DRAFT – PRE AUDIT

Western Riverside Waste Authority

Statement of Accounts

For the year ended 31 March 2022

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NARRATIVE REPORT TO ACCOMPANY THE STATEMENT OF ACCOUNTS

Introduction

This is the Statement of Accounts for the Authority for the year ended 31 March 2022. The purpose of the Statement of Accounts is to summarise the financial position of the Authority.

The Statement of Accounts is a complex, technical document, the form and content of which is governed by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which in turn is underpinned by International Financial Reporting Standards. This means that the accounts are prepared on the same basis as the rest of the local authorities in the United Kingdom. This report is intended to provide a fair, balanced and understandable guide to the most significant aspects of the Authority's financial performance, year-end financial position and cash flow, as well as giving information as to how the Authority will develop over the next few years.

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 31 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 a main contractor, Cory Riverside Energy (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 2,061 tonnes or around 0.6% with General waste tonnage reducing by 2,475 tonnes, or 0.9%. Recycling represented just over 23% of total waste managed, broadly the same as in 2020/21. The reduction in General waste tonnage in the year is likely to be due to a number of factors, including the continued impact of the Covid-19 outbreak (further information below).

The Authority's chief sources of income are charges to constituent councils for the disposal costs of waste, Apportionment of Waste Disposal Costs (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 has agreed with all four constituent councils the basis of this levy.

Despite the restrictions of the Covid 19 pandemic, the Authority continued to maintain services both to the public and constituent councils with minimum disruption. This was in part assisted by the introduction of a booking system to the Household Waste and Recycling Centre which both regulated traffic flows, minimising nuisance to neighbours, and restricted unauthorised use of the Authority's facilities.

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.

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.

The COVID-19 pandemic

There were differences between the boroughs but overall, the total tonnage of General waste fell possibly as a result of reduced homeworking and the continued fall in tourists and foreign students.

The Authority has also reviewed the potential impact of Covid 19 on its cashflow and is satisfied that a combination of reserves and the arrangements for cost recovery from the constituent councils are robust. The Authority does not receive direct government support for any costs incurred from Covid 19.

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 2022 stood at £18.6 million, an increase of £0.7 million compared to that reported in March 2021. The balance at the end of March 2021 was £2.7 million higher than anticipated when the budget for 2022/23 was set in January 2022 due to improved electricity prices and the 'Triad' income generated by the contractor meeting specific energy supply targets set by the National Grid. The Authority has repaid £2.0 million of Public Works Loan Board (PWLB) loans during the year, and transferred that sum from the Loan Repayment Reserve in order to fund it.

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 assets increased by £0.9 million to £9.5 million. The Fund's actuary estimated that the present value of scheme liabilities has reduced over the same period by £0.5 million, from £12.5 million to £12.0 million. The net pension liability therefore reduced by £1.5 million from £4.0 million to £2.5 million. The Authority has a cash reserve of £1.8 million which would offset some of these costs should they ever crystallise.

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 31 March 2019 set the minimum employer contribution rate as a percentage of payroll for the year from 1 April 2020 to 31 March 2023 at 13.8%, up from 12.4% in the previous valuation. The previous valuation required additional minimum employer contributions as a monetary amount due for the three year period was set at £0.1 million for 2017/18, 2018/19 and 2019/20. The Valuation undertaken as at 31 March 2019 does not include a secondary contribution requirement.

Borrowing Facilities

The Authority finances debt through the PWLB with loans totalling £1.0 million outstanding at 31 March 2022, having repaid £2.0 million during the year and no new loans being advanced during the financial year. The Authority's current policy is to redeem debt from balances wherever this is practicable and the top up of the earmarked reserve established in 2018/19 will be used to redeem future loans. Average balances of £8.6 million were invested via Wandsworth Council earning the investment rate achieved by the Council at an average of 0.09%. The Authority also holds £6 million in the Diversified Income Fund (DIF) account with CCLA Investment Fund Management (CCLA). Day to day 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 £7.314 million at 31 March 2022. 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 2021/22 has reduced but as outlined above, a proportion of this is in relation to the Covid-19 pandemic. 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 challenges for 2022/23 and beyond are:

- Redevelopment proposals at Cringle Dock, providing a new transfer station for the Authority and financial benefits for the Constituent Councils;
- Cory's proposal to redevelop land adjacent to the EfW facility at Belvedere; 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, 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 Authority's Statement of Accounts in accordance with the 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; and
- complied with the local authority Code.

The Treasurer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate

I certify that the Statement of Accounts presents a true and fair view of the Western Riverside Waste Authority's income and expenditure for the year ending 31 March 2022 and the authority's financial position as at 31 March 2022.

