WEST LONDON WASTE AUTHORITY

Report of the Treasurer and Managing Director — 28 June 2019

Statement of Accounts for the year ending 31 March 2019

SUMMARY

This report presents the 2018/19 Statement of Accounts

RECOMMENDATION(S)

The Authority is asked to:-

1) Approve the 2018/19 Statement of Accounts
2) Delegate authority to the Chair to approve any changes resulting from the LPFAs' auditors assurance to EY expected in mid-July
3) Approve the excess reserve disbursement to boroughs

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 preceding papers at this meeting provide assurance about the accounts and the control environment in operation during the year and support the recommendation:
    - 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 and its Senior Managers
    - The risk register highlighting the mitigation and controls in relation to key risks

Statement of Accounts

3. The Statement of Accounts can be found in Appendix 2. The key sections of the draft accounts are explained below:

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

5. 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

6. Statement of Responsibilities for the Statement of Accounts (page 14) - 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.

7. Comprehensive Income and Expenditure Statement (page 15) – 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 £2.873 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 £3.015 million.

8. Balance Sheet (page 16) – 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 £18.631 million. Continuing the healthy trend, this means the Authority has more assets than liabilities.

9. Notes to the Core Financial Statements (pages 20 – 39) – these provide details, breakdown and analyses in accordance with various disclosure requirements for most of the items identified in the above 2 core statements.

10. Annual Governance Statement (page 40) – 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.

11. Independent Auditors Report (page 43) – 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.

2018/19 Out-turn

12. The financial performance for the year is provided in the table below and compares the actual performance to the budgeted level in the usual budget monitoring format which groups spends in an operational way.

Financial Performance 2018/19	**Budget £000s**	**Actual £000s**	**Variance £000s**
Expenditure			
Employees	1,923	2,138	215
Premises	2,571	3,647	1,076
Waste, Transport and Disposal	45,422	42,443	-2,979
Other supplies	977	970	-7
Depreciation	8,600	8,337	-263
Financing	6,250	5,293	-957

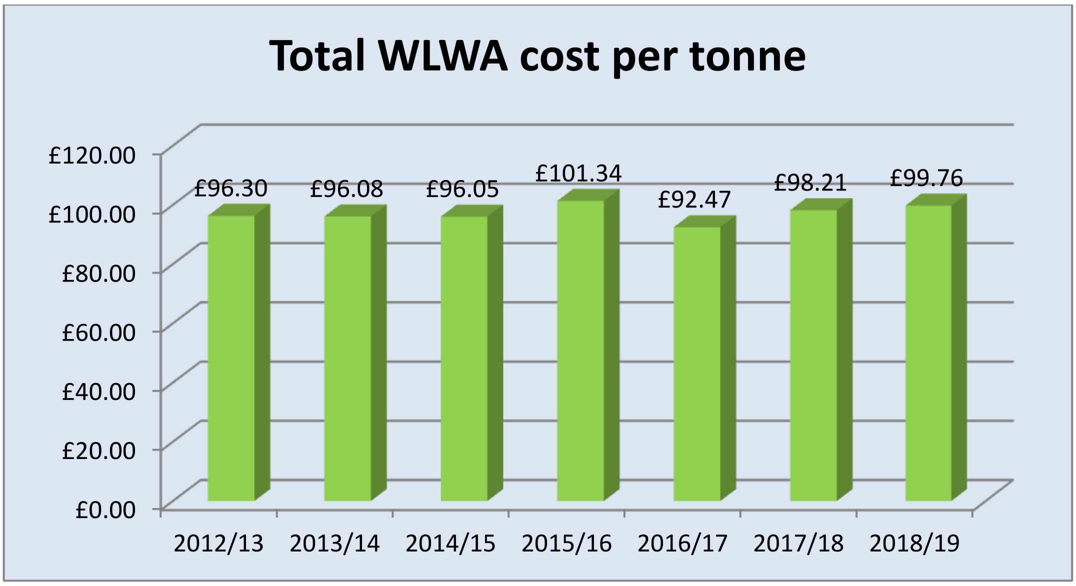
Concession adjustment	-4,065	-4,134	-69
	61,678	**58,694**	**-2,984**
Income			
Levies	-59,850	-59,166	684
Trade and other	-1,828	-2,401	-573
	-61,678	**-61,567**	**111**
Surplus on provision of services	**0**	**-2,873**	**-2,873**
Actuarial gain on pension liability	0	-1,093	-1,093
Property valuation adjustments	0	6,981	6,981
	0	**5,888**	**5,888**
Total comprehensive expenditure	**0**	**3,015**	**3,015**

13. The operational performance above delivered a surplus of £2.8 million. Effective financial control has ensured this is broadly in line and slightly better than the forecasts in previous reports to Authority throughout the year. Pension and property valuation adjustments reduce the total by £5.8 million and result in a total comprehensive expenditure of £3.0 million.

