WEST LONDON WASTE AUTHORITY

Report of the Treasurer 29 June 2018

Statement of Accounts for the year ending 31 March 2018

SUMMARY

This report presents the 2017/18 Statement of Accounts

RECOMMENDATION(S)

The Authority is asked to:-

1) Approve the 2017/18 Statement of Accounts
2) Note the 2017/18 out-turn figures

Introduction

1. It is a statutory requirement to publish signed and certified Statement of Accounts by 31 July. Draft accounts were produced in April and were audited by Ernst & Young, our external auditors during May.

2. The recommendation to approve the accounts is supported by the preceding papers at this meeting which provide assurance about the accounts and the control environment in operation during the year:
   - An audit report from the external auditors, Ernst & Young
   - An annual assurance report from the internal auditors, the London Borough of Hillingdon
   - An Assurance Statement from Chief Officers of the Authority
   - The risk register

3. The Statement of Accounts 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 31 July.

Draft Statement of Accounts (Appendix 2)

4. The Draft Statement of Accounts can be found in Appendix 2. 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 7) – 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 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.

8. 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 £1.061 million. The improvement in the pension valuation and reduction in property valuation then follow, resulting in a net gain in reserves or the total comprehensive income and expenditure of £1.010 million.

9. 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 £21.646 million. Continuing the healthy trend, this means the Authority has more assets than liabilities.

10. Notes to the Core Financial Statements (pages 19 – 37) – these provide details, breakdown and analyses in accordance with various disclosure requirements for most of the items identified in the above 2 core statements.

11. Annual Governance Statement (page 38) – 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.

12. Independent Auditors Report (page 41) – This confirms the accounts present a true and fair view of the Authority's finances and the will be signed by our external auditors following the meeting.

2017/18 Out-turn

13. The financial performance for the year is provided in the table over the page and compares the actual performance to the budgeted level in the usual format.

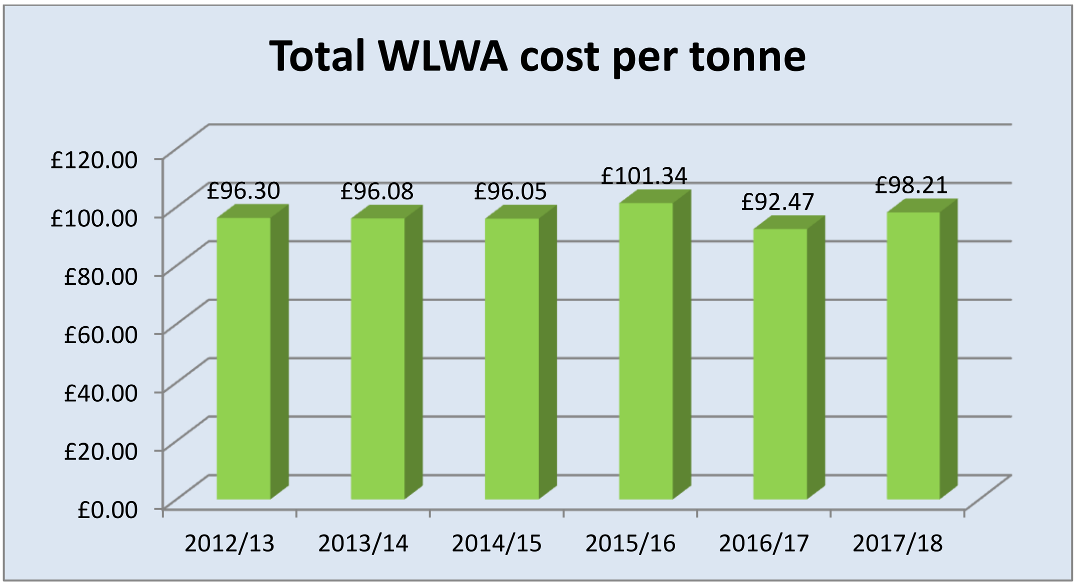
Financial Performance 2017/18	**Budget £000s**	**Actual £000s**	**Variance £000s**
Expenditure			
Employees	1,653	2,056	403
Premises	4,287	3,499	-788
Waste, Transport and Disposal	37,193	33,509	-3,684
Other supplies	1,318	587	-731
Depreciation	8,227	8,278	51
Financing	9,032	8,953	-79
	61,710	**56,882**	**-4,828**
Income			
Levies	-59,880	-57,663	2,217
Trade and other	-1,830	-2,080	-250
	-61,710	**-59,743**	**3,767**
Disbursement to boroughs	0	1,800	1,800
Surplus on provision of services	**0**	**-1,061**	**-1,061**
Actuarial gain on pension liability	0	-1,304	-1,304
Indexation of property valuation	0	1,355	1.355
Contribution to reserves	**0**	**-1,010**	**-1,010**

14. The operational performance above delivered a surplus of £1.061 million. Effective financial control has ensured this is broadly in line with the forecasts in previous reports.

