WEST LONDON WASTE AUTHORITY
AUDIT COMMITTEE

Report of the Treasurer and Director of Finance 20 September 2024

Draft Statement of Accounts for the year ending 31 March 2024

SUMMARY

This report presents the draft 2023/24 Statement of Accounts. The report was due to go to June 2024's Audit Committee which was cancelled due to the General Election.

RECOMMENDATION(S)

The Audit Committee is asked to:-

1) Note the **Draft** Statement of Accounts for 2023/24 (Appendix 1)
2) Note the disbursement of PPP contract income totalling £8.6 million, following approval by Authority (section 16)
3) Note the disbursement of interest earned on the PPP income totalling £0.2 million, following approval by Authority (section 17)
4) Note the disbursement of excess reserves totalling £5.4 million, following approval by Authority (section 34)

Introduction

1. The draft 2023/24 accounts were produced as usual in April and were ready for audit by our new external auditors, KPMG. The audit for the Authority began in July 2024.

2. A summary of the draft statement of accounts is provided below. It should be noted that since publishing the draft statement of accounts, KPMG requested independent desktop valuations on our properties. The CIPFA guidance is to have assets revalued every five years as a minimum but does confirm that the assets may require more regular valuations where there could be potential material changes, which has been flagged.

3. The cost of the desk top valuations is £12k and could increase if further work needs to be carried out. Therefore, after the draft accounts were published, a provision of £20k has been included in the accounts, and this has been considered when calculating disbursement of reserves.

4. The pension valuation figures used are draft figures from February 2024, as the actuals were not available till late May 2024. The final pension valuation calculated was £440k less than the draft February figures, and the post draft statement of accounts have been updated accordingly. This has also been considered when calculating disbursement of reserves.

5. During the audit of the Authority, it is common for a limited number of changes to be identified before finalisation of the accounts, but these are not expected to alter the key messages in any way.

Statement of Accounts

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

7. Narrative Statement (page 2) – This section provides background about the Authority's operations. It also gives a retrospective summary on the financial position and performance for the year.

8. Statement of Responsibilities for the Statement of Accounts (page 8) - 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.

9. Comprehensive Income and Expenditure Statement (page 10) – 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 £7.127 million.

10. Balance Sheet (page 12) – 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 £91.287 million. Continuing the healthy trend, this means the Authority has more assets than liabilities.

11. Notes to the Core Financial Statements (pages 15-48) – these provide details, breakdown and analyses in accordance with various disclosure requirements for most of the items identified in the above two core statements.

12. Accounting Policies (page 16) – This section explains the Authority's key accounting policies. These are long standing and standard local authority accounting policies which are used in maintaining records and producing the financial statements.

13. Annual Governance Statement (page 49) – 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.

14. Independent Auditors Report (page 52) – 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 KPMG template once they complete their work.

Provisional out-turn 2023/24

15. The financial performance during 2023/24 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 2023/24	**Budget £000s**	**Actual £000s**	**Variance £000s**
BAU Expenditure			
Employees	2,616	2,768	151
Premises	2,601	3,048	447
Waste, Transport and Disposal	51,531	50,421	(1,110)

MRF Waste Transport and Disposal	2,256	4,101	1,845
Other supplies	1,190	4,680	3,490
Depreciation	10,375	10,449	75
Financing	5,955	4,695	(1,260)
Concession Adjustment	(4,570)	(4,570)	0
	71,954	**75,592**	**3,638**
Programme of work Expenditure			
Employees	308	248	(60)
Premises	45	11	(34)
Other supplies	660	104	(556)
Depreciation	107	0	(107)
	1,120	**364**	**(756)**
Income			
Levies	(67,116)	(67,634)	(518)
MRF Service Charge	(2,256)	(4,101)	(1,845)
Trade and Other	(2,582)	(6,472)	(3,890)
PPP income funding programmes	(1,120)	(756)	364
	(73,074)	**(78,963)**	**(5,890)**
(Surplus) on provision of services	**0**	**(3,007)**	**(3,007)**
HRRC Fund	935	190	745
PPP Contract Income	0	(12,932)	(12,932)
PPP Contract Income Disbursed	0	8,621	8,621
FY22 Excess Reserves to Boroughs	0	0	0
Net (Surplus) / Deficit	**935**	**(7,127)**	**(6,573)**
Actuarial (gain) / loss on pension liability	0	(1,581)	(1,581)
Property valuation gains	0	0	0
Contribution to reserves	**935**	**(8,708)**	**(8,708)**

