**ITEM 4**

## PAPER NO. WRWA 854

# WESTERN RIVERSIDE WASTE AUTHORITY

| | |
|---|---|
| **MEETING** | 17th July 2018 |
| **REPORT AUTHOR/ DATE** | Treasurer (Chris Buss-Tel 0208 871 2788)<br>9th July 2018 |
| **SUBJECT** | Report of the Treasurer on the Authority's Audited Accounts for 2017/18 |
| **CONTENTS** | Page 1 Executive Summary and Background<br>Page 2 Recommendations<br>Page 3 – 53 Appendix A – Statement of Accounts<br>Pages 54 – 76 Appendix B – Report from the Auditor including Draft isa 260<br>Pages 77 – 83 Appendix C –draft Letter of Representation |
| **STATUS** | Open-circulation of this paper is not restricted. |
| **BACKGROUND PAPERS** | No background papers were used in the production of this report |

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## EXECUTIVE SUMMARY AND BACKGROUND

1. As outlined in the outturn report elsewhere on this agenda, the auditing standards placed on the external auditor (KPMG) require that the Auditor makes a report to the Authority by 31st July 2018 following the Audit of the accounts, as a prelude to issuing a formal Opinion on the Authority's accounts which is two months earlier than previously. Therefore the Authority is considering both the outturn position and audited set of accounts together at this meeting.

## ACCOUNTS AND AUDIT 2017/18

2. As the responsible financial officer, the Treasurer signed and dated the Statement of Accounts for 2017/18 on 31st May 2018. The draft audited set of accounts are now attached for approval by the Authority.

3. Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 – "Communication of audit matters with those charged with governance", the Auditor is required to report to those charged with governance on the significant findings from the audit as a prelude to issuing a formal Opinion on the Authority's accounts. The ISA260 is attached at Appendix B. This may be subject to minor review as the auditors are still awaiting confirmation from a few external sources. The authority will be verbally updated of any changes on the night of the meeting.

4. The Audit report brings to your attention that they are satisfied that the Authority has addressed the recommendation raised in the ISA260 report in 2016/17 relating to the valuation of property, plant and equipment and there are no new recommendations as a result of the 2017/18 work. KPMG anticipate issuing an unqualified audit opinion on the Authority's financial statements. No areas of misstatement have been identified.

5. The Audit report has not noted any deficiencies in relation to systems of internal control.

6. KPMG are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing value for money in its use of resources. KPMG undertook their audit in accordance with the Code of Practice issued by the Audit Commission and have indicated that they will issue an Unqualified Opinion. The Auditor Opinion is included as Section two of the ISA260 report attached at Appendix B.

7. Auditing standards require KPMG to obtain a written representation from management on certain matters material to their Opinion. A draft Letter of Representation is attached at Appendix C. The Authority is requested to

authorise the Treasurer to sign the Letter in this form on behalf of the Authority.

8. Following the Audit, the Authority is requested to approve the audited Statement of Accounts for 2017/18 at Appendix A and to authorise the Treasurer and Chairman to sign it accordingly.

**AUDITOR APPOINTMENT FROM 2018/19**

9. As outlined to the Authority in September 2017, this is the final year of audit from KPMG and Deloitte LLP will be conducting the Authority's audit of the 2018/19 accounts.

**RECOMMENDATIONS**

10. The Authority is recommended to:

(a) note the report from KPMG relating to the Accounts for 2017/18 (Appendix B)

(b) authorise the Treasurer to sign the Letter of Representation (Appendix C)

(c) approve the Authority's Statement of Accounts (Appendix A)

(d) otherwise receive this report for information

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Western Riverside Transfer Station
Smugglers Way
LONDON SW18 1JS

CHRIS BUSS
Treasurer

9th July 2018

# Western Riverside Waste Authority

# Statement of Accounts

## For the year ended 31 March 2018

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**CONTENTS (continued)**

# NARRATIVE REPORT TO ACCOMPANY THE STATEMENT OF ACCOUNTS

## Introduction

This is the Statement of Accounts for the Authority for the year ended 31st March 2018. The purpose of the Statement of Accounts is to summarise the financial position of the Council. The report gives a general outline of the main items reported within the accounts and gives a summary of the Authority's overall financial performance for the year.

The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, which in turn is underpinned by International Financial Reporting Standards.

The Statement of Accounts is made up of four core statements as follows:

- **Movement in Reserves Statement -** This is a summary of the changes that have taken place in the bottom half of the Balance Sheet over the financial year. It is analysed into 'usable reserves' (those that can be applied to fund expenditure or reduce the Levy such as the General Fund) and 'unusable reserves'.
- **Comprehensive Income and Expenditure Statement -** This consolidates all the gains and losses experienced by the Authority during the financial year.
- **Balance Sheet** – This statement shows the value, as at 31st March each year, of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority
- **Cash Flow Statement -** This statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

## Organisational Overview, External Environment and Operational Model

Western Riverside Waste Authority (WRWA) is one of four Statutory Joint Waste Disposal Authorities in London which are charged by Parliament with managing the waste collected by their respective constituent councils. In the case of WRWA, these are the London Boroughs of Hammersmith & Fulham, Lambeth, Wandsworth and the Royal Borough of Kensington and Chelsea.

The Authority manages its affairs with the main contractor, Cory, through the Waste Management Services Agreement (WMSA) to minimise costs and maximise income from recycled materials. Total waste managed by the Authority reduced by 8,279 tonnes or just over 2% with General waste tonnage reducing by just over 8,844 tonnes, or nearly 3%. Recycling represented just under 20% of total waste managed, the same as in 2016/17.

The Authority's chief sources of income are charges to constituent councils for the disposal costs of waste, AWDC charges and levies upon those councils. The Authority has a statutory duty to apportion levies among the constituent councils for each financial year to meet liabilities for which provision is not otherwise made.

The Authority's key achievements in 2017/18 was to have undertaken an extensive review of the potential to increase waste minimisation and recycling performance within its area which has led to the Authority developing a new joint waste policy document and a new waste minimisation focussed marketing campaign.

**Risks**

The Authority annually reviews its Risk Management Strategy and has developed a Risk Register which identifies key risks together with an analysis of their likelihood/impact and the key preventative, detective and corrective controls. The Annual Governance Statement again confirms that the Authority's Risk Management Strategy is effective and well embedded into management processes.

A key risk relates to the Local Authority sector's financial position in being able to fund their waste disposal costs and the potential subsequent pressure on the Authority to seek short term cost savings. The Authority continues to be open and transparent regarding its ability to reduce costs for constituent councils. , The location of one of the Authority's transfer stations is within the regeneration area of Nine Elms and the redevelopment of the area may lead to possible nuisance claims by new residents. The Authority is mitigating this via ongoing discussions on a comprehensive redevelopment plan.

European Union Referendum **-** On the 23 June 2016 the European Union (EU) Referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision made to leave the EU. There was no impact on the figures contained within the Accounts in either 2016/17 or 2017/18. It is too early to determine if this decision will have any impact upon future finances of the Authority.

The volatility of recycling rates is a key risk to the constituent Councils in terms of price. In order to mitigate this, the Authority has arrangements with its contractor to ensure both an available market and price certainty as far ahead as possible for recyclate.

**Performance**

The operational income and expenditure of the Authority is wholly affected by the tonnage of waste managed during the year. The Usable Reserves Balances at the end of March 2018 stood at £17.091 million, an increase of £4.2 million compared to that reported in March 2017. The balance was £1.7 million more than anticipated when the budget for 2018/19 was set in February 2018 due in part to the annual rebate from RRRL in relation to 'Triad payments' which are due to the Authority as part of the 'Energy uplift refund' under the WMSA which was uncertain at the time the budget was set. The Authority also received a reduced volume of tonnage at the Civic Amenity site than budgeted. It is proposed that the in year surplus of £4.2 million be retained in the General Fund Reserve at this time.

**Pensions**

All permanent staff are eligible for inclusion in the statutory Local Government Pension Scheme (LGPS) administered by the London Pension Fund Authority (LPFA) under the Local Government Pension Scheme Regulations.

The Fund's net assets increased by £0.224 million to £7.650 million. The Fund's actuary estimated that the present value of scheme liabilities has reduced over the same period by £0.238 million, from £11.564 million to £11.326 million. The net pension liability therefore decreased by £0.462 million from £4.138 million to £3.676 million.

The scale of the net liability, compared with total annual employment costs of around £0.5 million, underlines the risk of increased pension contributions that could ultimately be required. The Triennial Valuation undertaken as at 31st March 2016 set the minimum employer contribution rate as a percentage of payroll for the year from 1st April 2017 to 31st March 2020 at 12.4%. Additional minimum employer contributions as a monetary amount due for the three year period was set at £0.050 million for 2017/18, £0.051 million for 2018/19 and £0.052 million for 2019/20.

**Borrowing Facilities**

The Authority finances debt through the Public Works Loan Board (PWLB) with loans totalling £8.5 million outstanding at 31st March 2018, with no new loans advanced during the financial year. The Authority's current policy is to redeem debt from balances wherever this is practicable. Average balances of £11.5 million were invested via Wandsworth Council earning the investment rate achieved by the Council at an average of 0.37% whilst the cashflow is managed within a Special Interest Bearing Account (SIBA) with the current retail banker (RBS/ Nat West) earning 0.25%. The Authority's total cash balance was £9.119 million at 31st March 2018. The cash balances are shown as cash or cash equivalents in the balance sheet.

**Outlook**

The total level of waste managed by the Authority in 2017/18 has reduced but it is still anticipated that the level of waste managed could grow in future years in line with the increase in population forecast for its area. The Authority continues to drive forward efficiencies from within the WMSA in order to generate savings for Constituent Councils in the current financial climate.

