WEST LONDON WASTE AUTHORITY
AUDIT COMMITTEE

Report of the Treasurer 24 June 2022

Draft Statement of Accounts for the year ending 31 March 2022

SUMMARY

This report presents the draft 2021/22 Statement of Accounts The key points are:

- Operational financial performance and variances are broadly as forecast and reported during the year.
- The Authority's income from the energy from waste plant was substantial
- Property valuations saw significant increase in land values reflecting current market conditions, but these are only notional/hypothetical gains
- The current financial performance and strength compare very favourably over the longer term
- Significant disbursements will be made to boroughs as identified in the Finance Strategy (separately reported) and noted in sections 24 and 28.

RECOMMENDATION(S)

The Authority is asked to:-

1) Note the **Draft** Statement of Accounts for 2021/22 (Appendix 1)

2) Note the disbursement of reserves planned for October

Introduction

1. As per last year, the statutory deadline for publishing signed and certified Statement of Accounts has been extended by legislation to the end of November to recognise the challenges facing the audit sector.

2. The draft 2021/22 accounts were produced as usual in April and were ready for audit by EY, our external auditors from May. EY's work is in progress and will continue for a few months.

3. A summary of the draft statement of accounts is provided below. It should be noted that since producing the draft accounts, the pension scheme have updated their assessment of the pension liability. An error in the calculation of the revaluation reserve has also been identified. Details of these are provided later in this report. It is common for a limited number of changes to be identified before finalisation of accounts but these are not expected to be material or alter the key messages in any way.

Statement of Accounts

4. The Statement of Accounts can be found in Appendix 1. The key sections of the draft accounts are explained below:

5. Narrative Statement (page 2) – This section provides background about the Authority's operations. It also summarises the financial position and performance for the year.

6. Accounting Policies (page 8) – This section explains the Authority's key accounting policies. These are long standing and pretty much standard local authority accounting policies which are used in maintaining records and producing the financial statements

7. Statement of Responsibilities for the Statement of Accounts (page 15) - This is a brief statement outlining the Authority's requirements in relation to the Accounts and the role and responsibility of the Treasurer, principally to ensure the accounts present a true and fair view of the Authority's finances. This is where the Treasurer certifies the Statement of Accounts and the Chair signs them on behalf of the Authority.

8. Comprehensive Income and Expenditure Statement (page 17) – This is a core financial statement. It shows the financial performance during the year. The operating performance is highlighted in the surplus on provision of services of £10.472 million. Following very significant adjustments for property valuations and a reduction in the pension liability this results in the total comprehensive expenditure of £62.421 million.

9. Balance Sheet (page 18) – This is another core financial statement. It shows the financial position or strength of the Authority at the end of the year. The overall picture of the balance sheet is strong with a positive net worth of £78.007 million. Continuing the healthy trend, this means the Authority has more assets than liabilities.

10. Notes to the Core Financial Statements (pages 22 – 42) – these provide details, breakdown and analyses in accordance with various disclosure requirements for most of the items identified in the above mentioned two core statements.

11. Annual Governance Statement (page 43) – This is a key statement within the Accounts that outlines the Authority's view of the effectiveness of its governance and internal control framework. The statement identifies the Authority's duties and lists the main elements of the corporate governance framework most of which are reported to Authority meetings during the year.

12. Independent Auditors Report (page 46) – This provides our external auditor's opinion and confirms the accounts present a true and fair view of the Authority's finances. The opinion will be per their report and the statement will be updated for the latest EY template once they complete their work.

Provisional out-turn 2021/22

13. The financial performance during 2021/22 is provided in the table below and compares the actual performance to the budgeted level in a more familiar budget monitoring format which groups spends in an operational way.

Financial Performance 2021/22	Budget £000s	Actual £000s	Variance £000s
Expenditure			
Employees	2,252	3,067	815
Premises	2,620	2,508	(112)
Waste, Transport and Disposal	50,363	45,325	(5,038)
MRF Waste Transport and Disposal	2,469	2,432	(37)
Other supplies	968	1,987	1,019
Depreciation	9,240	10,699	1,459
Financing	6,171	6,429	258
Concession Adjustment	(4,381)	(4,381)	0
	69,703	**68,067**	**(1,636)**
Income			
Levies	(65,121)	(63,315)	1,805
MRF Service Charge	(2,469)	(2,432)	37
Trade and Other	(2,113)	(3,041)	(928)
PPP Income	0	(9,750)	(9,750)
	(69,703)	**(78,539)**	**(8,836)**
(Surplus) on provision of services	**0**	**(10,472)**	**(10,472)**
Actuarial gain on pension liability	0	(4,995)	(4,995)
Property valuation gains	0	(46,954)	(46,954)
Contribution to reserves	**0**	**(62,421)**	**(62,421)**