16. The operational performance above delivered a surplus of £7.1 million. The major component of this (£12.9 million) relates to the Authority's share of income generated by the energy from waste plant (PPP income), principally electricity income. Two thirds of this (£8.6 million) will be passed through to boroughs in accordance with our Finance Strategy as agreed with Boroughs Directors. The other notable operational variance as reported in previous months relate to insurance costs for the SERC and transfer stations being included. Costs have also come in higher than budgeted, due to national

valuations taking place and increasing business rates. There have also been inflationary pressures against the original budget.

17. The PPP income from the Contractor was invested with London Borough of Ealing, until due to the boroughs at the end of September. This investment generated interest up to £0.15 million and will be disbursed back to boroughs as shown in the table in section 38.

Post draft account production adjustments

18. The pension valuations for 2023/24 are the draft figures for the year as of February 2024. The final report was not received until late May, which was after the draft accounts had been published.

19. As mentioned previously, the desktop valuations for the properties were requested by KPMG after the draft accounts had been published. The amount quoted to have these prepared have not been included in the statement of accounts.

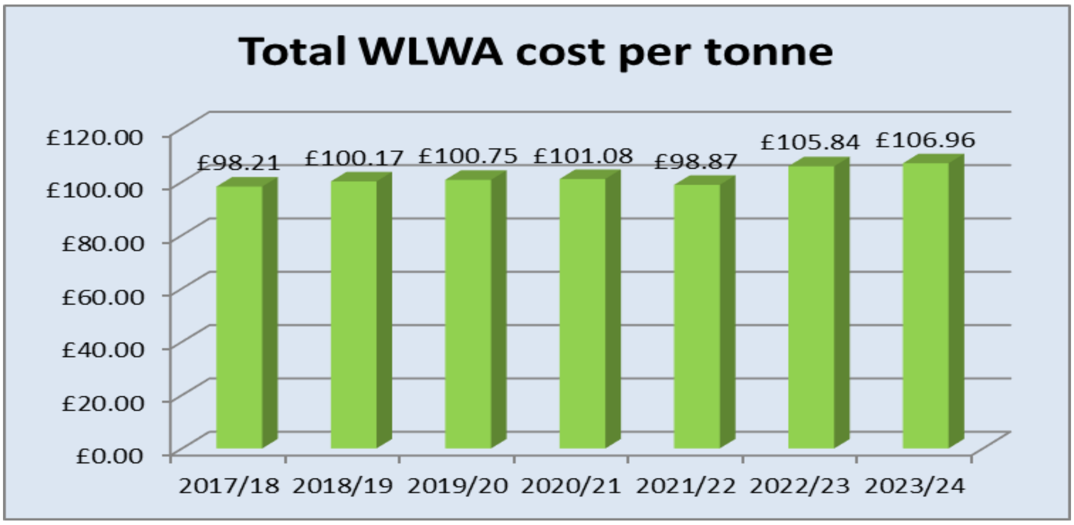
20. Any property valuation gains or losses have not been recognised in the draft accounts, as these figures would only be made available once the valuations had been carried out. The final accounts will reflect the amended valuations.,

