

**Draft Statement of Accounts for the year ending 31 March 2016**

**SUMMARY**

This report summarises the provisional out-turn figures for 2015/16 and presents the draft Statement of Accounts for the year

**RECOMMENDATION(S)**

The Authority is asked to:-

- 1) Note that the **Final** Statement of Accounts will be presented for approval to the September Audit Committee and Authority meetings
- 2) Note the 2015/16 provisional out-turn figures and detail in Appendix 1
- 3) Note the **Draft** Statement of Accounts and Annual Governance Statement contained therein (Appendix 2)

**Introduction**

1. It is a statutory requirement to publish signed and certified Statement of Accounts by 30 September. To achieve this, a draft was produced in May. This was followed by Ernst & Young, our external auditors, undertaking the majority of their external audit work. No significant issues were identified, only minor presentational changes. However, it should be noted the audit is still in progress.
2. The final audited Statement of Accounts will be reported to the 23 September Audit Committee meeting and will be accompanied by:
  - A report from the External Auditors, Ernst & Young
  - A report from the Internal Auditors, The London Borough of Hillingdon
  - An Assurance Statement from Chief Officers of the Authority
3. Immediately following consideration by the Audit Committee, the Statement of Accounts will be presented to the Authority at its 23 September meeting for approval. It requires signing by the Chair, Clerk and Treasurer at the meeting. Our external auditors will then certify it. The signed and certified Statement of Accounts will then be published by the statutory deadline of 30 September.

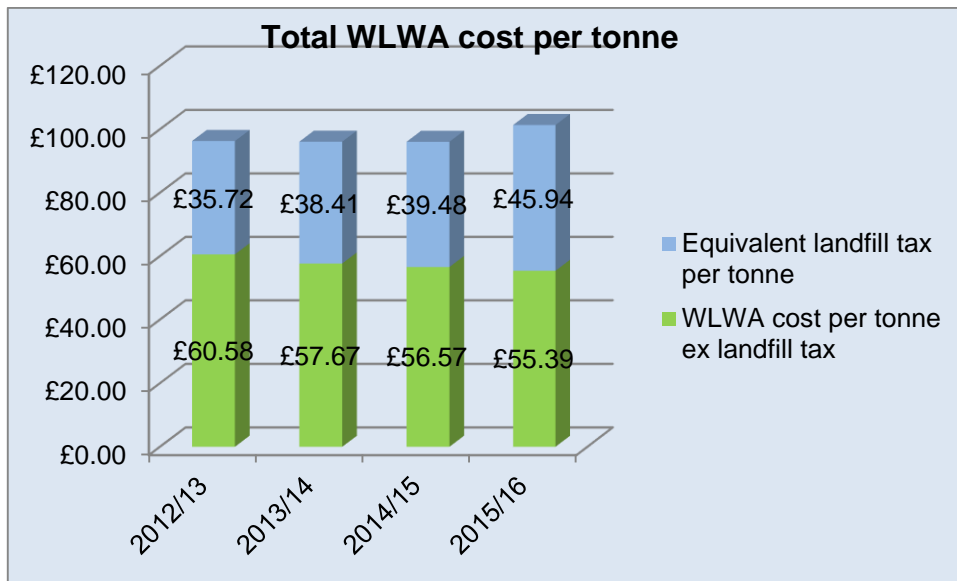
**Provisional out-turn 2015/16**

4. The financial performance during 2015/16 is provided in the table over the page and compares the actual performance to the budgeted level in the usual format.

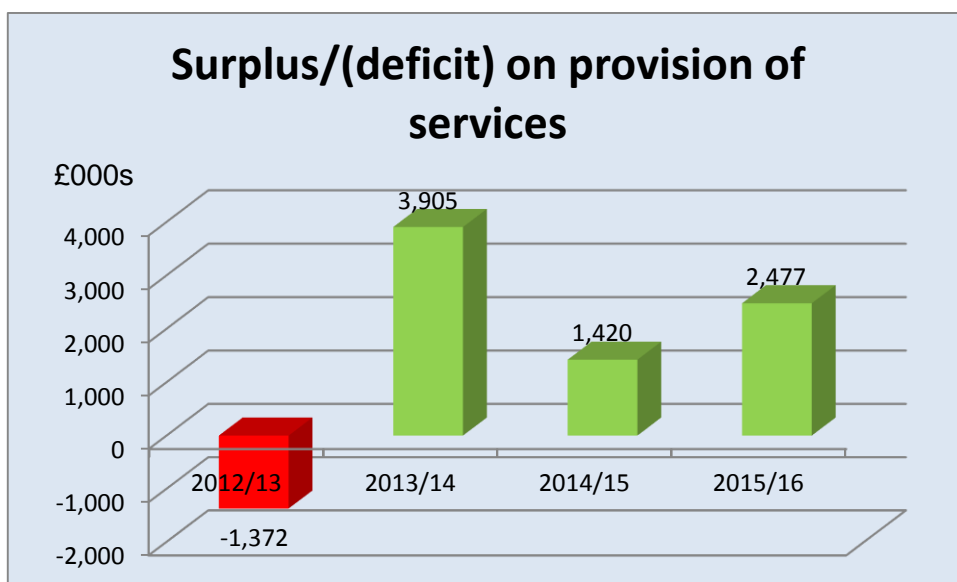
<b>Financial Performance 2015/16</b>	<b>2015/16 Budget £000s</b>	<b>2015/16 Actual £000s</b>	<b>Variance £000s</b>
<b>Expenditure</b>			
Employees	1,548	1,852	304
Premises	2,369	2,242	-127
Waste, Transport and Disposal	56,726	53,378	-3,348
Other supplies	921	1,174	253
Depreciation and Impairment	409	95	-314
Financing	0	194	194
	<b>61,973</b>	<b>58,935</b>	<b>-3,038</b>
<b>Income</b>			
Levies	-60,345	-59,125	1,220
Trade	-1,202	-1,856	-654
Agency	-426	-431	-5
	<b>-61,973</b>	<b>-61,412</b>	<b>561</b>
<b>Surplus on provision of services</b>	<b>0</b>	<b>-2,477</b>	<b>-2,477</b>
Actuarial gain on pension liability	0	-1,193	-1,193
<b>Contribution to reserves</b>	<b>0</b>	<b>-3,670</b>	<b>-3,670</b>

