WEST LONDON WASTE AUTHORITY

Report of the Treasurer 23 June 2017

Draft Statement of Accounts for the year ending 31 March 2017

SUMMARY

This report summarises the provisional out-turn figures for 2016/17 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 2016/17 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 22 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 22 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 2016/17

4. The financial performance during 2016/17 is provided in the table over the page and compares the actual performance to the budgeted level in the usual format.

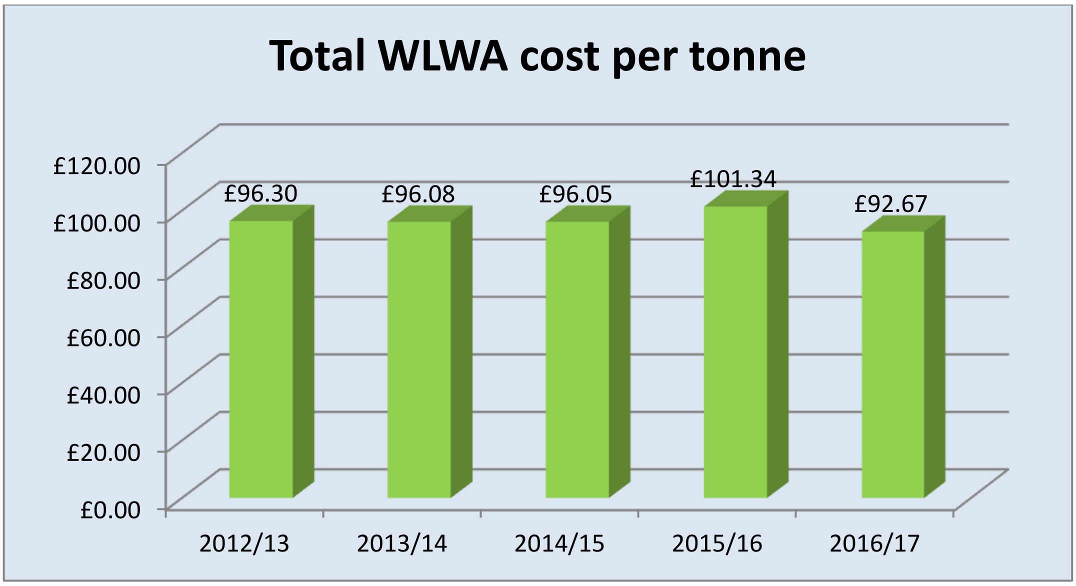
Financial Performance 2016/17	2016/17 Budget £000s	2016/17 Actual £000s	Variance £000s
Expenditure			
Employees	1,581	1,837	256
Premises	3,890	3,372	-518
Waste, Transport and Disposal	40,285	44,601	4,316
Other supplies	732	791	59
Depreciation	5,327	2,539	-2,788
Financing	5,967	2,770	-3,197
	61,973	**55,910**	**-1,872**
Income			
Levies	-56,099	-55,277	822
Trade and other	-1,257	-2,095	-838
Agency	-426	-437	-11
	-57,782	**-57,809**	**-27**
Surplus on provision of services	**0**	**-1,899**	**-1,899**
Actuarial loss on pension liability	0	474	474
Property valuation gains	0	-21,549	-21,549
Contribution to reserves	**0**	**-22,974**	**-22,974**

5. The operational performance above delivered a surplus of £1.899 million. Effective financial control has ensured this is broadly in line with the forecasts in previous reports.