Key challenge for 2018/19 and beyond are:

- Redevelopment proposals at Cringle Dock, providing a new transfer station for the Authority and financial benefits for the Constituent Councils; and
- Delivering savings

However, the Constituent Councils benefit from the EfW facility at Belvedere under the current WMSA with:

- the avoidance of increasing government landfill tax costs;
- certainty of capacity to dispose and
- contractual agreements through the WMSA to receive Royalties and excess revenue share, refinancing savings, income from the sale of energy and eventually, the benefits to be achieved from Residual Value at the end of the existing contract in 2032.

**Conclusion**

The Authority has been able to maintain a sound financial base to meet future financial pressures.

# STATEMENT OF RESPONSIBILITIES FOR THE ACCOUNTS

## The Responsibility of the Authority

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

## The Responsibility of the Treasurer

The Treasurer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's [and the Group's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority [and the Group] will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2018 and of its income and expenditure for the year then ended.

C Buss
Treasurer 17th July 2018

## Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce charges to Constituent Authorities) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for determining the AWDC charges and the residual Levy. The net Increase /Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

| | General Fund Balance | Pension Liability Reserve | Levy Equalisation Reserve | Rates Stabilisation Reserve | Recycling Initiatives | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 31 March 2016 carried forward** | **6,725** | **1,800** | **1,105** | **3,375** | **250** | **13,256** | **33,140** | **46,396** |
| (Deficit)/ Surplus on provision of services | -1,267 | - | - | - | | **-1,267** | - | **-1,267** |
| Other Comprehensive Income and Expenditure | - | - | - | - | - | - | **-351** | **-351** |
| **Total Comprehensive Income and Expenditure** | **-1,267** | - | - | - | - | **-1,267** | **-351** | **-1,618** |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | **891** | - | - | - | - | **891** | -891 | - |
| **Net (Decrease)/ Increase before Transfers to Earmarked Reserves** | **-376** | - | - | - | - | **-376** | **-1,242** | **-1,618** |
| Transfers to/from Earmarked Reserves | **-2,349** | - | - | **2,349** | - | - | - | - |
| **(Decrease)/ Increase in Year** | **-2,725** | - | - | **2,349** | - | **-376** | **-1,242** | **-1,618** |
| **Balance at 31 March 2017 carried forward** | **4,000** | **1,800** | **1,105** | **5,724** | **250** | **12,880** | **31,898** | **44,778** |

| | General Fund Balance | Pension Liability Reserve | Levy Equalisation Reserve | Rates Stabilisation or Stabilisation Reserve | Recycling Initiatives | Total Usable Reserves | Unusable Reserves | Total Authority Reserves |
|---|---|---|---|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **<u>Movement in Reserves during 2017/18</u>** | | | | | | | | |
| **Balance at 31 March 2017 carried forward** | **4,000** | **1,800** | **1,105** | **5,724** | **250** | **12,880** | **31,898** | **44,778** |
| (Deficit)/ Surplus on provision of services | 4,449 | - | - | - | - | **4,449** | - | **4,449** |
| Other Comprehensive Income and Expenditure | **-** | **-** | **-** | **-** | **-** | **-** | **4,924** | **4,924** |
| **Total Comprehensive Income and Expenditure** | **4,449** | **-** | **-** | **-** | **-** | **4,449** | **4,924** | **9,373** |
| Adjustments between accounting basis and funding basis under regulations (Note 6) | **-238** | **-** | **-** | **-** | **-** | **-238** | 238 | **-** |
| **Net (Decrease)/ Increase before Transfers to Earmarked Reserves** | **4,211** | **-** | **-** | **-** | **-** | **4,211** | **5,162** | **9,373** |
| Transfers to/from Earmarked Reserves | **-** | **-** | **-1,105** | **1,105** | **-** | **-** | - | **-** |
| **(Decrease)/ Increase in Year** | **4,211** | **-** | **-1,105** | **1,105** | **-** | **4,211** | **5,162** | **9,373** |
| **Balance at 31 March 2018 carried forward** | **8,211** | **1,800** | **-** | **6,829** | **250** | **17,091** | **37,061** | **54,152** |

## Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from AWDC charges and the Residual Levy. The Authority raises income to cover expenditure in accordance with regulations; this may be different from the accounting cost. The position relating to the raising of income to cover expenditure is shown in the Movement in Reserves Statement.

| | 2016/17 | | **2017/18** | |
|---|---|---|---|---|
| | £000 | £000 | **£000** | **£000** |
| **Operating expenditure** | | | | |
| Employees | 324 | | **578** | |
| Premises | 679 | | **617** | |
| General waste disposal | 47,239 | | **44,326** | |
| Other supplies and payments | 1,150 | | **439** | |
| Depreciation and Impairment (Note 9) | 1,654 | | **1,634** | |
| **Total** | | 51,046 | | **47,594** |
| **Operating Income** | | | | |
| Hammersmith and Fulham | (9,275) | | **(9,131)** | |
| Kensington and Chelsea | (9,355) | | **(9,470)** | |
| Lambeth | (14,199) | | **(14,126)** | |
| Wandsworth | (12,475) | | **(12,463)** | |
| **Total** | | (45,304) | | **(45,190)** |
| **Net Cost of Services** | | 5,742 | | **2,404** |
| **Other Items** | | | | |
| Financing and investment income and expenditure (Note 8) | | 596 | | **358** |
| Other income | | (660) | | **(528)** |
| **Deficit on Provision of Services** | | 5,677 | | **2,234** |
| **Levy on Constituent Authorities** | | | | |
| Hammersmith and Fulham | (824) | | **(1,258)** | |
| Kensington and Chelsea | (1,053) | | **(1,586)** | |
| Lambeth | (1,123) | | **(1,714)** | |
| Wandsworth | (1,410) | | **(2,125)** | |
| | | (4,410) | | **(6,683)** |
| **(Surplus)/ Deficit on Provision of Services** | | 1,267 | | **(4,449)** |
| Surplus on revaluation of Property, Plant and Equipment assets (Note 9) | | - | | **(4,334)** |
| Remeasurements of the net defined benefit liability (Note 25) | | 351 | | **(590)** |
| **Other Comprehensive Income and Expenditure** | | 351 | | **(4,924)** |
| **Total Comprehensive Income and Expenditure** | | 1,618 | | **(9,373)** |

## Expenditure And Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (AWDC charges and the Residual Levy) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

| | 2016/17 £000 | | | **2017/18 £000** | | |
|---|---|---|---|---|---|---|
| | Net Expenditure chargeable to the General Fund | Adjustments between the funding and accounting basis | Net Expenditure in the Comprehensive Income and Expenditure Statement | **Net Expenditure chargeable to the General Fund** | **Adjustments between the funding and accounting basis** | **Net Expenditure in the Comprehensive Income and Expenditure Statement** |
| Employees | 371 | (47) | 324 | **450** | **128** | **578** |
| Premises | 679 | - | 679 | **617** | **-** | **617** |
| General Waste Disposal | 47,239 | - | 47,239 | **44,326** | **-** | **44,326** |
| Other supplies and payments | 1,150 | - | 1,150 | **439** | **-** | **439** |
| Depreciation and Impairment (Note 9) | - | 1,654 | 1,654 | **-** | **1,634** | **1,634** |
| Operating Income | (45,304) | - | (45,304) | **(45,190)** | **-** | **(45,190)** |
| **Net Cost of Services** | 4,135 | 1,607 | 5,742 | **642** | **1,762** | **2,404** |
| Other Expenditure | 1,311 | (716) | 595 | **2,358** | **(2,000)** | **358** |
| Other Income | (660) | - | (660) | **(528)** | **-** | **(528)** |
| Levy income | (4,410) | - | (4,410) | **(6,683)** | **-** | **(6,683)** |
| **Deficit/ (surplus)on Provision of Services** | **376** | **891** | **1,267** | **(4,211)** | **(238)** | **(4,449)** |
| **Opening Usable Reserve Balance** | **13,256** | | | 12,880 | | |
| **Plus surplus or (Deficit) on Revenue Reserve in Year** | **(376)** | | | 4,211 | | |
| **Usable Reserve Balance carried forward** | **12,880** | | | 17,091 | | |

For a breakdown of Useable Reserves, please refer to the Movement in Reserves Statement.

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line.

| | Notes | 31 March 2017 | **31 March 2018** |
|---|---|---|---|
| | | £000 | **£000** |
| Property, Plant and Equipment | 9 | 51,735 | **54,436** |
| **Long Term Assets** | | 51,735 | **54,436** |
| | | | |
| Short Term Debtors | 11 | 5,422 | **8,129** |
| Cash and Cash Equivalents | 12 | 8,859 | **9,119** |
| Prepayments | | 14 | **16** |
| **Current Assets** | | 14,295 | **17,263** |
| | | | |
| Cash and Cash Equivalents | 12 | - | **-** |
| Receipts in Advance | | - | **1,557** |
| Short Term Borrowing | 10 | 2,000 | **2,000** |
| Short Term Creditors | 13 | 6,614 | **3,815** |
| Provisions | 14 | - | **-** |
| **Current Liabilities** | | 8,614 | **7,371** |
| | | | |
| Long Term Borrowing | 10 | 8,500 | **6,500** |
| Pensions | 25 | 4,138 | **3,676** |
| **Long Term Liabilities** | | 12,638 | **10,176** |
| | | | |
| **Net Assets** | | 44,778 | **54,151** |
| | | | |
| Usable Reserves | 15 | 12,880 | **17,091** |
| Unusable Reserves | 16 | 31,898 | **37,061** |
| | | | |
| **Total Reserves** | | 44,778 | **54,151** |

The notes on pages 13 to 45 form part of the financial statements.