5. The operational performance above delivered a surplus of £2.477 million. Effective financial control has ensured this is broadly in line with the forecasts in previous reports.
6. The key variances are as reported throughout the year and relate to benefits of lower than forecast contract pricing inflation, lower than forecast residual waste and borough service changes reducing the overall organic, green and kitchen waste. Appendix 1 provides a split between PAYT and FCL activities and details the main variances contained within the above financial performance.
7. To provide context and a better strategic perspective, it helps to look at the financial performance over a period of time. Therefore on the following page the chart “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 etc.) is divided by the total tonnes of waste (all materials) disposed by the Authority, to provide an overall cost per tonne figure. And this has been plotted over a four year period.

8. The key feature illustrated by this chart is that the WLWA cost per tonne excluding landfill tax has reduced over the last four years. This reflects the effective control of costs and spending over the period. This has gone a long way to mitigating the effect of government's increase in landfill tax rate during the same period.



9. 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 from a deficit position where the Authority operated at a significant risks of being unable to access cash readily to meet obligations, the position has been improved to ensure that sufficient funds are being generated from day to day activities to meet day to day obligations.



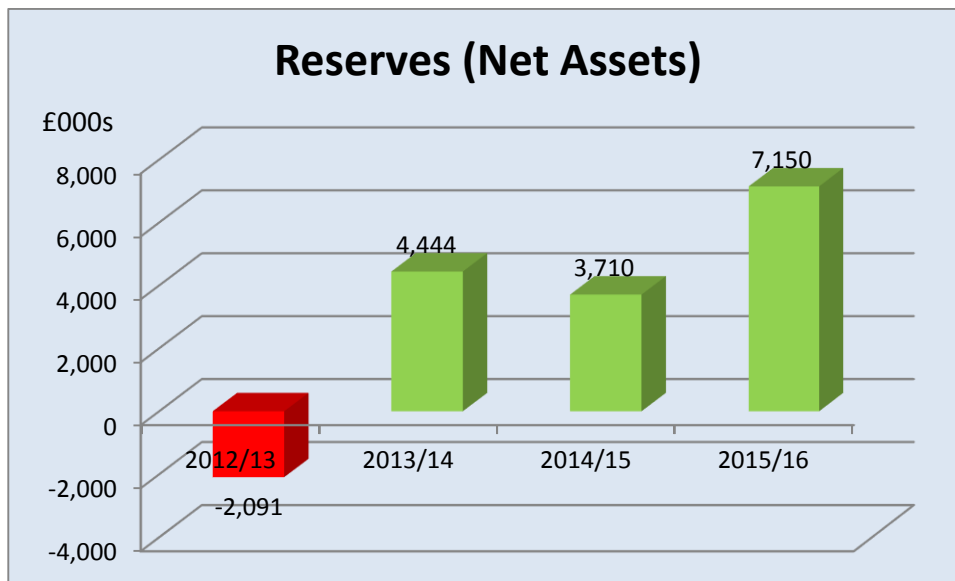
10. Both of the charts above show that from strategic longer term perspective and also from the individual year's results, the financial performance has been good.

11. 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	3,710
Surplus from provision of services	2,477
Pension valuation IAS19 adjustments	1,193
Other property adjustments	(230)
<b>Reserves c/f</b>	<b>7,150</b>

12. Once again, by considering reserves over a longer timeframe, provides a more strategic perspective. So the following chart plots the “Reserves (Net Assets)” over the same four year period.



13. This chart illustrates that in 2012/13 the Authority had more obligations or liabilities than it did assets and therefore held a negative reserve position. From 2013/14 the Authority improved this and maintained reserves as a financial buffer and therefore has been in a better position to manage any unexpected risks.