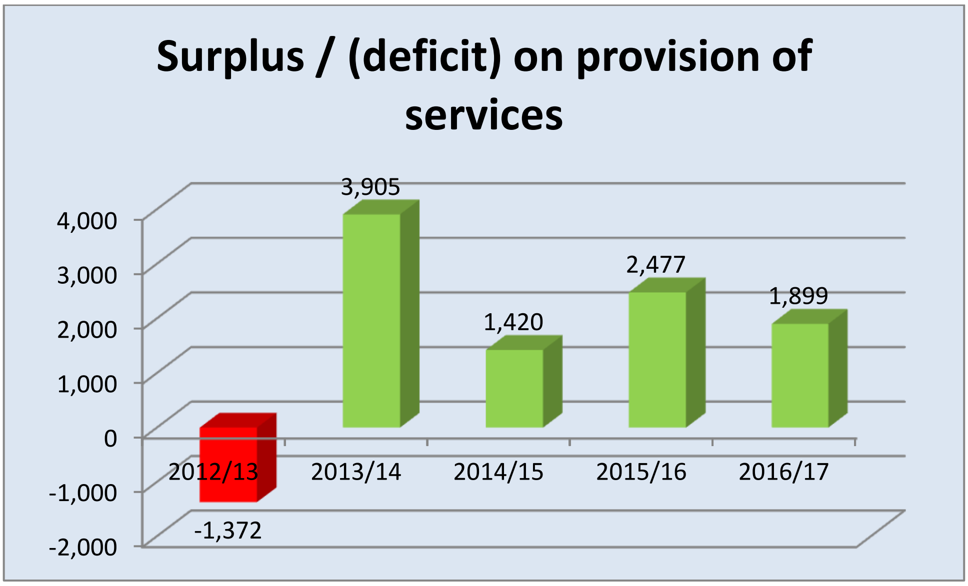
6. The key variances are as reported throughout the year and relate to delays in commissioning and start of full service at the SERC. Appendix 1 provides a split between PAYT and FCL activities and details the main variances contained within the above financial performance.

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 five year period.

8. The key feature illustrated by this chart is that the WLWA cost per tonne has reduced from £96.30 in 2012/13 to £92.67 in 2016/17. This reflects the effective control of costs and spending over the 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.

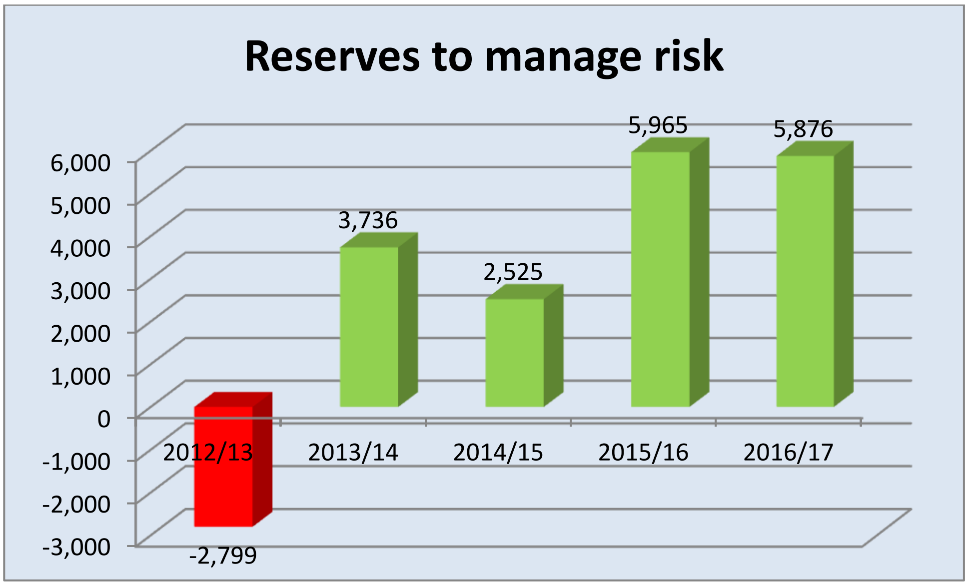
11. As well as performance, it is also important to consider the financial strength of the Authority. A good indicator of financial strength is the level of reserves. The table below outlines the change in the Authority's reserve position during the year.

Reserves	
Reserves b/f	7,150
Contribution to reserves	22,974
Reserves c/f	**30,124**

12. However, the property valuation gains are notional and a result of valuation exercises. Therefore by excluding these we have a more realistic picture of the level of reserves available to the Authority for managing risks.

Reserves	30,124
Exclude property revaluation gains	(24,248)
Reserves available to manage risks	**5,876**

13. 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 five year period.



14. The chart illustrates that in 2012/13 the Authority had more obligations or liabilities than it did assets and therefore held a negative 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.

Excess reserves

15. The 2017/18 budget highlighted that £5.6 million was needed to manage risks. Of this £1.5 million related to valuation risks which have passed. Therefore only £4.1 million risks are still needed as a buffer to manage risks in 2017/18. This means we have a reserve balance which is £1.8 million greater than needed i.e. excess reserves.

16. Therefore as previously reported the Authority will disburse back to boroughs the excess reserves of £1.8 million. The boroughs will each receive a payment of £300,000. This will

appear as a rebate of levies in the 2017/18 budget monitoring reports and accounts. It will essentially mean that the Authority's forecasts of spending and levies will show an under-recovery of £1.8 million as a result of this i.e. a loss for 2017/18 which will reduce the reserve position.