C Buss
Treasurer 17th July 2018

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting year. The statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of AWDC charges or the Residual Levy received from the Constituent Authorities. All activities are based on recovery of costs from the Constituent Authorities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

| | 2016/17 £000 | **2017/18 £000** |
|---|---|---|
| **Net deficit/ (surplus) on the provision of services** | 1,267 | **(4,449)** |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements | (886) | **2,189** |
| **Net cash flows from Operating Activities** | 380 | **(2,260)** |
| Investing Activities (Note 18) | 0 | **0** |
| Financing Activities (Note 19) | 3,500 | **2,000** |
| Net decrease/(increase) in cash and cash equivalents | 3,881 | **(260)** |
| | | |
| **Represented by** | | |
| Cash and cash equivalents at the beginning of the reporting year (Note 12) | (12,740) | **(8,859)** |
| Cash and cash equivalent at the end of the reporting year (Note 12) | (8,859) | **(9,119)** |
| Increase in cash and cash equivalents | 3,881 | **(260)** |

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

*i. General Principles*

The Statement of Accounts summarises the Authority's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (England and Wales) 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets. The principal accounting policies have been applied consistently throughout the year.

*ii. Accruals of Income and Expenditure*

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on cash balances and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

*iii. Cash and Cash Equivalents*

Cash is represented by deposits with current retail banker (RBS/ Nat West) and investments via Wandsworth Council repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in a specified period, no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts.

*iv. Exceptional Items*

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

*v. Prior Year  Adjustments, Changes in Accounting Policies and Estimates and Errors*

Prior year adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior year adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior year as if the new policy had always been applied.

Material errors discovered in prior year figures are corrected retrospectively by amending opening balances and comparative amounts for the prior year.

*vi. Charges to Revenue for Non-Current Assets*

Services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

The Authority is not required to charge constituent Boroughs to fund depreciation, revaluation and impairment losses. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

*vii. Employee Benefits*

**Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. health checks) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy and are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

**Post Employment Benefits**

Employees of the Authority are members of the LPFA pension scheme. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Authority.

The liabilities of the pension fund attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.55% in 2017/18 compared to 2.6% in 2016/17 (based on the net present value of the notional cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve – this has changed from the 'spot rate' approach adopted at the previous accounting date).

The assets of the pension fund are valued at market value in the Balance Sheet.

The change in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve; and
- contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

*viii. Events After the Balance Sheet Date*

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting year and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting year – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting year – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

*ix. Financial Instruments*

*Financial Liabilities*

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from a Financial Instruments Adjustment Account in the Movement in Reserves Statement.

*Financial Assets*

Financial assets are classified into two types:

1. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
2. Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

**Loans and Receivables**

The Authority's cash balances are invested via Wandsworth Council earning the rate achieved on their Money Market Fund investments in accordance with the Treasury Management Policy. Overnight balances for cash flow purposes are invested with the current retail banker (RBS/ Nat West) in a Special Interest Bearing Account (SIBA). The Authority pays monthly invoices to the main contractor by the end of the subsequent month and receives incomes due from Constituent Boroughs promptly, according to an agreed schedule. Penalty interest rates are applied to late payments received from Constituent Boroughs.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the service (for receivables specific to the service) or a Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

x. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

**The Authority as Lessee**

*Operating Leases*

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

**The Authority as Lessor**

*Operating Leases*

Where the Authority grants an operating lease over a property or an item of plant or equipment which it owns, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

*xi. Property, Plant and Equipment*

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**Recognition**

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

**Measurement**

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The Authority does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the Authority.

Assets are then carried in the Balance Sheet using the following measurement bases:

- assets under construction – depreciated historical cost;
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value, i.e. for vehicles and moveable plant.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2009 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

**Impairment**

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

**Depreciation**

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land),assets that are not yet available for use (i.e. assets under construction) and assets which have been reclassified from assets under construction within the year.

Depreciation is calculated on buildings, vehicles, plant, furniture and equipment on a straight-line basis over the useful life of the property as estimated by the valuer. (Remaining useful economic lives are as follows: Buildings – either 35 or 60 years, fixed plant and equipment – either 20 or 35 years). Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

*xii. Provisions, Contingent Liabilities and Contingent Assets*

**Provisions**

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settles the obligation.

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

*xiii. Reserves*

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

The Authority created a Pension Liability Reserve in 2012/13 of £1.8 million. In order to recover the deficit on their pension fund, the London Pension Fund Authority (LPFA) notified the Authority of the deficits to be recovered in respect of previous and current employees. To guard against a major increase in the Levy, the Reserve was created to provide against future increases in charges from the LPFA. It remains at £1.8 million in 2017/18. In 2015/16 the Authority created a Levy Equalisation Reserve, a Rates Stabilisation Reserve and a Recycling Initiatives Reserve. These first two reserves were set up as a prudent approach to offset potential changes in rates and the Levy as a result of circumstances outside the Authority's control. These have now been merged into the Stabilisation Reserve from 1st April 2017 and have a balance of £6.829m. The Recycling Initiatives Reserve (£0.250m) may be drawn upon to fund recycling projects in 2017/18 without the need for additional borough funding.

*xiv. VAT*

VAT payable is included as an expense in the comprehensive Income and Expenditure Statement and the capital accounts only to the extent that it is not recoverable from Her Majesty's Revenue and Customs (HMRC). VAT receivable is excluded from income accounts. VAT due from HMRC and payable to HMRC at the year end is accrued in the accounts and included in debtors or creditors.

## 2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The Authority's contractual agreements under the WMSA involve large financial sums up to 2032, with options to extend. The Authority considers that the controls within the WMSA provide sufficient certainty and safeguards to enable accounting policy to be implemented without incurring any impairment to the Authority's assets or future revenue streams.
- There is a high degree of uncertainty about the government's Landfill Tax policy. However, the Authority has determined that this uncertainty is not sufficient to undermine predictions about future levels of AWDC charges and the Residual Levy due to the use of the EfW plant.

## 3. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Authority's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if Actual Results Differ from Assumptions |
|---|---|---|
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. In the event that wear and tear on the assets is more intensive than assumed, then the assets will have to be depreciated over a shorter period of time, resulting in higher repairs and maintenance costs to extend the life of the asset or a shorter repayment period before PWLB loans fall due. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.<br>After the new Valuation as at 31st March 2018, It is estimated that the annual depreciation charge for buildings would increase by £16,000 for every year that useful lives had to be reduced. |
| Pensions Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £179,000. However, the assumptions interact in complex ways. A +1 year adjustment to the mortality age rating assumption would result in an increase in the pension liability of £437,000. |
| Arrears | The Authority recovers the significant majority of its costs from the Constituent Authorities under statute. Late payment by the Constituent Authorities will incur additional cash flow charges or result in a reduction in interest earned on cash flow movements. | If collection rates were to deteriorate, a higher penalty rate would have to be imposed on Constituent Councils to ensure cash flow losses are not incurred. |

## 4. MATERIAL ITEMS OF INCOME AND EXPENSE

There have not been any material items within the Comprehensive Income and Expenditure Statement which require separate disclosure here.

## 5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Treasurer on 31st May 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at

31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

**6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The General Fund is the statutory fund into which all the receipts of the Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Authority is required to recover) at the end of the financial year.

| 2017/18 | General Fund Balance £000 | Movement in Unusable Reserves £000 |
|---|---|---|
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| Charges for depreciation and impairment of non-current assets | **(1,634)** | **1,634** |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| Statutory provision for the financing of capital investment | **-** | **-** |
| Loan repayment charged against the General Fund | **2,000** | **(2,000)** |
| Capital expenditure charged against the General Fund | **-** | **-** |
| **Adjustments primarily involving the Pensions Reserve:** | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 25) | **(236)** | **236** |
| Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 25) | **108** | **(108)** |
| **Total Adjustments** | **238** | **(238)** |

| 2016/17 | General Fund Balance £000 | Movement in Unusable Reserves £000 |
|---|---|---|
| **Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| Charges for depreciation and impairment of non-current assets | **(1,654)** | **1,654** |
| **Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:** | | |
| Statutory provision for the financing of capital investment | **716** | **(716)** |
| Capital expenditure charged against the General Fund | **-** | **-** |
| **Adjustments primarily involving the Pensions Reserve:** | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 25) | **(226)** | **226** |
| Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 25) | **273** | **(273)** |
| **Total Adjustments** | **(891)** | **891** |

**7. TRANSFERS TO/FROM EARMARKED RESERVES**

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

The Authority created a Pension Liability Reserve in 2012/13 of £1.8 million. The Actuary for the Pension fund (administered by the LPFA) has reported on the triennial valuation that as at 31st March 2016, the Authority's element of the LPFA fund was fully funded. This valuation, although it is a forward look, is still only valid as at that point in time and the fund will be subject to market pressures which could mean that the funding level drops due to investments not performing as well as could be expected. In light of this it is proposed to retain the Pension Liability Reserve at this time in provide against future increases in charges from the LPFA requiring increases in the Levy.