## Year-end pension valuation

14. One interesting point to note is the pension valuation adjustment. At the end of year, the LPFA’s actuaries undertake a desktop exercise to value the pension fund for accounting purposes. This results in an adjustment to the Authority’s overall reserves position. This year saw a £1.2 million favourable adjustment.

15. It should be noted that pension valuation adjustments can be arbitrary depending on market conditions at a particular snapshot in time, illustrated by the fact that we’ve experienced gains and losses in alternative years. These changes seem to mirror the markets view of discount rate (return on assets) which follow a similar pattern of movement, rising this year.

16. These adjustments are therefore notional and reflect timing differences. The valuation is for accounting purposes only and does not represent direct income or cost to the Authority. In

reality the LPFA will adjust the annual pension contributions to be paid by the employer (and employee) to ensure the pension fund is fully funded by 2026.

## **Draft Statement of Accounts (Appendix 2)**

17. The Draft Statement of Accounts can be found in Appendix 2. At the time of writing, the majority of external audit work has been complete with no significant issues being identified, only minor presentational changes. It is expected that the final Statement of Accounts will be substantially the same as the draft accounts. The key sections of the draft accounts are explained below:
18. Narrative Statement (page 2) – This section provides background about the Authority's operations. It also summarises the financial position and performance for the year.
19. Statement of Responsibilities for the Statement of Accounts (page 13) - 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.
20. Comprehensive Income and Expenditure Statement (page 14) – 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 £2.477 million. The pension valuation adjustment of £1.193 million then follows, resulting in a net gain in reserves or the total comprehensive income and expenditure of £3.670 million.
21. Balance Sheet (page 15) – 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 £7.150 million. Continuing the healthy trend, this means the Authority has more assets than liabilities. The most significant changes to the financial position since last year result from the WLRWS contract. The target date for completion is November 2016 representing a 3 month slippage as detailed elsewhere in today's agenda. The construction cost to the end of March is reflected in the Balance Sheet's capital work in progress figure of £152.1 million. The Authority has paid £52.5 million funded by loans from four London Boroughs. £99.6 million was paid by the SITA consortium, identified as a long term liability in the Authority's accounts.
22. Notes to the Core Financial Statements (pages 19 – 35) – provide details, breakdown and analyses for most of the items identified in the above 2 core statements.
23. Annual Governance Statement (page 36) – 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 elements of the corporate governance framework which have been reported to Authority meetings during the year. Authority members should scrutinise the statement and ensure they have received sufficient information to be assured that the current arrangements are fit for purpose. This is signed on behalf of the Authority by the Chair and Clerk.

**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.

**32. Impact on Joint Waste Management Strategy** – The draft Statement of Accounts set out in this report demonstrates that the Authority is supporting the boroughs to deliver improved value for money to its residents in line with Policy 7 and demonstrate partnership working as set out in Policy 8

Policy 7: The West London Waste Authority and constituent Boroughs will seek to provide waste management services that offer good value, that provide customer satisfaction and that meet and exceed legislative requirements

Policy 8: The West London Waste Authority and constituent Boroughs will work together to achieve the aims of this strategy and are committed to share equitably the costs and rewards of achieving its aims.

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## PAYT - WLWA Outturn 2015-16

	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary
Waste - Residual	34,611	33,299	-1,312	7.3K tonnes less than budgeted for and favourable pricing variance
Waste - Residual: EfW Bulked	6,847	6,710	-137	400 tonnes over budget offset by favourable pricing variance
Waste - Residual: EfW Delivered	3,791	3,757	-34	
Waste - Food*	278	451	173	7K tonnes over budget due to borough service changes
Waste - Mixed Organic*	2,742	1,879	-863	15.7K tonnes under budget resulting from borough service changes
Waste - Green*	797	811	14	1K tonnes over budget due to borough service changes
PAYT Levy income	-49,066	-47,846	1,221	PAYT rebate
<b>PAYT Net Expenditure</b>	<b>0</b>	<b>-938</b>	<b>-938</b>	

## FCL - WLWA Outturn 2015-16

	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary
Employees	1,548	1,852	304	Restructure cost 215K and pension fund adjustment 152K offset by underspend on salaries due to maternity leave and reduced hours
Premises	2,369	2,242	-127	Lower than budgeted rent and rates costs
Waste - Residual	4,777	4,258	-519	1.3K tonnes less than budgeted
Waste - Green	677	304	-373	8K tonnes less than budgeted
Waste - Recyclables	2,206	1,908	-298	Main variances due to less than budgeted rubble and carpet disposal
Other Supplies	921	1,174	253	SUEZ dispute settlement 290K
Depreciation/impairments	409	95	-314	Based on review of assets at end of the year
Finance costs	0	194	194	Pension valuation adjustment
Trade Waste and Other Income	-1,202	-1,856	-654	300K exceeded trade waste, 300K Stobart wood processing recharges
Agency Income	-426	-431	-5	
FCL Levy income	-11,279	-11,279	0	
<b>Fixed Cost Levy Net Expenditure</b>	<b>0</b>	<b>-1,539</b>	<b>-1,539</b>	

\* 2.5K tonnes green and 2.4K tonnes food waste included in mixed organic tonnage as were disposed at mixed organic rates