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

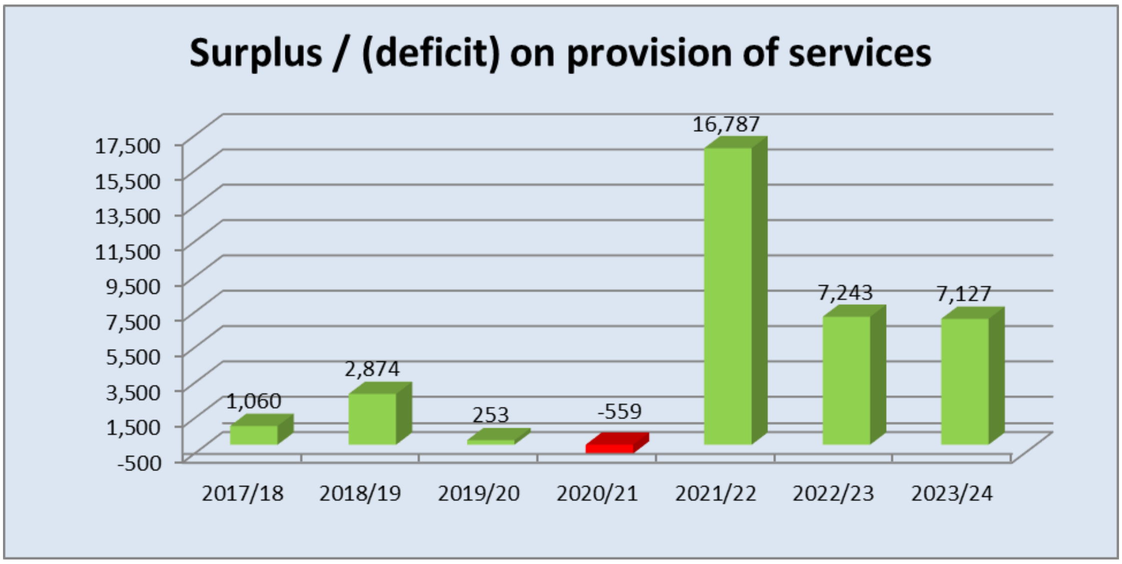
Strategic Perspective

22. To provide context and a better strategic perspective, it helps to look at the financial performance over a period. 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.

23. The key feature illustrated by this chart is that the Authority's operating cost per tonne is 8.91% more than it was in 2017/18. Over the same period cumulative inflation amounted to 41.6%. Inflation in 2023/24 was at one of the highest points in recent years, but the year-on-year increase in cost per tonne from 2022/23 is only 1.06%. Whilst there is a small increase year on year, the chart reflects that along with contractual protections against inflation, the continuous operational efficiencies the Authority delivers, helps the cost per tonne be lower than the rate of inflation.



24. 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.



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

26. 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	85,879
Contribution to reserves	8,708
Less borough disbursements for 2022/23	(3,300)
Reserves c/f	**91,287**

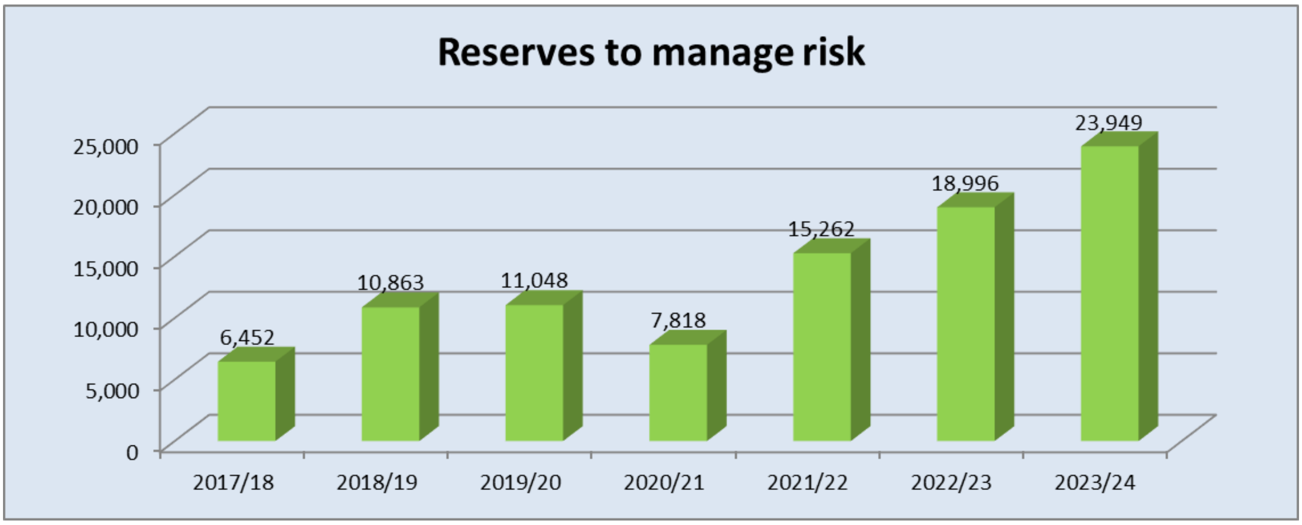
27. However, when looking at reserves, it is worth noting that property valuation gains are notional and a result of valuation exercises. Therefore any gains or losses on property valuations are excluded from the reserves available to manage risks. Furthermore, as proposed in the draft Finance Strategy 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.