In 2015/16 the Authority set up the Levy Equalisation Reserve, Rates Stabilisation Reserve and Recycling Initiatives Reserve. These first two reserves were set up as a prudent approach to offset potential changes in rates and the Levy as a result of circumstances outside the Authority's control. With effect from 1st April 2017 these two reserves have been merged enabling the Authority to have greater flexibility in how it meets spending pressures in these two key areas. The Recycling Initiatives Reserve will enable future recycling projects to be proposed and funded without the requirement of additional borough funding.

| | Balance 1 April 2016 £000 | Transfers Out 2016/17 £000 | Transfers In 2016/17 £000 | Balance 31 Mar 2017 £000 | **Transfers Out 2017/18** £000 | **Transfers In 2017/18** £000 | **Balance 31 Mar 2018** £000 |
|---|---|---|---|---|---|---|---|
| **General Fund:** | | | | | | | |
| General Fund Balance | **6,726** | **2,725** | **-** | **4,000** | **2,000** | **6,211** | **8,211** |
| Pension Liability Reserve | **1,800** | **-** | **-** | **1,800** | | | **1,800** |
| Levy Equalisation Reserve | **1,105** | **-** | **-** | **1,105** | **-1,105** | | **-** |
| Rates Stabilisation Reserve/ renamed Stabilisation Reserve | **3,375** | **-** | **2,349** | **5,724** | **1,105** | | **6,829** |
| Recycling Initiatives Reserve | **250** | **-** | **-** | **250** | | | **250** |
| **Total** | **13,256** | **2,725** | **2,349** | **12,880** | **2,000** | **6,211** | **17,091** |

## 8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

| | 2016/17 | **2017/18** |
|---|---|---|
| | £000 | **£000** |
| Interest payable and similar charges | 529 | **304** |
| Net interest on the net defined benefit liability (asset) | 137 | **116** |
| Interest receivable and similar income | (70) | **(62)** |
| **Total** | 596 | **358** |

## 9. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances 2017/18

A valuation was carried out by the Authority's Valuer, P C Smith, MRICS IRRV (Hons), RICS Registered Valuer of Wilks Head & Eve LLP, on land, buildings and fixed plant and equipment as at 31st March 2018. The results of the valuation are shown below. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.

| | Land and Buildings | Fixed Plant and Equipment | Vehicles and Moveable Plant | **Total** |
|---|---|---|---|---|
| | £000 | £000 | £000 | **£000** |
| Cost or valuation at 1 April 2017 | 42,790 | 13,550 | 223 | **56,563** |
| Additions | - | - | - | **-** |
| Reclassifications | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in Revaluation Reserve | 4,773 | (4,010) | - | **763** |
| Revaluation increases to Surplus/ Deficit on Provision of Services | - | - | - | **-** |
| **At 31 March 2018** | **47,563** | **9,540** | **223** | **57,325** |
| Accumulated Depreciation and Impairment at 1 April 2017 | (2,613) | (1,992) | (223) | **(4,827)** |
| Depreciation charge | (959) | (675) | | **(1,634)** |
| Depreciation written out to the Revaluation Reserve | 3,572 | - | - | **3,572** |
| **At 31 March 2018** | **-** | **(2,667)** | **(223)** | **(2,889)** |
| Net Book Value | | | | |
| **at 31 March 2018** | **47,563** | **6,873** | **-** | **54,436** |
| **at 31 March 2017** | **40,177** | **11,558** | **-** | **51,735** |

Fixed Plant and Equipment

No capital expenditure was incurred during 2017/18.

2016/17

| | Land and Buildings | Fixed Plant and Equipment | Vehicles and Moveable Plant | **Total** |
|---|---|---|---|---|
| | £000 | £000 | £000 | **£000** |
| Cost or valuation at 1 April 2016 | 42,790 | 13,550 | 223 | **56,563** |
| Additions | - | - | - | **-** |
| Reclassifications | - | - | - | **-** |
| Revaluation increases/ (decreases) recognised in Revaluation Reserve | - | - | - | **-** |
| Revaluation increases to Surplus/ Deficit on Provision of Services | - | - | - | **-** |
| **At 31 March 2017** | **42,790** | **13,550** | **223** | **56,563** |
| Accumulated Depreciation and Impairment at 1 April 2016 | (1,654) | (1,317) | (203) | **(3,174)** |
| Depreciation charge | (959) | (675) | (20) | **(1,654)** |
| Depreciation written out to the Revaluation Reserve | - | - | - | **-** |
| **At 31 March 2017** | **(2,613)** | **(1,992)** | **(223)** | **(4,828)** |
| Net Book Value | | | | |
| **at 31 March 2017** | **40,177** | **11,558** | **-** | **51,735** |
| **at 31 March 2016** | **41,136** | **12,233** | **20** | **53,389** |

**10. FINANCIAL INSTRUMENTS**

*Categories of Financial Instruments*

The following categories of financial instrument are carried in the Balance Sheet:

| | Long-term | | Current | |
|---|---|---|---|---|
| | 31 March 2017 £000 | **31 March 2018 £000** | 31 March 2017 £000 | **31 March 2018 £000** |
| **Debtors** | | | | |
| Loans and receivables | - | **-** | 5,422 | **8,129** |
| **Total Debtors** | **-** | **-** | 5,422 | **8,129** |
| **Borrowings** | | | | |
| PWLB loans | 10,500 | **8,500** | - | **-** |
| **Total borrowings** | **10,500** | **8,500** | - | **-** |
| **Creditors** | | | | |
| Financial liabilities at amortised cost | - | - | - | **-** |
| Financial liabilities carried at contract amount | - | - | 6,614 | **3,815** |
| **Total Creditors** | **-** | **-** | 6,614 | **3,815** |

*Fair Values of Assets and Liabilities*

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated ranges of interest rates at 31 March 2017 of 3.50% to 4.57% for loans from the PWLB;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value; and
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

| | 31 March 2017 | | **31 March 2018** | |
|---|---|---|---|---|
| | Carrying amount £000 | Fair value £000 | **Carrying amount £000** | **Fair value £000** |
| Public Works Loans Board | 10,500 | 11,810 | **8,500** | **9,282** |

The fair value of outstanding long term debts as at 31st March 2018 was higher than the book value due to the changes in market factors since the original borrowing was made.

Available for sale assets and assets and liabilities at fair value through profit or loss are carried in the Balance Sheet at their fair value. These fair values are based on public price quotations where there is an active market for the instrument. The exceptions to this treatment are short term debtors and creditors are carried at cost as this is a fair approximation of their value.

**11. SHORT TERM DEBTORS**

Short term debtors and accrued income at 31st March 2017 and 31st March 2018 can be analysed as follows:

| **ITEM** | 31 March 2017 £000 | **31 March 2018 £000** |
|---|---|---|
| Constituent Councils | 3,606 | **4,925** |
| VAT Reimbursements due | 1,441 | **1,440** |
| Other sums due | 375 | **1,764** |
| **Total** | **5,422** | **8,129** |

**12. CASH AND CASH EQUIVALENTS**

The balance of Cash and Cash Equivalents is made up of the following elements:

| | 31 March 2017 £000 | **31 March 2018 £000** |
|---|---|---|
| Short term credit in cash flow held by RBS/ Nat West | 919 | **1,086** |
| Short term credit in cash Flow held by Wandsworth Council | 7,940 | **8,033** |
| **Total** | **8,859** | **9,119** |

### 13. SHORT TERM CREDITORS

Creditor payments 31st March 2017 and 31st March 2018 can be analysed as follows:-

| ITEM | 31 March 2017 £000 | **31 March 2018 £000** |
|---|---|---|
| Main contractor | 3,833 | **3,629** |
| Other creditors | 2,781 | **186** |
| **Total** | **6,614** | **3,815** |

### 14. PROVISIONS

There are no provisions set up in the accounts.

### 15. USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement.

### 16. UNUSABLE RESERVES

| | **31 March 2017 £000** | **31 March 2018 £000** |
|---|---|---|
| Revaluation Reserve | 18,552 | **22,887** |
| Pensions Reserve | **(4,138)** | **(3,676)** |
| Capital Adjustment Account | **17,484** | **17,850** |
| Accumulated Absences Account | **-** | **-** |
| **Total Unusable Reserves** | **31,898** | **37,061** |

**Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2009, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

## Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | 2016/17<br>£000 | **2017/18**<br>**£000** |
|---|---|---|
| **Balance at 1 April** | (3,834) | **(4,138)** |
| Remeasurements of the net defined benefit liability/ (asset) | (351) | **590** |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (226) | **(236)** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 273 | **108** |
| **Balance at 31 March** | (4,138) | **(3,676)** |

## Capital Adjustment Account

The Capital Adjustment Account contains the amounts contributed from the Comprehensive Income and Expenditure Statement for the repayment of external loans, and is adjusted for depreciation. There has been no provision for debt redemption in 2017/18 as voluntary additional contributions have been made to date and therefore a payment 'holiday' is in operation. In 2017/18 £2m of PWLB loans have been repaid and in order to write out the annual provision for debt redemption in relation to these debts, a payment has been made between the General Fund and the Capital Adjustment Account.

| | 2016/17<br>£000 | **2017/18**<br>**£000** |
|---|---|---|
| **Balance at 1 April** | 18,422 | **17,484** |
| Provision for debt redemption | 716 | **-** |
| Depreciation provision | (1,654) | **(1,634)** |
| Revaluation losses on Property, Plant and Equipment | - | **-** |
| Repayment of PWLB loans | - | **2,000** |
| **Balance at 31 March** | 17,484 | **17,850** |

**Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

The effect of any annual leave entitlement carried forward at 31 March 2018 is deemed immaterial in the accounts.