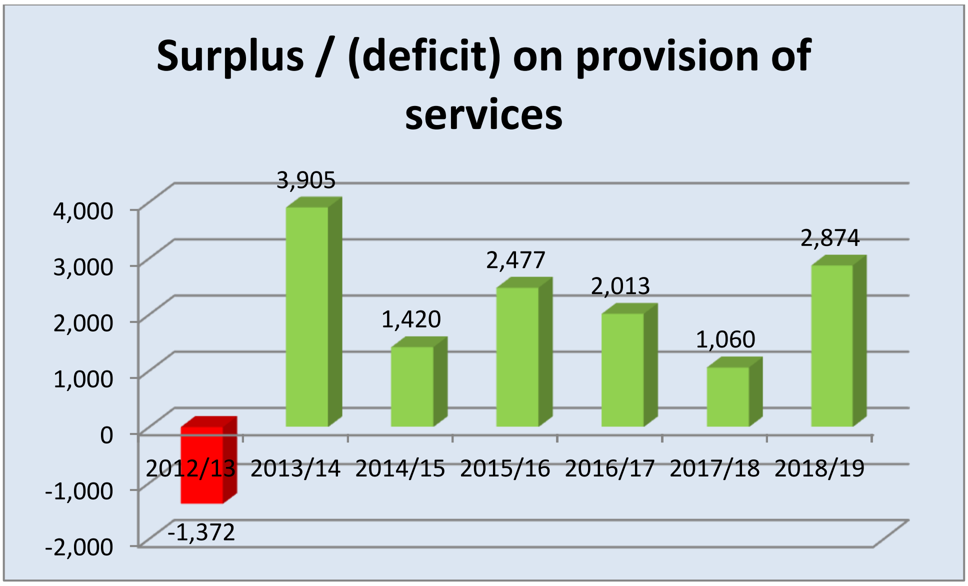
14. Appendix 1 provides a PAYT/FCL split of the out-turn surplus of £2.8 million. This and the summary above show that In terms of operational performance the main variances relate to:
    - Lower waste transport and disposal costs resulting from savings in procurement of food waste contracts and lower than expected waste volumes.
    - Higher premises costs and offsetting lower financing costs both resulting from the later than planned acquisition of transfer station sites i.e. rents had to be paid for a few months longer and financing costs were not incurred till a few months later.

15. 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 but excluding valuation adjustments) 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 longer timeframe.

16. The key feature illustrated by this chart is that the WLWA cost per tonne is only 3.5% 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.



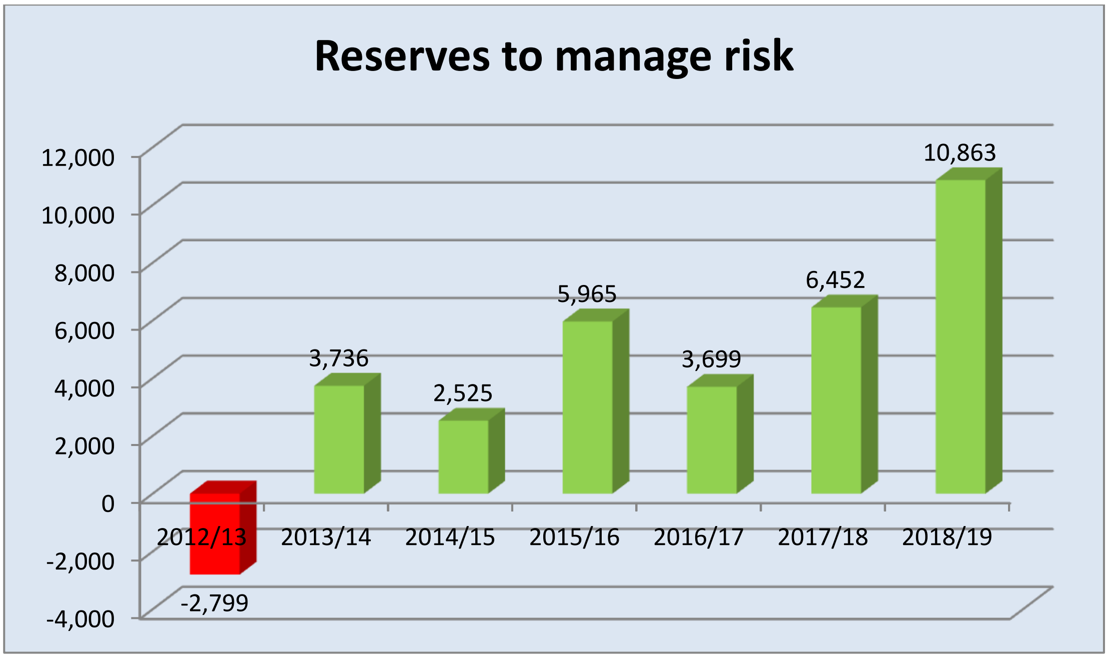
17. It is also useful to consider how the operational performance (i.e. surplus / deficit on provision of services) has moved over the same period of time. This is illustrated in the chart below which shows that from a deficit position where the Authority operated at a significant risks of being unable 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.



18. 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.

Reserves

19. 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. So by considering reserves available to manage risk over a longer timeframe we have a more strategic perspective. The following chart plots these over the same longer timeframe.