14. The operational performance above delivered a surplus of £10.5 million. The major component of this (£9.7 million) relates to the Authority's share of income generated by the energy from waste plant (PPP income), principally electricity income. There are three other notable operational variances as reported in previous months. The first relates to lower volumes of waste arising during the year and therefore a significant favourable variance of £5.0 million. One relates to Other Supplies adverse variance of £1.0 million which relates to additional energy from waste plant insurance costs of £1.3 million that arise every two years and are unpredictable / not budgeted for. The third adverse variance relates to an increased depreciation charge resulting from previous years' under-depreciation arising from indexation.

15. Outside of operational activities, the main variances relate to year end valuations and these are detailed later in this report.

Post draft account production adjustments

16. This year, given the volatile economic conditions (inflation) the LPFA (pension fund) at the end of May provided a second retrospective and more up to date valuation of the year end pension liability. The draft accounts used the original valuation showing a pension liability of £6.9 million (2021: £11.0 million). The latest valuation shows a pension liability of £8.0 million.

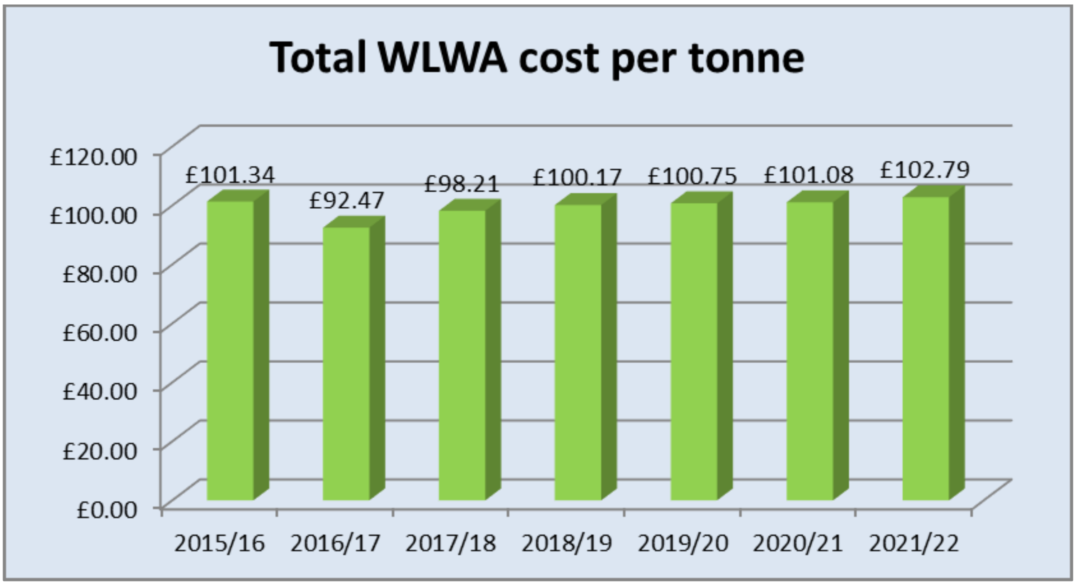
17. The draft accounts include a mis-posting between revaluation reserves and the capital adjustment account which have a neutral net effect. The revaluation reserve should be £9.9 million higher and the Capital Adjustment Account should be £9.9 million lower.

18. These adjustments will be applied to the final accounts and EY will naturally audit these post draft account production changes and refer to them in their final report.