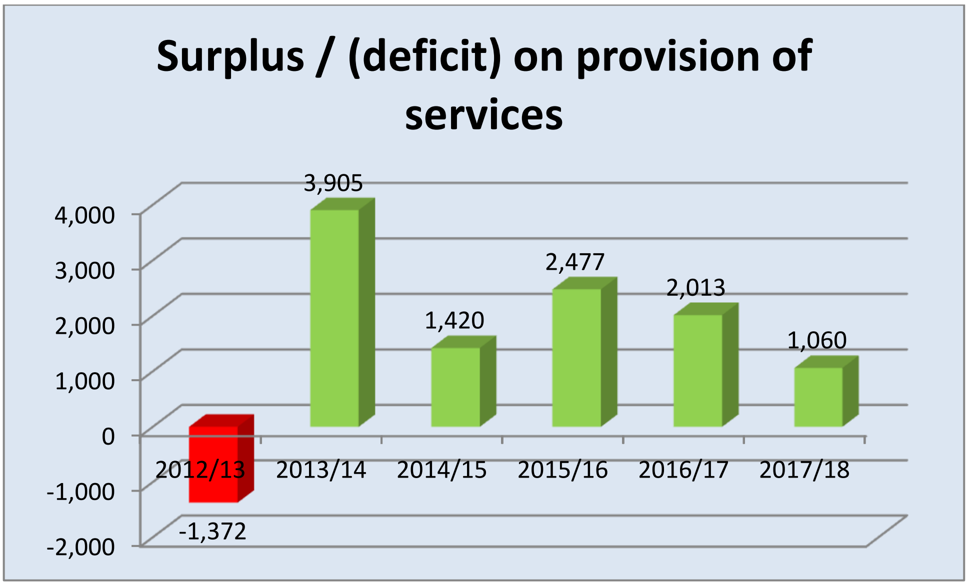
15. The key variances are as reported throughout the year and principally relate to lower waste volumes than budgeted. Appendix 1 provides a split between PAYT and FCL activities and details the main variances contained within the above financial performance.

16. 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.

17. The key feature illustrated by this chart is that the WLWA cost per tonne is only 2% higher than in 2012/13 reflecting the effective control of costs and spending over the period. It is worth noting that 2016/17 saw the Authority benefit from one-off full-service commencement cost savings such as low commissioning rates.



18. 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.



19. 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.

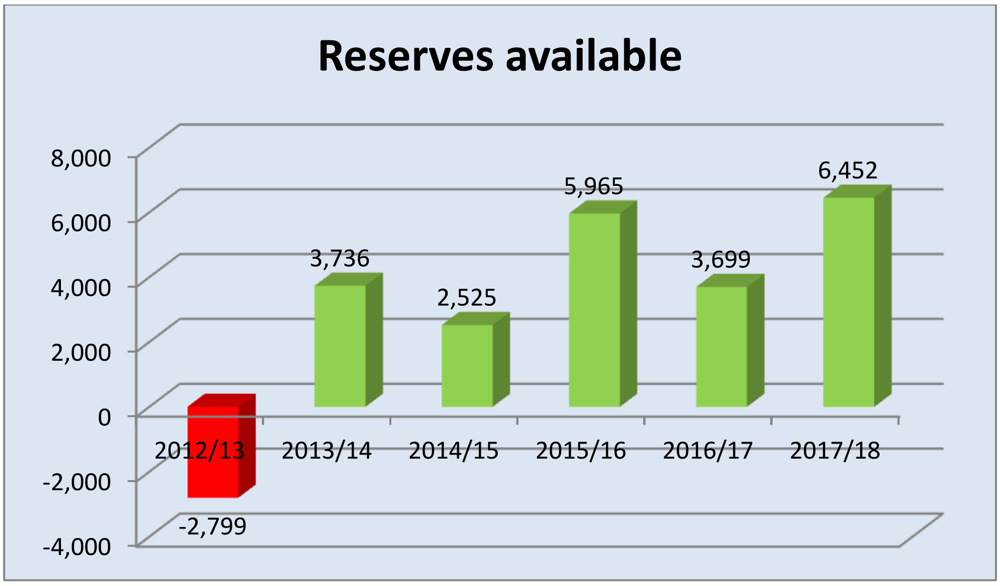
20. As well as performance, it is also important to consider the financial strength of the Authority. A good indicator of financial strength is the level of reserves. The table over the page outlines the change in the Authority's reserve position during the year.