### 17. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

| | 2016/17 | **2017/18** |
|---|---|---|
| | £000 | **£000** |
| Interest received | (70) | **(62)** |
| Interest paid | 529 | **304** |

### 18. CASH FLOW STATEMENT – INVESTING ACTIVITIES

| | 2016/17 | **2017/18** |
|---|---|---|
| | £000 | **£000** |
| Purchase of property, plant and equipment | - | **-** |
| Other payments for investing activities | - | **-** |
| Other receipts from investing activities | - | **-** |
| **Net cash flows from investing activities** | - | **-** |

### 19. CASH FLOW STATEMENT – FINANCING ACTIVITIES

| | 2016/17 | **2017/18** |
|---|---|---|
| | £000 | **£000** |
| Cash receipts of short- and long-term borrowing | **-** | - |
| Repayments of short- and long-term borrowing | 3,500 | **2,000** |
| **Net cash flows from financing activities** | 3,500 | **2,000** |

**20. OFFICERS' REMUNERATION**

The remuneration paid to the Authority's senior employees is as follows:

| Title | Year | Salary, Fees and Allowances £ | Bonuses £ | Expenses Allowances £ | Pension Contribution £ | **Total £** |
|---|---|---|---|---|---|---|
| General Manager | 2016/17 | 124,154 | 11,121 | 11,392 | 16,434 | 163,101 |
| | **2017/18** | **128,814** | **11,593** | **500** | **17,503** | **158,410** |
| Deputy General Manager | 2016/17 | 69,776 | 6,249 | 11,478 | 9,384 | 96,887 |
| | **2017/18** | **72,615** | **6,520** | **24** | **9,909** | **89,068** |

Bonuses relates to a Performance Related Pay award. Expenses allowances in 2016/17 includes a one-off compensation payment for the withdrawal of the offer of Private Medical Insurance.

The Authority's other employees receive below £50,000 remuneration for the year (excluding employer's pension contributions).

**21. EXTERNAL AUDIT COSTS**

The Authority has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Authority's auditors:

| | 2016/17 £000 | **2017/18 £000** |
|---|---|---|
| Fees payable to KPMG LLP with regard to external audit services carried out by the appointed auditor for the year 2016/17 and 2017/18 | 16 | **16** |

**22. RELATED PARTIES**

This disclosure note has been prepared on the basis of specific declarations obtained in respect of related party transactions from each of the Authority's Members and senior staff. There are no declarable related party transactions with senior officers, Members or their related parties with the exception of the following:

The Authority is composed of Councillors appointed by four constituent London Councils: Hammersmith and Fulham, Kensington and Chelsea, Lambeth and Wandsworth. The Authority's Clerk and Treasurer were chief officers of Wandsworth Council during 2016/17. The Authority's Treasurer was a chief officer of Kensington and Chelsea during 2017/18. The Authority had transactions with all four constituent Councils as waste collection authorities liable to pay for disposal of waste and to pay levies, as detailed in the Comprehensive Income and Expenditure Statement.

The Authority's accounts also include the costs of the following services provided by Wandsworth Council:

| | 2016/17 £ | **2017/18 £** |
|---|---|---|
| Financial Services | 50,000 | **51,570** |
| Other Services (admin support etc) | 41,000 | **32,000** |
| Total | 91,000 | **83,570** |

At 31st March 2017 and 31st March 2018 the following Authority balances related to Wandsworth Council:

| | 31 March 2017 £ | **31 March 2018 £** |
|---|---|---|
| Debtors and Accrued Income | 986,786 | **1,024,804** |

These sums relate to invoices which are not payable until April 2017 and April 2018 respectively.

Net interest payments on cash flow balances of £37,844 were received by the Authority from Wandsworth Council for the year 2017/18 whilst net interest payments for 2016/17 amounted to £52,949.

**23. CAPITAL EXPENDITURE AND CAPITAL FINANCING**

There was no capital expenditure incurred in the year is shown in the table below. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

| | 2016/17 £000 | **2017/18 £000** |
|---|---|---|
| **Opening Capital Financing Requirement** | 16,349 | **15,633** |
| **Capital investment** | | |
| Capital Expenditure | - | **-** |
| | | |
| **Sources of finance** | | |
| MRP | (716) | **-** |
| Direct revenue contributions | - | **(2,000)** |
| Closing Capital Financing Requirement | 15,633 | **13,633** |
| | | |
| **Explanation of movements in year** | | |
| Reduction in underlying need to borrow (unsupported by government financial assistance) | (716) | **(2,000)** |
| **Decrease in Capital Financing Requirement** | (716) | **(2,000)** |

## 24. LEASES

**Authority as Lessee**

*Operating Leases*

The Authority leases the Energy from Waste facility at Belvedere at a peppercorn rent. The Authority relinquished a lease from Wandsworth Borough Council for the use of Feather's Wharf at the end of October 2013. Therefore no lease payments have been made for the year 1st April 2017 to 31st March 2018.

## 25. DEFINED BENEFIT PENSION SCHEMES

1. PENSION FUND**.** As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

2. Local Government Pension Scheme. All permanent staff are eligible for inclusion in the statutory Local Government Pensions Scheme (LGPS) which is administered by the London Pensions Fund Authority (LPFA) under the Local Government Pension Scheme Regulations. Employee costs shown in the accounts include the contributions paid to the scheme in respect of the employees concerned in accordance with Regulations governing the Scheme. An independent firm of actuaries, Barnett Waddingham, was instructed to undertake IAS 19 calculations on behalf of the Authority as at 31st March 2018.

3. We recognise the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the Levy is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| | Year to 31 March 2017 £000 | **Year to 31 March 2018 £000** |
|---|---|---|
| Comprehensive Income and Expenditure Statement | | |
| Service cost | 89 | **120** |
| *Financing and Investment Income and Expenditure* | | |
| Net Interest Expense | 137 | **116** |
| *Total Post-employment Benefits charged to the Surplus of Deficit on the Provision of Services* | 226 | **236** |
| *Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement* | | |
| Remeasurement of the net defined benefit liability comprising: | | |
| Return on plan assets (excluding the amount included in the net interest expense) | (1,055) | (218) |
| Actuarial gains and losses arising on changes in demographic assumptions | (23) | - |
| Actuarial gains and losses arising on changes in financial assumptions | 1,821 | (372) |
| Actuarial gains and losses arising on changes in demographic assumptions | (117) | - |
| Experience gain/(loss) on defined benefit obligation | (275) | - |
| *Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement* | **351** | **(590)** |

| | | |
|---|---|---|
| Movement in Reserves Statement | | |
| Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code | (226) | **(236)** |

| | | |
|---|---|---|
| *Actual amount charged against the General Fund Balance for pensions in the year:* | | |
| Employers' contributions payable to scheme | **273** | **108** |

4. Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined benefit plans is as follows:

| | 2016/17<br>£000 | **2017/18**<br>**£000** |
|---|---|---|
| Present value of the defined benefit obligation | 11,538 | **11,304** |
| Fair value of scheme assets | 7,426 | **7,650** |
| Present value of unfunded obligation | 26 | 22 |
| **Net liability arising from defined benefit obligation** | 4,138 | **3,676** |

Reconciliation of the Movements in the Fair Value of Scheme Assets

| ITEM | 2016/17<br>£000 | **2017/18**<br>**£000** |
|---|---|---|
| **Opening fair value of scheme assets** | 6,235 | **7,426** |
| Interest income | 217 | 191 |
| Remeasurement gain/ (loss): | | |
| The return on assets, excluding the amount included in the net interest expense | 1,055 | 218 |
| Other actuarial gains/ (losses) | 23 | - |
| Contributions from employer | 273 | 108 |
| Contributions from employees into the scheme | 34 | 30 |
| Benefits paid | (403) | (313) |
| Administration expenses | (8) | (10) |
| **Closing fair value of scheme assets** | 7,426 | **7,650** |

Reconciliation of Present Value of the Scheme Liabilities

| ITEM | 2016/17<br>£000 | **2017/18**<br>**£000** |
|---|---|---|
| **Opening balance 1 April** | 10,069 | **11,564** |
| Current service cost | 89 | 120 |
| Interest cost | 346 | 297 |
| Contributions from scheme participants | 34 | 30 |
| Remeasurement (gains) and losses: | | |
| - Actuarial gains/losses arising from changes in demographic assumptions | (117) | - |
| - Actuarial gains/losses arising from changes in financial assumptions | 1,821 | (372) |
| Experience loss/(gain) on defined benefit obligation | (275) | - |
| Past Service Cost | - | - |
| Liabilities assumed on entity combinations | | |
| Benefits paid | (398) | (308) |
| Unfunded pension payments | (5) | (5) |
| **Closing balance at 31 March** | 11,564 | **11,326** |

5. Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The significant assumptions used by the actuary have been:

| | 2016/17 | **2017/18** |
|---|---|---|
| Longevity at 65 for current pensioners: | | |
| -Men | 20.6 | **20.7** |
| -Women | 23.8 | **23.9** |
| Longevity at 65 for future pensioners: | | |
| -Men | 23.0 | **23.1** |
| -Women | 26.1 | **26.2** |
| Rate of inflation | 2.60 | **2.35** |
| Rate of increase in salaries | 4.10 | **3.85** |
| Rate of increase in pensions | 2.60 | **2.35** |
| Rate for discounting scheme liabilities | 2.60 | **2.55** |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| | £000 | £000 | £000 |
|---|---|---|---|
| Longevity (sensitivity) | +1 Year | None | -1 Year |
| Present Value of Total Obligation | 11,763 | 11,326 | 10,905 |
| Projected Service Cost | 116 | 112 | 109 |
| Rate of increase in salaries (sensitivity) | +0.1% | 0.0% | -0.1% |
| Present Value of Total Obligation | 11,346 | 11,326 | 11,305 |
| Projected Service Cost | 112 | 112 | 112 |
| Rate of increase in pensions (sensitivity) | +0.1% | 0.0% | -0.1% |
| Present Value of Total Obligation | 11,487 | 11,326 | 11,167 |
| Projected Service Cost | 115 | 112 | 110 |
| Rate for discounting scheme liabilities (sensitivity) | +0.1% | 0.0% | -0.1% |
| Present Value of Total Obligation | 11,147 | 11,326 | 11,507 |
| Projected Service Cost | 110 | 112 | 115 |

## 26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Authority's activities expose it to a variety of financial risks in respect of financial instruments:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority.
- Liquidity risk – the possibility that the Authority may not have the funds available to meet its commitments to make payment.
- Refinancing risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund its services. The procedures for risk management in relation to key financial instruments are set out through the legal framework detailed within the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance. Overall, the Authority is required to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators which limit the Authority's overall borrowing, it's maximum and minimum exposures to fixed and variable

interest rates and its maximum and minimum exposure to the maturity structure of its debt.