Strategic Perspective

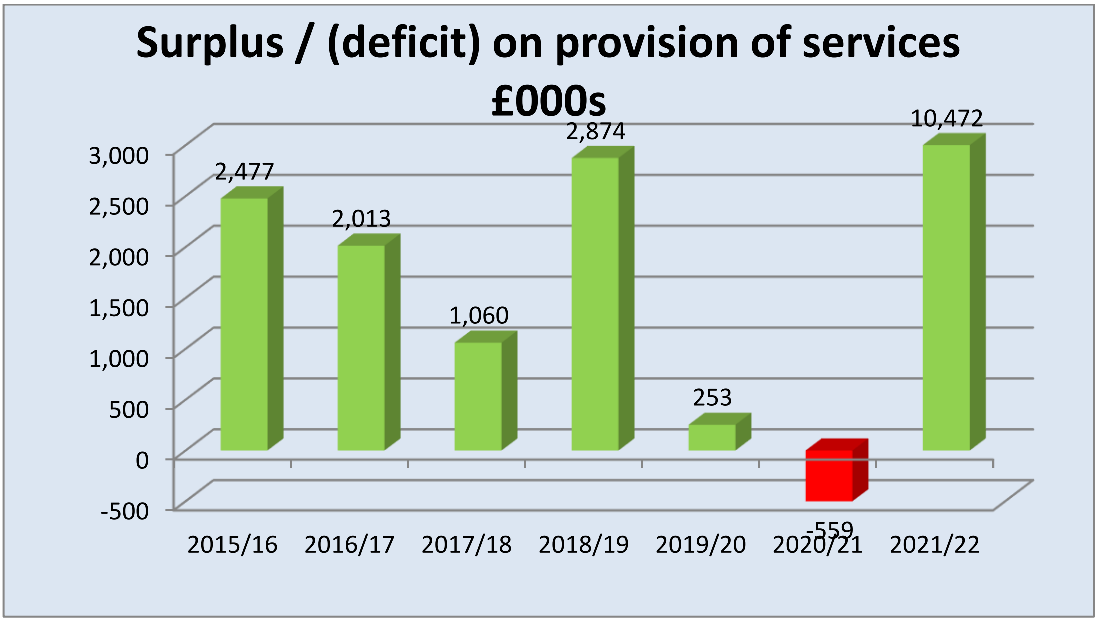
19. To provide context and a better strategic perspective, it helps to look at the financial performance over a period of time. Therefore, below the chart "Total WLWA cost per tonne" looks at how effectively the Authority has managed its costs. The total cost of delivering services (including disposal and treatment costs of all waste materials, overheads and financing but excluding PPP income and valuation adjustments) is divided by the total tonnes of waste (all materials) disposed by the Authority, to provide an overall cost per tonne figure. This has been plotted over a longer timeframe.

20. The key feature illustrated by this chart is that the Authority's cost per tonne is only 1.43% more than it was in 2015/16 with a 1.70% growth on the previous year. To put this into context inflation over the same period was 24.6%. This reflects the Authority's ability to deliver on service and control costs. The costs are indicative of efficiencies made even during the pandemic to ensure that costs are maintained, but at no detriment to the service the Authority provides. It is worth noting that 2016/17 included significant one off benefits resulting from the commencement of full service at the new energy recovery centre.



21. It is also useful to consider how the operational performance (i.e. surplus / deficit on provision of services) has moved over the same period of time. This is illustrated in the chart below

which shows that the Authority has ensured that sufficient funds are being generated from day to day activities to meet day to day obligations.



22. Both of the charts above show that from strategic longer term perspective and also from the individual year's results, the financial performance has been good.

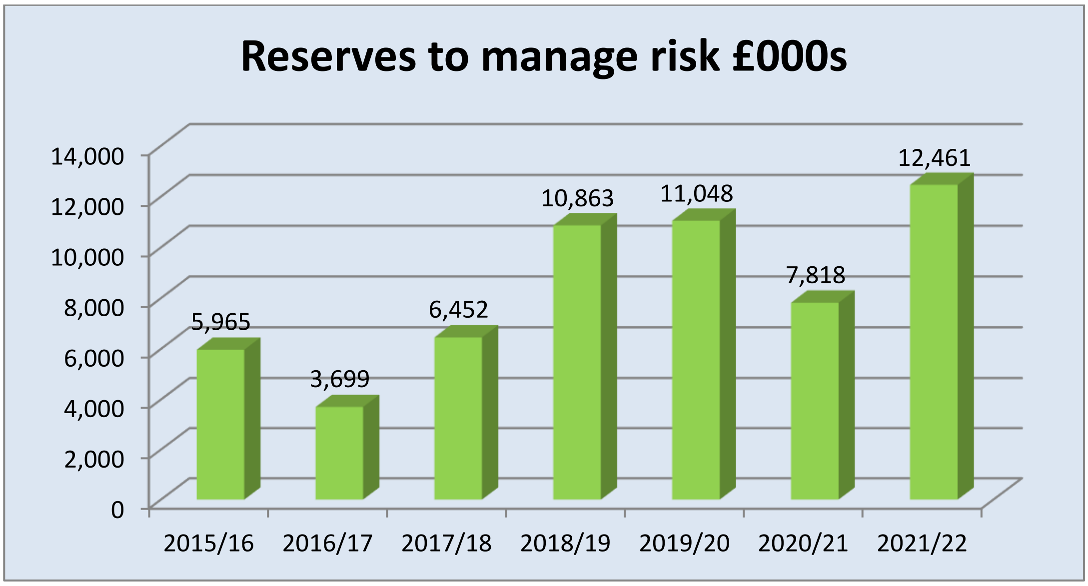
23. As well as performance, it is also important to consider the financial strength of the Authority. A good indicator of financial strength is the level of reserves. The table below outlines the change in the Authority's reserve position during the year.

