget.
- 1.2 As the formal outturn report for 2016/17 this is a joint report of the DWP Director and DWP Treasurer.

## **2. Budget Outturn for 2016/17**

- 2.1 The 2016/17 revenue budget outturn (including garden and commercial waste trading accounts) produced a favourable variance of £3.002M (around 8.8%), on an original budget of £34.205m, agreed by the Joint Committee in December 2015. This is consistent with earlier forecasts of underspend reported to the Joint Committee. The major variances are discussed below. Financial performance for the year is illustrated on the infographic at Appendix 9.

### **Collection costs**

- 2.2 Vehicle Hire - This budget was set at £302k for the year 2016/17, and overspent by £48k. This was primarily due to difficulties experienced with introducing round changes in the East Dorset area.
- 2.3 Operational resources were £139k below the budgeted figure. The operations managers have been able to deliver savings through increased focus on absence management, management of agency spend, and closer budget monitoring.
- 2.4 Transport budgets underspent by £247k excluding the vehicle hire overspend mentioned above. This was primarily due to a very favourable fuel price for the majority of the year.

### **Disposal Costs**

- 2.5 The Joint Committee are aware of savings achieved under the new HRC contract (£302k) and due to the introduction of reduced winter opening hours (£158k). In addition, the waste disposal budget achieved a further underspend of £469k in respect of tonnages, gate fees and associated haulage costs. This was primarily due to the new arrangements for residual waste from HRCs that was introduced as part of the new contract.
- 2.6 Recyclate material - The Joint Committee are reminded that the 2016/17 budget was set to reflect that such material, which previously generated an income, was now costed at £20 per tonne. The pattern of costs in 2016/17 has generally been favourable, with the overall effect seeing a £467k favourable variance against budget.

### **Trading Accounts**

- 2.7 Appendix 4 shows the performance of the Commercial Waste trading account in detail, compared to previous years. An improved contribution to overheads of £505k, which is £456k over and above the budgeted level, was achieved.
- 2.8 Details of the Garden Waste trading account can be seen at Appendix 5 to this report. Appendix 5 demonstrates a contribution to overheads of £694k, which is almost £281k over and above the budgeted level, before disposal costs.

### Savings

- 2.9 The Joint Committee are already aware of the decision to change the assumption of asset life around containers (from 10 years to 15 years), which has saved £251k against the 2016/17 budget.

### Capital

- 2.10 Capital Charges – Details of capital spend, and slippage, is given in section 3 of this report. The revenue budget has seen a favourable variance of £294k in respect of capital financing costs.

### Other central costs

- 2.11 Management and Administration costs were overspent by £59k. This is primarily in relation to additional support services that were sought during the year.

### Table of major variances

- 2.12 The major items of variance against budget are summarised in the table below, together with a comparison of the predictions previously reported. –

<b>Item</b>	<b><u>Previous forecast of budget variance</u></b> <b>£k</b>	<b><u>Final budget variance</u></b> <b>£k</b>
<b>Collection costs</b>		
Hire of vehicles	<b>0</b>	<b>48</b>
Underspends in the operations staffing budget - managers have had tight control over spend within their depots.	<b>-200</b>	<b>-139</b>
Net effect of vehicle fuel fluctuations	<b>-175</b>	<b>-209</b>
Favourable variance on vehicle leasing payments due to minimal expenditure relating to damages, of which there is an allowance in the budget.	<b>-50</b>	<b>-21</b>
Favourable variance due to underspends on Vehicle Parts expenditure.	<b>-125</b>	<b>-56</b>
Other transport related variances	<b>0</b>	<b>39</b>
<b>Disposal Costs</b>		
HRC new contract.	<b>-302</b>	<b>-302</b>
HRC contract - reduction in winter hours.	<b>-158</b>	<b>-158</b>
Favourable prices on recycle	<b>-402</b>	<b>-467</b>

<b>Item</b>	<b><u>Previous forecast of budget variance</u></b>	<b><u>Final budget variance</u></b>
Favourable variance on waste disposal: tonnages, gate fees, and haulage costs - mainly due to the W & S HRC residual waste contract that has significantly reduced the DWPs costs.	<b>£k</b>	<b>£k</b>
<b>Trading Accounts</b>		
Favourable variance on Trade Waste due to additional income and growth in the service.	<b>-288</b>	<b>-456</b>
Favourable variance on Garden Waste due to additional income and growth in the service.	<b>-223</b>	<b>-281</b>
<b>Savings</b>		
Savings arising from Capital Charges due to change in bin life from 10 years to 15 years.	<b>-250</b>	<b>-251</b>
<b>Capital</b>		
Slippage in the capital programme, and savings on capital financing as a result	<b>-77</b>	<b>-294</b>
<b>Other central costs</b>		
Overspends within M & A pay, agency costs, and other central costs.	<b>80</b>	<b>59</b>
<b>Other variances</b>		
Other minor variances	<b>0</b>	<b>-44</b>
<b>Total budget variance</b>	<b>-2,656</b>	<b>-3,002</b>

2.13 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 Commercial Waste and Garden Waste trading accounts are shown at Appendix 4 and 5 respectively.

### **3. Final capital spend for 2016/17**

3.1 The financial year 2016/17 saw capital expenditure of £3.289M incurred. Further details of specific items are given further below in paragraph 3.3.