In order to comply with the requirement that the Authority is required to set a balanced budget (Local Government Finance Act 1992) the above is required to be reported at the same time as the levy setting meeting. The annual treasury management strategy outlines the detailed approach to managing risk in relation to financial instrument exposure. Actual performance is compared to the strategy and reported annually to Members.

In accordance with Standing Orders, the Treasurer is responsible for all of the Authority's banking, borrowing and investment activities. Under the Authority's existing arrangements, the London Borough of Wandsworth administers part of the treasury management function on behalf of WRWA, with the remainder invested with the current retail banker (RBS/ Nat West) in a Special Interest Bearing Account (SIBA). WRWA receives reports and monitors the treasury management performance of the London Borough of Wandsworth on a regular basis.

**Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers. Credit risk with banks and financial institutions are managed under the Treasury Management arrangements operated by the London Borough of Wandsworth.

**Credit Risk in relation to payments due from Council Customers (Debtors)**

Credit risks can arise from the Authority's exposure to customers. As the great majority of income due to WRWA is derived from its four constituent boroughs, risks are low. Payments for services are either required in advance or due at the time the service is provided. As at 31st March 2018, £8.129 million (£5.422 million as at 31 March 2017) is due to the Authority from its customers. Of this sum, constituent councils were liable to pay a net £4.902 million all of which was accrued income to the authority, and payable in April 2018. VAT due from the HMRC for February and March 2018 totalled £1.4 million whilst VAT due for February and March 2017 amounted to £1.4 million. These sums were received in April and May 2018 and 2017 respectively.

There was no provision for bad debts as at 31st March 2017 and 31st March 2018 as all outstanding debtors are expected to be paid.

**Credit risk arising from deposits with Banks and Financial Institutions.**

This is managed through the Treasury Management Arrangements which adopt the same as those operated by the London Borough of Wandsworth.

**Liquidity Risk**

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Authority has ready access to the Public Works Loans Board (PWLB). The PWLB provides access to longer-term funds and acts as lender of last resort to authorities. Therefore there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. As at 31st March 2018, all of the Authority's outstanding loans were with PWLB.

Through the Local Government Finance Act 1992, the Authority is required to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is no significant risk that the Authority will be unable to raise finance to meet its commitments.

**Refinancing and Maturity Risk**

The key risk is that the Authority will be bound to replenish a significant proportion of its financial instruments, in the form of PWLB loans, at a time of unfavourable interest rates. The risk relates to maturing financial liabilities as all PWLB loans are maturity loans. The Authority approved Treasury Management and Investment Strategies address the main risks and the Treasurer addresses the operational risks within approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling existing debt; and
- monitoring the daily cash flow.

The maturity structure for borrowing as at 31st March 2017 and 31st March 2018 is set out below and is within the Authority's Prudential Code limits for 2016/17 and 2017/18 as set out in its Treasury Management Strategy:

| <u>**Renewal Period**</u> | Market Loans Outstanding as at 31 March 2017 £000 | % of Total borrowing | **Market Loans Outstanding as at 31 March 2018 £000** | **% of Total borrowing** |
|---|---|---|---|---|
| Less than One Year | 2,000 | 19.0 | **2,000** | **23.5** |
| Between One and Two Years | - | - | **3,500** | **41.2** |
| Between Two and Five Years | 7,500 | 71.4 | **2,000** | **23.5** |
| Between Five and Ten Years | 1,000 | 9.5 | **1,000** | **11.8** |
| More than Ten Years | - | - | **-** | **-** |
| **Total** | 10,500 | 100.0 | **8,500** | **100.0** |

**Market Risk**

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings. Interest rates during 2016/17 and 2017/18 continue at a reasonably low level. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would cause the fair value of the liabilities to fall because our borrowings are at fixed rates.

Since the Authority's borrowings are not carried at fair value, nominal gains and losses on fixed rate borrowings will not impact on the Comprehensive Income and Expenditure Statement.

The Authority has the following strategies to manage interest rate risk:

- All the Authority's borrowings are at fixed rates for the period of the loan.
- Spreading the maturity of loans so that a large proportion of loans do not mature in the same year.
- Ensure the average maturity period for all new loans is at least 4 years.

In view of the fact that the Authority has no variable rate borrowings, no financial impact on the Authority's financial performance for 2017/18 is reported in the key financial statements.

**WESTERN RIVERSIDE WASTE AUTHORITY**

**ANNUAL GOVERNANCE STATEMENT 2017/18**

## 1. SCOPE OF RESPONSIBILITY

The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The Authority has reviewed governance arrangements against the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* (including the subsequent Addendum). This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2015 in relation to the publication of a statement of internal control.

## 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they materialise, and to manage them efficiently, effectively and economically.

The governance arrangements that have been in place at the Authority for the year ended 31st March 2018 and up to the date of approval of the statement of accounts comprise:

- **Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users.** The Authority's strategic approach was established within the framework of the Riverside Waste Partnership (Joint Municipal Waste Management Strategy) with its four constituent councils, the London Boroughs of Hammersmith and Fulham, Lambeth and Wandsworth and the Royal Borough of Kensington and Chelsea. This Strategy was supplemented in 2013 with the adoption of a joint waste policy document and in 2016 the Authority, jointly with the other five statutory joint waste disposal authorities, endorsed a number of points it believes are critical to developing a 'Circular Economy' and agreed a position paper on recycling. These documents, together with the Authority's Annual Report are the key documents that contain the vision, purpose and intended outcomes for citizens and service users and published on the Authority website.

- **Reviewing the Authority's vision and its implications for the Authority's governance arrangements.** As set out in the joint waste policy document, the Authority's vision is to continue to promote the use of waste management techniques higher up the waste hierarchy as they represent best value both environmentally and economically. Performance is reviewed annually within an Annual Report. The joint strategy/waste policy document was due for review in 2015 but the Authority decided to postpone this review until the new Mayor of London's position on waste was known and what England's plans for a Circular Economy would be following the 2016 EU Referendum. In February 2017 the Authority agreed to the production of an in depth report on recycling for its meeting in June 2017. This recycling report is likely to be the first stage in a process that could lead to the development of a new joint waste strategy in 2018/19.

- **Measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources.** The Authority has an effective performance management culture and system with regular review of key performance indicators at officer and Member level. In-year monitoring reports and year-end reviews are presented to the Authority to monitor progress and action plans for seeking continuous improvement are in place and progress reviewed.

- **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.** The Authority's Constitution and Standing Orders set out how the Authority operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The membership of the Authority comprises eight elected Members, with each of the four constituent councils appointing two Members, providing a high level of scrutiny for the Authority.

- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and staff.** Members from the constituent authorities comply with their own authority codes. The officer Codes of Conduct are robust and set out clear and distinctive rules in relation to the giving and receiving of gifts and hospitality and are made available to officers. These were reviewed during 2015/16.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.** As part of a complete review of governance arrangements the Authority undertook a comprehensive review of delegations and proper officer functions in 2015/16. The Authority has a Risk Management Strategy that is embedded within the management processes and a specific risk assessment is undertaken as part of the annual review of the Authority's internal control procedures.

- **Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities.*** Due to the nature and size of the Authority these functions are effectively undertaken at the Authority level.

- **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.** Authority officers provide appropriate advice at the points of consideration and report to Members on progress and the outcome of decisions taken. Monitoring of compliance is undertaken by the Clerk to the Authority (as the Authority's monitoring officer), supported by the General Manager and the Treasurer (as the s.73 officer), with legal advice available via the Authority's legal advisers. Members are informed of relevant legal advice as it is received. All reports that have actual or potential financial implications include a Treasurer's comment.

- **Counter-fraud, anti-corruption, whistle-blowing and receiving and investigating complaints from the public.** The relevant Policies and Procedures, which were reviewed in 2015/16, when combined with proper procedures and audits, are effective in terms of reports of possible frauds or financial regularities. The Authority's complaints system is effective with numbers of complaints and reasons for complaints monitored by officers.

- **Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training.** Formal protocols are not required within the Authority, given its size and the simplicity of its decision making processes, although Members are informed of their role in an induction pack. Officer training needs are judged to be adequately identified at annual review meetings with line managers and catered for as required with individual training plans.

- **Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.** The Authority works in partnership with its constituent councils and maintains an effective internet site to provide feedback for all stakeholders. All meetings of the Authority are open to the press and public, except when exempt information is being considered, and minutes of the meetings are published on the Authority's website.

## 3. REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance arrangements including the system of internal control. The review of effectiveness is informed by the work of the senior officers who have responsibility for the development and maintenance of the governance environment, the Head of Audit's annual report and also by comments made by the external auditors and other review agencies.

**Governance framework.** The Authority's governance framework is embodied within a number of specific policies, codes of practice and procedures that are subject to regular review. The review of the Authority's existing governance arrangements against the updated CIPFA and SOLACE guidance highlighted the issue that many of the specific requirements of the guidance did not apply to the Authority as they relate to the statutory framework for local authorities and that given the compact size and single service nature of a joint waste disposal authority there is no need to adopt a specific Code of Governance as the current arrangements are generally fit for purpose.

**Financial management.** The Authority's financial management arrangements are based on a framework of a procurement code of practice and a scheme of delegations to officers that encompasses the accountability, segregation of duties, management and supervision, and administrative procedures. In particular the system includes:

- Comprehensive budgeting systems
- An annual budget approved by the Authority, formally revised in the year of account as part of the annual budget process
- A medium term financial planning process
- Mid-year and outturn reported to the Authority
- Budget review meetings with constituent Council's Finance officers
- Risk Management Strategy that is embedded within the management processes

**Review Mechanisms.** There is an annual review of the procedures and controls in place which if any amendments are required can be addressed at: The Management Team meetings, via the Standing Order No. 38 authorisation process or at an Authority meeting.