20. 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

21. In accordance with annual practice, as the out-turn picture is confirmed the Authority is able to consider the level of reserves. In particular, the Authority is able to determine whether there is an opportunity to disburse any excess reserves to boroughs.

22. The analysis below shows the end of year positon with reserves and identifies excess reserves totalling £1.9 million.

	£000s
Total reserves	18,631
Revaluation reserves (essentially artificial)	(7,768)
Reserves available to manage risks	**10,863**
2019/20 budgeted level of reserves required to manage risks	(5,900)
Excess reserves	**4,963**
Risks post 2019/20 budget setting	(3,000)
Excess reserves available for distribution	**1,963**

Risks post 2019/20 budget setting reflect progress with business plan objectives around partnership working. In particular the possibility and risk around delivering and/or procuring HRRC, MRF, collection and other services to/for boroughs and more specifically the related risks around a possible review of the levy setting mechanism. The implications could run into a number of years so it is prudent to set aside something now to smooth the impact going forwards. £3.0 million is based on £100,000 per borough over 5 years.

23. It is recommended that the excess reserves of £1.9 million is apportioned as in previous years in line with the way boroughs were charged the fixed cost levy (i.e. council tax base). The disbursement to boroughs in July will be as follows:

Borough	Payment to borough
Brent	311,000
Ealing	385,950
Harrow	288,962
Hillingdon	330,095
Hounslow	286,580
Richmond	297,413
Total	**1,900,000**

Year-end valuations

24. The 2018/19 triennial pension valuation by the LPFA's actuaries showed that the deficit had been reduced from £7.9 million to £7.2 million and that the future contributions will result in 100% funding of the scheme by 2030.

25. The 2018/19 quintennial property valuation resulted in a range of movements in property value with an overall adjustment of £0.2 million reduction in value charged to the income and expenditure account. In the balance sheet some of the previous years' valuation gains were also reversed.

26. It is important to note that these valuation adjustments (gains and losses) are artificial and they can be very arbitrary. They can depend on the nature of asset, the individual valuers' judgement of the valuation approach and the economic and market conditions at a particular snapshot in time.

27. They valuation adjustments 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 e.g. and increase of £15 million in 2016/17 compared to the £7 million decrease this year.

Audit of LPFA

28. The LPFA's auditors Grant Thornton, provide assurance to our auditors EY regarding pensions. This year Grant Thornton will be unable to do this until mid July. It is highly unlikely that this will result in any changes. However, as precaution the Authority is asked to delegate authority to the Chair to approve any changes required as a result of this audit work, including updating the date on the letter of representation. It should also be noted that EY will sign off the accounts after this this happens.

29. Once again, this is a procedural matter and it is highly unlikely that there will be any changes. EY's external audit report explains this issue in the status of audit section.

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.

Contact Officers	Jay Patel, Head of Finance jaypatel@westlondonwaste.gov.uk Emma Beal, Managing Director emmabeal@westlondonwaste.gov.uk Ian O'Donnell, Treasurer ianodonnell@westlondonwaste.gov.uk	01895 54 55 11 01895 54 55 15

Appendix 1

Pay As You Throw	Outturn			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary
Waste - Residual	24,311	22,536	-1,775	lower prices and tonnes than budgeted
Waste - Residual: EfW Bulked	7,324	6,086	-1,238	more waste direct delivered reducing bulking cost
Waste - Residual: EfW Delivered	4,002	5,463	1,461	
Waste - Food	674	344	-330	lower procured contract price
Waste - Mixed Organic	729	742	13	
Waste - Green	1,117	974	-143	lower procured contract price
Waste - Other	276	422	146	large amounts of trade wood
Financing Costs	4,288	4,621	333	
Depreciation - SERC	6,955	6,980	25	reduced indexed asset value per audit 18-19
Premises - SERC	1,292	1,158	-134	
Concession Accounting Adjustment	-3,502	-3,684	-182	
PAYT Levy income	-47,636	-46,953	683	
PAYT Net Expenditure	-170	-1,310	-1,140	

Fixed Cost Levy	Outturn			
	Budget £ 000s	Actual £ 000s	Variance £ 000s	Commentary
Employees	1,923	2,138	215	Includes IAS adjustment
Premises	1,279	2,489	1,210	unbudgeted rent - transfer stations
Waste - Residual	4,355	4,188	-167	
Waste - Green	625	259	-366	lower procured contract price
Waste - Wood	970	547	-423	lower procured contract price
Waste - Other	1,039	884	-155	lower transport cost
Other Supplies	977	744	-233	
Depreciation	1,645	1,356	-289	
Financing	1,278	483	-795	less borrowing interest than expected - transfer stations
Revenue Funding of Debt	684	194	-490	three quarters effect - transfer stations
Concession Accounting Adjustment	-563	-455	108	
Impairments	0	226	226	
Trade Waste and Other Income	-1,828	-2,401	-573	expected higher recyclables and trade waste income
FCL Levy income	-12,214	-12,214	0	
Fixed Cost Levy Net Expenditure	170	-1,562	-1,732	