3.2 Actual capital expenditure incurred in 2016/17 is shown in the table below, compared with the budget set in October 2015.

## **DWP capital spend 2016/17 summarised by category**

	Capital Spend £	2016/17 budget
Containers - r4d:	279,786	504,179
Containers - garden waste service:	56,522	165,000
Containers - commercial waste service:	3,096	68,000
Infrastructure - Blandford Waste Management Centre	50,709	1,500,000
Infrastructure - ICT:	0	50,000
Infrastructure - Other:	13,407	0
Vehicles:	2,833,181	3,327,000
Vehicle workshop equipment purchase: Crookhill:	52,515	0
	<b>3,289,216</b>	<b>5,614,179</b>

- 3.3 The Joint Committee will be aware from previous reports that the main item of expenditure, a planned infrastructure project at Blandford, is a project that is in development, however the original capital programme assumptions have proven to be too optimistic.
- 3.4 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. 2016/17 saw a considerable underspend against this sum. A contributing factor is the better prices for bins since a procurement exercise was undertaken in March 2016.
- 3.5 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.
- 3.6 A planned project to replace key ICT software is currently in progress, and will likely see expenditure take place in 2017/18, subject to the development of a successful business case and financing approval by the host authority. The £50k planned expenditure for 2016/17 did not take place. This is discussed further at 4.4 below.
- 3.7 Vehicles purchased during the year include twelve new 26t RCVs, two 15t RCVs and five 7.5t RCVs. Purchase prices were favourable.

### **4. Capital Programme 2017/18 onwards**

- 4.1 Planned capital expenditure up to 2021/22 was presented to the Joint Committee in November 2016. For reference, this is attached as Appendix 7 to this report.
- 4.2 There are some items to draw to the attention of Joint Committee:
- 4.3 Blandford – proposed waste management facility. Discussions with landowners have been ongoing and sites assessed in detail. A completed Options Appraisal resulted in the Director agreeing in mid-May to take forward a feasibility study and associated planning approval processes for the preferred site. The costs and timescale shown in Appendix 7 are still considered to be realistic, but subject to further confirmation as the feasibility work proceeds.



4.4 Replacement ICT system. As mentioned at 3.6 above, the capital programme for 2016/17 contained a sum of £50k for the replacement of an outdated ICT system in tandem with a trial of “in cab” technology, a figure that was estimated some years ago before any soft market testing was undertaken. This allocation was not spent in 2016/17. A project group within DWP has now drawn up a business case with realistic costs and benefits, based on soft market testing, with the intention of undertaking a procurement exercise in summer 2017 for a new ICT system including a trial of “in cab” technology. The financial case is summarised at Appendix 8 of this report. The proposed ICT system will:

- replace and improve the DWP’s customer database
- integrate all DWP customer data into one ICT system
- improve the customer experience by allowing more information and processes to be completed online
- re-procure and replace existing legacy software which is no longer able to cope with the DWP commercial customer growth
- provide savings from reduced manual processes in depot admin (route sheet etc.)
- provide real time collection information to the contact centre to report collection issues (e.g. bins not out)

4.5 The Joint Committee is requested to approve, subject to the host authority acceptance of the business case and financing arrangements, the procurement and implementation of such a system in line with the expected costs shown at Appendix 8, on the basis of a 2-year contract with optional extensions for a first additional year and a second additional year.

4.6 It can be seen that the proposed project will cost an estimated £145k (net cost) over a four-year term (£135k if using a Net Present Value calculation), as a mixture of additional capital spend, revenue spend and income generation opportunities. This figure supercedes the £50k originally included in the capital programme. However, it is believed that investment in such a modern system will deliver non-cashable benefits and service improvements that justify the additional spend.

4.7 The DCC procurement team has been involved in the development of the business case and the soft market testing, and is recommending the approach as described.

## **5. The ‘Budget Equalisation’ reserve**

5.1 It was agreed in June 2016 Joint Committee agreed to establish a ‘Budget Equalisation’ reserve. The 2015/16 underspend of £519k was therefore transferred to it on its formal establishment.

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 was set up with the intention to smooth the effects of 'good' and 'bad' years, which is a pattern that is likely to continue in future.
- 5.4 This concept was supported by Dorset Finance Officers and the Commissioning Group.
- 5.5 Budget areas have been identified in Appendix 6 as key risks for the DWP 2017/18 budget.
- 5.6 Therefore a recommendation is made to transfer £480,416 of the total underspend of £3.002M to the reserve, to bring the total level of reserve to £1M, to mitigate against future risks identified and to return the remaining portion of the 2016/17 underspend of £2.522M to partners in accordance with the agreed cost share percentages.

## 6. 2017/18 Budget forecast

- 6.1 Based on very limited early 2017/18 data there is a forecast underspend for 2017/18 of £264k.
- 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 (favourable)/adverse £k	Notes / Management Action / Mitigation (where possible)
Inflation above that assumed in the budget	Green	Likely	300	
Waste disposal contractual variation	Green	Likely	-75	
Recyclate price savings to date	Green	Possible	-489	N.B. Current price below assumed price – but subject to monthly change.
<b>TOTAL</b>			<b>-264</b>	<b>Forecast underspend</b>

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