**Internal Audit.** The annual review of the procedures and controls in place at the Authority concluded that there is basically a sound system of control in operation. Robust review mechanisms are in place that enable Members to take reasonable assurance that the Authority's governance arrangements, including internal control, are effective, operated vigorously and contribute to the achievement of the Authority's overarching objectives.

**Clerk to the Authority (as Monitoring Officer).** There are no issues in this statement report that need to be specifically commented upon.

The senior officers are of a view that the governance arrangements, including the risk management arrangements of the Authority, are generally satisfactory and meet the relevant requirements of the CIPFA and SOLACE guidance on "Delivering Good Governance".

## 4. CONCLUSION

Governance arrangements, including internal control, across the Authority are generally sound. The Authority's review mechanisms are an effective framework for maintaining satisfactory governance arrangements including identifying any issues and for monitoring and securing their implementation.

## 5. CERTIFICATE

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and action plans to address any weaknesses identified and ensure continuous improvement of the system are in place. We are satisfied that these plans satisfactorily address the need for improvements that have been identified during the year and propose over the coming year to take reasonable steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements and we will monitor their implementation and operation as part of our next annual review.

**Signed:** ………………………………………… ………………………………………………

Clerk Chairman

On behalf of Western Riverside Waste Authority 17th July 2018

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTERN RIVERSIDE WASTE AUTHORITY

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion

We have audited the financial statements of Western Riverside Waste Authority ('the Authority') for the year ended 31 March 2018 which comprise the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Movement in Reserves Statement, the Authority Cash Flow Statement, and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

#### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

#### Other information published with the financial statements

The Treasurer is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

#### Treasurer's responsibilities

As explained more fully in the statement set out on page 6, the Treasurer is responsible for: the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

#### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

## REPORT ON OTHER LEGAL AND REGULATORY MATTERS

### Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Western Riverside Waste Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Western Riverside Waste Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Western Riverside Waste Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### Statutory reporting matters

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

**CERTIFICATE OF COMPLETION OF THE AUDIT**

We certify that we have completed the audit of the financial statements of Western Riverside Waste Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Joanne Lees
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL

July 2018

KPMG

# External Audit Report 2017/18

**Western Riverside Waste Authority**

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July 2018

# Content

**Contacts in connection with this report are:**

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This report is addressed to Western Riverside Authority (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Jo Lees, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

# Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to Western Riverside Waste Authority (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

**Basis of preparation:** We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

**Purpose of this report:** This Report is made to the Authority in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

**Limitations on work performed:** This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

**Status of our audit:** Our audit is largely complete. We are awaiting some information from the London Pension Fund Authority auditors; and need to undertake our final review and completion procedures. We do not expect these steps to change the matters communicated in this Report significantly. We will provide an oral update on the status of our audit at the Authority meeting.

# Summary

| Financial statements audit – see section 2 for further details |
|---|
| Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Authority adopting them and receipt of the management representations letter.<br>We have completed our audit of the financial statements. We have read the Narrative Report and reviewed the Annual Governance Statement (AGS). Our key findings are:<br>• There are no unadjusted audit differences.<br>• We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.<br>• We are only asking for routine management representations.<br>• We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.<br>• We reviewed the narrative report and have no matters to raise with you.<br>• We did not receive any queries or objections from local electors this year.<br>We are now in the completion stage of the audit and anticipate issuing our completion certificate by 31 July 2018. We also intend to issue our 2017/18 Annual Audit Letter in August 2018. |
| **Value for money – see section 3 for further details** |
| Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018. |

# Summary

## Other matters

ISA 260 requires us to communicate to you by exception ‘audit matters of governance interest that arise from the audit of the financial statements’ which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report. In addition, we have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014. There are no other matters which we wish to draw to your attention relating to the audit of the Authority’s 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendation raised in our ISA260 report in 2016/17. We have not made any new recommendations as a result of our 2017/18 work.

# Financial statements audit

We audit your financial statements by undertaking the following:

| | Accounts production stage | | |
|---|---|---|---|
| **Work Performed** | **Before** | **During** | **After** |
| **1. Business understanding:** review your operations | ✓ | ✓ | – |
| **2. Controls:** assess the control framework | ✓ | – | – |
| **3. Prepared by Client Request (PBC):** issue our prepared by client request | ✓ | – | – |
| **4. Accounting standards:** agree the impact of any new accounting standards | ✓ | ✓ | – |
| **5. Accounts production:** review the accounts production process | ✓ | ✓ | ✓ |
| **6. Testing:** test and confirm material or significant balances and disclosures | – | ✓ | ✓ |
| **7. Representations and opinions:** seek and provide representations before issuing our opinions | ✓ | ✓ | ✓ |

We have completed the first six stages and report our key findings below:

| | |
|---|---|
| 1. Business understanding | In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section. |
| 2. Assessment of the control environment | We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit. |
| 3. Prepared by client request (PBC) | We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We are pleased to report that this has resulted in good quality working papers with clear audit trails. |
| 4. Accounting standards | We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes related to:<br>• Enhancements to introduce key reporting principles for the Narrative Report; and<br>• updates to the 'Presentation of Financial Statements' section to clarify the reporting requirements for accounting policies and going concern reporting.<br>We have no matters to bring to your attention regarding these changes |

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# Financial statements audit

| | |
|---|---|
| 5. Accounts Production | We received complete draft accounts by 1 June 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.<br><br>The Authority was successful in meeting the earlier deadline for the production of the financial statements. We consider the Authority's accounting practices to be appropriate.<br><br>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe. |
| 6. Testing | We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. During the audit we identified only presentational issues which have been adjusted as they have no material effect on the financial statements. |
| 7. Representations | You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Deputy Treasurer on 6 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. |

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with Management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over valuation of land and buildings; pension assets and liabilities; faster close; and complex supplier arrangements which were identified as other areas of audit focus within our audit plan and which will form a part of our audit opinion;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

# Financial statements audit

### Authority significant audit risks

We did not identify any significant risks in relation to the Authority's financial statements. Significant risks are those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

### Authority other areas of audit focus

We did identify four 'other areas of audit focus'. These areas are those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| Valuation of land and buildings | Land and Buildings, £47,563k, PY £40,177k; and Fixed Plant and Equipment, £6,873k, PY £6,873k. | The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a revaluation model which sees land and buildings revalued every five years, with the latest valuation completed for all land and buildings as at 31 March 2018.<br><br>We reviewed the approach that the Authority adopted to revaluing its land and buildings, including assessing the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).<br><br>We reviewed the accounting entries made to record the results of the revaluation of the Authority's land and buildings in order to ensure that they were appropriate.<br><br>As a result of this work we determined that the accounts appropriately reflected the valuer's valuations of the Authority's land and buildings, and plant and equipment. We were also satisfied that the approach taken by the valuer to the valuations was reasonable. We only identified relatively minor presentational adjustments to the treatment of movements in reserves relating to the adjustments stemming for revaluation movements.<br><br>We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 12. |

# Financial statements audit

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| Pension assets and liabilities | Pension liability, £3,676k, PY £4,138k; and Pension reserve, £3,676k, PY £4,138k | The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of the London Pension Fund Authority, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.<br><br>The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation.<br><br>There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.<br><br>There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.<br><br>As part of our work we reviewed the controls that the Authority has in place over the information sent to the Scheme Actuary, including the Authority's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Barnett Waddingham.<br><br>We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Barnett Waddingham. In addition, we reviewed the overall Actuarial valuation and considered the disclosure implications in the financial statements.<br><br>In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit, we liaised with the actuary auditor of the Pension Fund to obtain assurance over the overall value of fund assets and to understand how these assets are allocated across participating bodies.<br><br>As a result of this work we determined that pension assets and liabilities movements and year end balances were reflected correctly in the financial statements.<br><br>We have set out our view of the assumptions used in valuing pension assets and liabilities at page 12. |

# Financial statements audit

| Other areas of audit focus | Account balances effected | Summary of findings |
|---|---|---|
| Faster close | No specific account balances | In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.<br><br>These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.<br><br>We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines.<br><br>We received draft financial statements on the statutory deadline of 31 May 2018. The quality of this draft was consistent with that of prior years, and we have only identified relatively minor presentational matters that have been amended in the financial statements.<br><br>As a result of this work we determined that the Authority has managed the faster close requirements effectively with no significant impact on the quality of the financial statements presented for audit. |
| Complex supplier arrangements | Operating expenditure – general waste disposal £44,236k, PY £47,239k; and Operating income £45,190k, PY £45,304k. | The Authority has a significant contract with Cory Limited (for the provision of waste management services) as part of a 30 year Waste Management Services Agreement. (The Agreement commenced in May 2002.) As part of company refinancing and reorganisation, Cory has negotiated a refinanced contract with the Authority.<br><br>As part of our audit, we have:<br>— Reviewed the contract in place between the Authority and Cory Limited, including understanding the changes agreed in late March 2017;<br>— Substantively tested transactions that relate to the contract;<br>— Performed unrecorded liabilities testing, cut off testing and considered any post year-end credit notes; and<br>— Reviewed the relevant disclosures in the financial statements.<br><br>We have no matters to bring to your attention from completing this work. |