28. From the PPP income retained by the Authority, £2.8 million has been earmarked for programmes of work over three years. In 2023/24, £0.4 million had been spent, with the remainder retained via reserves.

29. The investment made to Boroughs in 2022/23 for HRRC improvements had not been fully utilised, and the balance had been earmarked from reserves to be disbursed in 2023/24. However, the spend has not been fully utilised in 2023/24. It was agreed by Members at the Authority meeting in March 2024, that the Authority could retain the remaining funds, via reserves, to be paid over to the boroughs when clear, challenging and time-bound performance standards have been met. Therefore, by excluding these we have a more realistic picture of the level of reserves available to the Authority for managing risks.

Reserves	91,287
Exclude property revaluation gains	(52,732)
PPP income retained by WLWA from FY22 to FY24	(13,861)
HRRC funding to be spent in FY25	(745)
Reserves available to manage risks	**23,949**

30. 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.



31. 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

32. The adjustments for the PPE desk top valuation and pension valuations known since the draft accounts were published, need to be taken into consideration and adjusted for within the reserves, as the below table demonstrates.

Reserves available to manage risks as per draft statement of accounts	23,949
PPE desk top valuation	(20)
Final pension valuation adjustment	(440)
Reserves available to manage risks	**23,489**

33. The 2024/25 budget highlighted that the target level for reserves to manage risk is £26 million. This was made up of £18.0 million needed to manage immediate and medium-term risks. The PPP income retained by the Authority will be building up reserves to mitigate against longer term risks incurred through legislative changes. At the end of 2024/25, the reserves available to manage immediate risks totalled £23.5 million, meaning that there are excess reserves in the region of £5.4 million.

34. Therefore, as done annually, the Authority will disburse back the excess reserve amount of £5.4 million to boroughs. This will be apportioned using the council tax base as in previous years and will appear as a rebate of levies in the 2024/25 budget monitoring reports and accounts. Note that the Authority's

forecasts of spending and levies will show an under-recovery of £5.4 million in 2024/25 to reflect this disbursement.

Disbursement to boroughs

35. The boroughs share of PPP income plus the excess reserves will be paid to boroughs by the end of September. The table below provides a breakdown of the payments.

36. There may be a potential tax liability from the Electricity Generator Levy (EGL) which has not been adjusted from the PPP income figure below. The bill for EGL is currently passing through parliament, and hence we do not know if this tax is a liability to be paid, nor if the amount could change.

37. We are unable to identify the amount for EGL, but last year, the estimated liability was 8% of the total income, and the same methodology has been applied this year. However, there is a possibility that this liability amount could differ when calculated, and this will be communicated to the boroughs.

38. Therefore, whilst WLWA will pay over the full sums presented in the table below. we propose that if the tax liability does arise, two thirds of the total amount of liability will subsequently be passed to the boroughs. Where possible, this will be deducted from the disbursement of future reserves and/or PPP income.

Borough	Approved Council Tax Base from FY24/25 budget	PPP Income (£000s)	Interest earned on PPP income invested (£000s)	Excess Reserves at end of 2023/24 (£000s)	Total payments to boroughs (£000s)	Electricity Generator Levy (£000s) (using 8% base as per 22/23)
Brent	103,577	1,485	26	930	**2,442**	(117)
Ealing	123,110	1,766	31	1,106	**2,902**	(139)
Harrow	89,375	1,282	22	803	**2,107**	(101)
Hillingdon	104,668	1,501	26	940	**2,468**	(119)
Hounslow	90,701	1,301	23	815	**2,138**	(103)
Richmond	89,679	1,286	22	806	**2,114**	(102)
Total	**601,110**	**8,621**	**150**	**5,400**	**14,171**	**(681)**

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

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

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