Year-end valuations

17. As a result of the construction of the SERC, this year's accounts include full property valuations to comply with accounting standards. An independent firm of surveyors, Wilks, Head & Eve Ltd, were appointed through a competitive procurement process.

18. The key message from the property valuation exercise was that the value of the SERC was more than the construction cost. This is reflected in the accounts as property valuation gains which notionally increase the level of reserves. The SERC was valued at £193.7 million some £14.1 million higher than the cost of construction.

19. All other properties were also valued, showing both gains and losses. The net total notional movement resulting from the valuation have been applied to the accounts.

20. The pension valuation by the LPFA's actuaries was its triennial exercise providing contribution rates for the coming 3 years. Interestingly although the deficit increased from £7.7 million to £8.6 million, the future contribution rates have fallen from 18% to 12% and is planned to result in 100% funding of the scheme by 2030.

21. It should be noted both the property and pension valuation adjustments can be arbitrary depending on economic and market conditions at a particular snapshot in time, illustrated by the fact that we've experienced gains and losses in previous years for both property and pensions.

22. These adjustments are therefore notional and reflect timing differences. They are recognised in the accounts but not realised. The valuation is for accounting purposes only and does not represent direct income or cost to the Authority.

Draft Statement of Accounts (Appendix 2)

23. 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:

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

25. 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.

26. 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 £1.899 million. The valuation adjustments then follow, resulting in a net gain in reserves or the total comprehensive income and expenditure of £22.974 million.

27. 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 £30.124 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 effects of this in the balance sheet include the valuation of the SERC asset, the financing loans from boroughs and the Suez contribution to the construction (indirect financing).

28. Notes to the Core Financial Statements (pages 19 – 38) – these provide details, breakdown and analyses in accordance with various disclosure requirements for most of the items identified in the above 2 core statements.

29. Annual Governance Statement (page 39) – 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 7and demonstrate partnership working as set out in Policy 8

Policy 7: The West London Waste Authority *a*nd 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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Appendix 1

Pay As You Throw	Outturn			
	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Waste - Residual	22,798	24,912	2,114	Overspend due to project delay
Waste - Residual: EfW Bulked	6,856	6,802	-54	Favourable pricing variance
Waste - Residual: EfW Delivered	3,731	3,718	-13	Favourable pricing variance
Waste - Food	672	701	29	Increased food waste collection tonnage
Waste - Mixed Organic	954	917	-37	
Waste - Green	1,255	1,046	-209	Low green waste tonnage during the year
Waste - Other	206	229	23	Unbudgeted recycleables cost
Waste - Concession interest	-2,673	-1,091	1,582	SERC variances due to delayed full service
Waste - Concession liability	-2,231	-1,175	1,056	
Premises - SERC	1,200	525	-675	
Depreciation - SERC	4,933	2,461	-2,473	
Financing SERC - Interest	3,344	1,472	-1,872	
Financing SERC - Concession interest	2,673	1,359	-1,314	
Contingency	2,000	2,000	0	Contingency used as required
PAYT Levy income	-45,718	-44,896	822	Rebate to Boroughs
PAYT Net Expenditure	**0**	**-1,019**	**-1,019**	

Fixed Cost Levy	Outturn			
	Budget £ 000s	Estimate £ 000s	Variance £ 000s	Commentary
Employees	1,581	1,838	257	Pensions adjustment and additional restructure cost
Premises	2,690	2,847	157	Estimated rent increase
Waste - Residual	3,583	4,120	537	Overspend due to project delay
Waste - Green	904	344	-560	Low green waste tonnage during the year
Waste - Wood	1,108	1,245	137	Includes wood cost recovered in income line
Waste - Other	1,122	831	-291	Favourable tonnage and pricing variances
Other Supplies	732	791	59	50K additional project cost recovered in income line (Waste Min)
Depreciation	394	78	-316	Lower depreciation after assets review and impairment at end of the year
Financing and Other	-50	-60	-10	
Trade Waste and Other Income	-1,683	-2,532	-849	Trade waste and unbudgeted wood shredding income (partially offset in wood processing cost line)
FCL Levy income	-10,381	-10,381	0	
Fixed Cost Levy Net Expenditure	**0**	**-880**	**-880**	