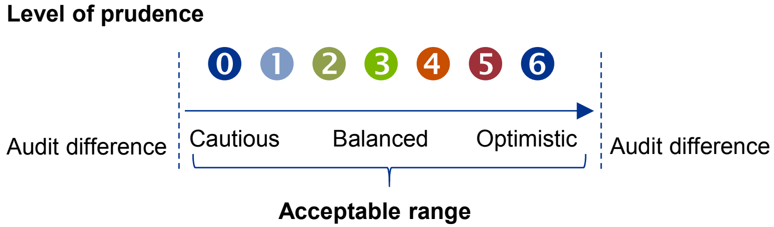
# Financial statements audit

| Risks that ISAs require us to assess in all cases | Why | Our findings from the audit |
|---|---|---|
| Fraud risk from revenue recognition | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.<br><br>In the public sector this risk is modified to include consideration of expenditure recognition. For the Authority this also links with the complex supplier arrangements. We will understand key revenue and expenditure controls; evaluate accounting policies for income and expenditure controls; test material income and expenditure streams focusing on areas with most audit risk; and test revenue and expenditure cut off. | There are no matters arising from this work that we need to bring to your attention. |
| Fraud risk from management override of controls | Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.<br><br>In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.<br><br>We have not identified any specific additional risks of management override relating to this audit. | There are no matters arising from this work that we need to bring to your attention. |

# Financial statements audit

### Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements.  We summarise our view below using the following scale:




| Assessment of subjective areas | | | | |
|---|---|---|---|---|
| **Asset / liability class** | **Current year** | **Prior year** | **Balance (£m)** | **KPMG comment** |
| PPE: valuation and asset lives | 3 | 4 | £54.436 (PY:£51.735) | The previous valuation had been undertaken as at 31 March 2014. The new valuation has been completed as at 31 March 2018. We completed our testing, as summarised on page 8. Our work did not identify any concerns relating to PPE judgements. |
| Pension liability | 3 | 3 | £3.676 (PY:£4.138) | The Authority continues to use Barnett Waddingham to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation.  For example, a 0.5% change in the discount rate would change the net liability by £550,000.<br>The actual assumptions adopted by the actuary fell within our expected ranges. |

# Financial statements audit

## Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

## Queries from local electors

We did not receive any questions or objections from members of the public this year.

## Audit certificate

We have completed all our responsibilities in relation to the audit of the accounts for the year end 31 March 2018 and anticipate issuing our audit certificate with our audit opinion.

## Whole of Government Accounts (WGA)

We reviewed your WGA consolidation pack and note that the Authority is below the threshold for audit review and reporting.

## Audit fees

Our fee for the audit was £15,660 excluding VAT (£15,660 excluding VAT in 2016/17). This fee was in line with that reported in our audit plan approved by the Authority in February 2018.

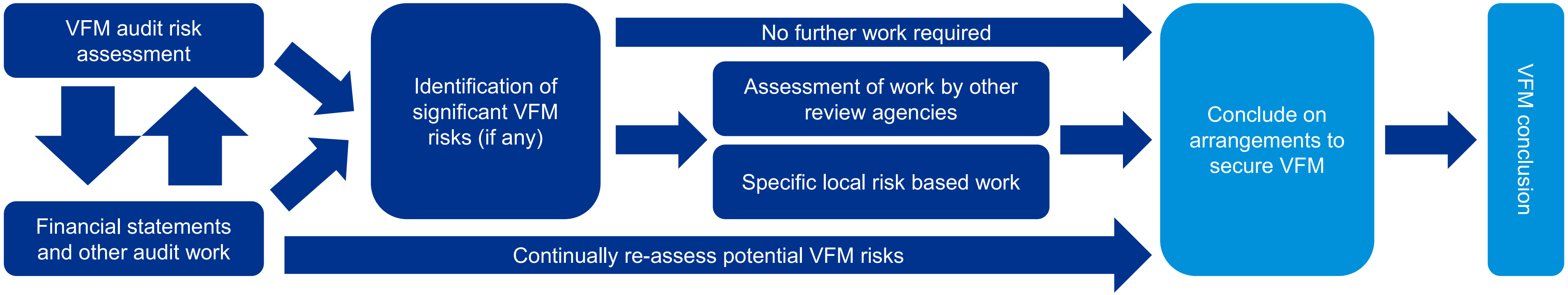
We have not completed any non-audit work at the Authority in year.

# Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:




We did not identify any significant VFM risks or any other areas of audit focus in respect of our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

## Appendix 1

# Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in February 2018.

Materiality for the Authority's accounts was set at £950,000 which equates to around 2% of gross expenditure.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Authority

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £45,000 for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Authority to assist it in fulfilling its governance responsibilities.

# Audit differences

### Adjusted and unadjusted audit differences

We have not identified any audit differences in the work we have completed.

### Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code'). We do not consider that these adjustments were significant. The most significant related to the movements in unusable reserves caused by the revaluation of land and buildings at 31 March 2018, and these have been adjusted in the financial statements.

## Appendix 3

# Audit independence

### ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF WESTERN RIVERSIDE WASTE AUTHORITY

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

We have not undertaken any non-audit work at the Authority.

*Contingent fees*

We have not agreed any contingent fees with the Authority.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Authority.

# Audit independence

**Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

**KPMG LLP**

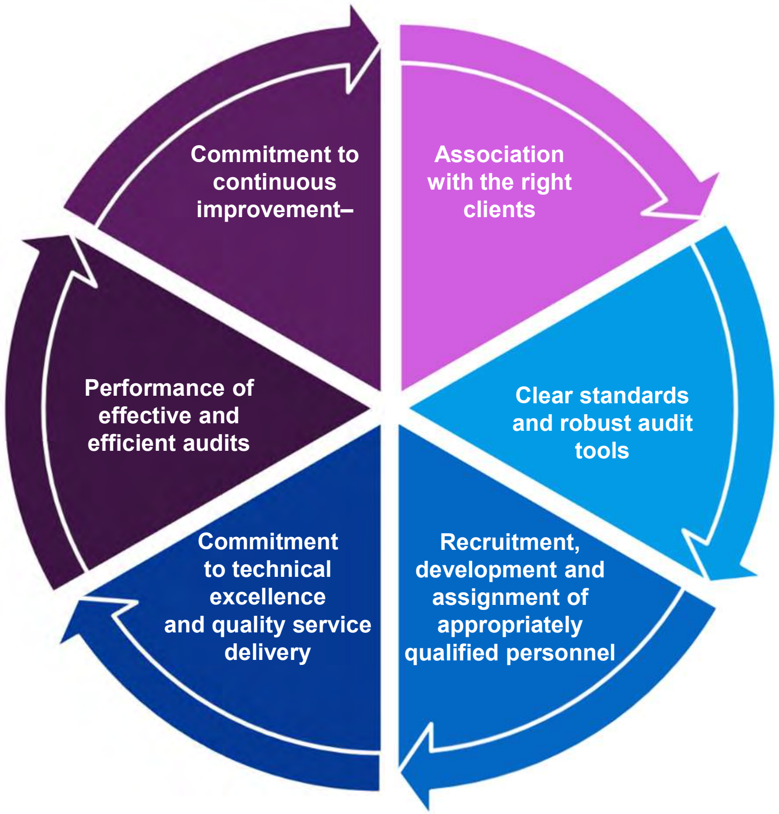
## Appendix 4

# Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management




- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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**Western Riverside Waste Authority**
Clerk: Martin Walker
General Manager: Mark Broxup
Treasurer: Chris Buss

Western Riverside Transfer Station, Smugglers Way, Wandsworth
London SW18 1JS

Contact: Chris Buss

Direct Dial: 020 8871 2788
Fax:
E-Mail: chris@wrwa.gov.uk

Date: 17th July 2018

Joanne Lees
KPMG LLP
15 Canada Square
London
E14 5GL



Dear Joanne

This representation letter is provided in connection with your audit of the financial statements of Western Riverside Waste Authority ("the Authority"), for the year ended 31 March 2018, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

These financial statements comprise the Expenditure and Funding Analysis, the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:

    i. give a true and fair view of the financial position of the Authority as at 31 March 2018 and of the Authority's expenditure and income for the year then ended; and

ii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

**Information provided**

4. The Authority has provided you with:
   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Authority for the purpose of the audit; and
   - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

5. All transactions have been recorded in the accounting records and are reflected in the financial statements.

6. The Authority confirms the following:

   The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

7. The Authority has disclosed to you all information in relation to:

   a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements; and

   b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

   In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

    Included in the Apendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

11. The Authority confirms that:

    a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
    b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

*12.* On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (Revised) *Employee Benefits.*

    The Authority further confirms that:

    a) all significant retirement benefits, including any arrangements that are:

        - statutory, contractual or implicit in the employer's actions;
        - arise in the UK and the Republic of Ireland or overseas;
        - funded or unfunded; and
        - approved or unapproved,

    have been identified and properly accounted for; and

b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Authority on 17 July 2018.

Yours faithfully,

________________________

Chris Buss, Treasurer

Signature: ________________________ Print: ________________________

Chairman of the Authority

**Appendix to the Authority Representation Letter of Western Riverside Waste Authority: Definitions**

**Financial Statements**

A complete set of financial statements comprises:

- A Comprehensive Income and Expenditure Statement for the period;
- A Balance Sheet as at the end of the period;
- A Movement in Reserves Statement for the period;
- A Cash Flow Statement for the period; and
- Notes, comprising a summary of significant accounting policies and other explanatory information and the Expenduture and Funding Analysis.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

A housing authority must present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority must present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

A penson fund administering authority must prepare Pension Fund accounts in accordance with Chapter 6.5 of the Code of Practice.

An entity may use titles for the statements other than those used in IAS 1. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income'.

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

> "Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances.

The size or nature of the item, or a combination of both, could be the determining factor."

**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

**Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue; and
b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

**Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

**Related Party and Related Party Transaction**

**Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

a) A person or a close member of that person's family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
   viii. The entity or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Key management personnel in a local authority context are all chief officers (or equivalent), elected members, the chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.