Reserves	
Reserves b/f	15,586
Contribution to reserves	62,421
Post year end pension valuation adjustment	(1,074)
Reserves c/f	**76,933**

24. However, the property valuation gains are notional and a result of valuation exercises. Furthermore as proposed in the draft Finance Strategy (reported elsewhere in today's agenda) two thirds of the additional income from the PPP contract will be passed through to boroughs and one third will be retained by the Authority for strategic projects. Therefore these are excluded to provide a more accurate picture of the reserves available to the Authority for managing risks.

Reserves	76,933
Exclude property revaluation gains	(54,722)
Proposed pass through of new income	(6,500)
Set aside for strategic projects	(3,250)
Reserves available to manage risks	**12,461**

25. Once again, by considering reserves available to manage risk over a longer timeframe, provides a more strategic perspective. The following chart plots these over the same period applying the new income sharing arrangements within the draft Finance Strategy to the latest year.



Note that the draft Financial Statements pre-date the development of the Finance Strategy and so the reserves table therein will be updated in the final version of the accounts.

26. The chart above shows that the Authority has improved its position by building its reserves as the basis of a financial buffer to better manage unexpected risks. This cautious approach reflects the changing legislative requirements and operating environment.

Excess reserves

27. The 2022/23 budget highlighted that £9.2 million was needed to manage risks. At the end of 2021/22 they totalled £12.4 million. This means there are excess reserves of £3.2 million.

28. Under the new Finance Strategy being developed with borough Directors, the Authority will disburse back to boroughs the £3.2 million. This is to be apportioned using the council tax base as in previous years and will appear as a rebate of levies in the 2022/23 budget monitoring reports and accounts. Note that the Authority's forecasts of spending and levies will show an under-recovery of £3.2 million in 2022/23 to reflect this disbursement.

29. The final Finance Strategy will be recommended to the September Authority meeting and once approved boroughs will be paid in October.

30. The table below benchmarks the Authority's reserves as described earlier with other London Waste Authorities latest published figures (2020/21 financial statements). In this context the Authority's reserves are not excessive.

Year-end valuations

31. The Authority instructed a valuer (Vail Williams) to carry out the periodic five yearly valuation for the year ending 31 March 2022. This resulted in an overall gain on property valuations of £47.0 million.

32. The key message from the property valuation exercise was that the value of land has increased substantially, and this has been reflected in the valuer's report. The net total notional movements resulting from the valuation have been applied to the accounts.

33. These adjustments are notional. They are recognised in the accounts but not realised. The valuations are for accounting purposes only and do not represent any cash in or out of the Authority. The Authority has over several years experienced valuations bouncing up and down with sizeable adjustments, although this is by far the largest in that time.

34. The latest pension valuation by the LPFA's actuaries shows a reduction in the pension liability. This represents an actuarial gain of £3.0 million (£2.7 million loss in the previous year).

30**. Financial Implications** – These are detailed in the report.

31. **Legal Implications** – It is a statutory requirement for the Authority to produce annual financial statements**.**

Contact Officers	Jay Patel, Finance Director jaypatel@westlondonwaste.gov.uk Ian O'Donnell, Treasurer ianodonnell@westlondonwaste.gov.uk Sapna Dhanani, Finance Manager sapnadhanani@westlondonwaste.gov.uk	01895 54 55 10