Reserves	
Reserves b/f	20,636
Contribution to reserves	1,010
Reserves c/f	**21,646**

21. However, the property valuation and pension 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.

Reserves	21,646
Exclude property revaluation gains	(15,194)
Reserves available	**6,452**

22. 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.



23. 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.

24. The 2018/19 budget highlighted that £4.2 million will be needed to manage risks. Reserves available at the end of 2017/18 total £6.4 million. However, £1.3 million results from artificial pension valuation gains so reserves to manage risks total £5.1 million. This means we have a reserve balance which is £0.9 million greater than needed i.e. we have excess reserves of £0.9 million.

25. As usual a view regarding disbursement of excess reserves can now be taken as the final accounts figures are clear. So given that major procurements of transfer station sites are

due to take place in 2018/19, it is prudent to retain these excess reserves. The scale of the purchases and complex financial implications were highlighted in the December 2017 Authority report which recommended the purchase of the transfer station sites.

Year-end valuations

26. The pension valuation by the LPFA's actuaries showed that the deficit had been reduced from £8.6 million to £7.9 million and the future contribution rates of 12% are planned to result in 100% funding of the scheme by 2030.

27. It should be noted that the 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 pensions.

28. Property valuations take place every 5 years. However in between valuations a desktop exercise adjusts values for changes in indexation (i.e. building cost index). This resulted in a £1.3 million reduction in value.

29. It is important to note that these adjustments are 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.

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	Out turn £ 000s	Variance £ 000s	Commentary
Waste - Residual	23,841	21,984	-1,857	19k tonnes below budget
Waste - Residual: EfW Bulked	6,958	6,862	-96	
Waste - Residual: EfW Delivered	3,799	3,925	126	
Waste - Food	714	736	22	
Waste - Mixed Organic	940	900	-40	
Waste - Green	1,077	1,035	-42	
Waste - Other	254	339	85	
Waste - Concession interest	-3,445	-3,238	207	concession underspend
Waste - Concession liability	-2,991	-3,485	-494	per 2016/17
Financing SERC - Interest	3,445	3,238	-207	agreed/audited
Financing SERC - Concession interest	4,430	4,370	-60	accounting treatment
Premises - SERC	1,337	1,161	-176	apportioned SERC rates lower than expected
Depreciation - SERC	7,001	6,773	-228	per 2016/17 year end property valuation
PAYT Levy income	-47,360	-45,143	2,217	rebates reflecting lower tonnage
PAYT Net Expenditure	**0**	**-544**	**-544**	

Fixed Cost Levy	Outturn			
	Budget £ 000s	Out turn £ 000s	Variance £ 000s	Commentary
Employees	1,653	2,056	403	£295kpension valuation adjustment
Premises	2,745	2,157	-588	lower than budgeted rent uplift negotiated
Waste - Residual	3,990	3,648	-342	2k tonnes below budget
Waste - Green	851	319	-532	12k tonnes below budget
Waste - Wood	1,140	742	-398	negotiated lower disposal rate with different provider
Waste - Other	1,052	792	-260	390k saved on wood (lower tonnage and new price)
Other Supplies	1,318	587	-731	not extending expired leases
Depreciation	154	448	294	per 2016/17 year end property valuation
Financing and Other	-50	158	208	£219k pension valuation adjustments
Trade Waste and Other Income	-1,831	-2,081	-250	healthy trade waste income through the year
Waste - Concession interest	-528	-505	23	concession underspend
Waste - Concession liability	-458	-544	-86	per 2016/17
Financing SERC - Concession Interest	528	505	-23	agreed/audited
Financing SERC - Interest	679	682	3	accounting treatment
Premises - SERC	205	181	-24	
Depreciation - SERC	1,072	1,057	-15	
FCL Levy income	-12,520	-10,720	1,800	1.8M dispersed to Boroughs
Fixed Cost Levy Net Expenditure	**0**	**-517**	**-517**	

Actuarial gain on pension valuation	**0**	**-1,304**	**-1,304**	per valuation
Indexation adjustment	**0**	**1,355**	**1,355**	notional, per indexation exercise

Total	**0**	**-1,010**	**-1,010**	