C Buss
Treasurer 23 June 2022

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 Apportionment of Waste Disposal Costs (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	Capital Reserve	Stabilisation Reserve	Loan Repayment Reserve	Recycling Initiatives Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in Reserves during 2020/21									
Balance at 1 April 2020 carried forward	**3,313**	**1,800**	**-**	**10,186**	**-**	**250**	**15,549**	**47,168**	**62,717**
Surplus on provision of services	1,788	-	-	-	-	-	**1,788**	-	**1,788**
Other Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(985)**	**(985)**
Total Comprehensive Income and Expenditure	1,788	-	-	-	-	-	**1,788**	**(985)**	**803**
Adjustments between accounting basis and funding basis under regulations (Note 7)	601	-	-	-	-	-	601	(601)	-
Net Increase/(Decrease) before Transfers to Earmarked Reserves	2,388	-	-	-	-	-	2,388	(1,586)	803
Transfers to/from Earmarked Reserves	**(2,389)**	**-**	**-**	**(611)**	**3,000**	**-**	**-**	-	**-**
(Decrease)/ Increase in Year	**-**	**-**	**-**	**(611)**	**3,000**	**-**	**2,388**	**(1,586)**	**803**
Balance at 31 March 2021 carried forward	**3,312**	**1,800**	**-**	**9,575**	**3,000**	**250**	**17,936**	**45,583**	**63,519**

	General Fund Balance	Pension Liability Reserve	Capital Reserve	Stabilisation Reserve	Loan Repayment Reserve	Recycling Initiatives Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in Reserves during 2021/22									
Balance at 1 April 2021 carried forward	**3,312**	**1,800**	**-**	**9,575**	**3,000**	**250**	**17,936**	**45,583**	**63,519**
Surplus on provision of services	1,817	-	-	-	-	-	**1,817**	-	**1,817**
Other Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56,682**	**56,682**
Total Comprehensive Income and Expenditure	**1,817**	**-**	**-**	**-**	**-**	**-**	**1,817**	**56,682**	**60,499**
Adjustments between accounting basis and funding basis under regulations (Note 7)	**(1,117)**	**-**	**-**	**-**	**-**	**-**	**(1,117)**	**1,117**	**-**
Net Increase/(Decrease) before Transfers to Earmarked Reserves	**700**	**-**	**-**	**-**	**-**	**-**	**700**	**59,799**	**60,499**
Transfers to/from Earmarked Reserves	**(210)**	**-**	**2,210**	**-**	**(2,000)**	**-**	**-**	-	**-**
(Decrease)/ Increase in Year	**490**	**-**	**2,210**	**-**	**(2,000)**	**-**	**700**	**59,799**	**60,499**
Balance at 31 March 2022 carried forward	**3,803**	**1,800**	**2,210**	**9,575**	**1,000**	**250**	**18,638**	**105,381**	**124,019**

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.

	2020/21		2021/22	
	£000	£000	**£000**	**£000**
Operating expenditure				
Employees	641		**643**	
Premises	591		**601**	
General waste disposal	47,184		**48,396**	
Other supplies and payments	343		**397**	
Depreciation and Impairment (Note 11)	941		**967**	
Total		49,700		**51,005**
Operating Income (outside IFRS 15)				
Hammersmith and Fulham	(9,235)		**(9,430)**	
Kensington and Chelsea	(7,862)		**(9,217)**	
Lambeth	(14,901)		**(14,994)**	
Wandsworth	(13,845)		**(13,790)**	
Total		(45,843)		**(47,431)**
Net Cost of Services		3,857		**3,574**
Other Items				
Financing and investment expenditure and (income) (Note 9)		(289)		**(112)**
Other income recognised under IFRS 15 (Note 10)		(663)		**(531)**
Other income outside IFRS 15		(437)		**(342)**
Deficit on Provision of Services		2,467		**2,588**
Levy on Constituent Authorities (outside IFRS 15)				
Hammersmith and Fulham	(806)		**(839)**	
Kensington and Chelsea	(977)		**(1,006)**	
Lambeth	(1,117)		**(1,150)**	
Wandsworth	(1,355)		**(1,411)**	
		(4,255)		**(4,405)**
Surplus on Provision of Services		(1,788)		**(1,817)**
Surplus on revaluation of Property, Plant and Equipment assets (Note 11)		-		**(57,037)**
Remeasurements of the net defined benefit liability (Note 28)		985		**(1,645)**
Other Comprehensive Income and Expenditure		985		**(58,682)**
Total Comprehensive Income and Expenditure		(803)		**(60,499)**

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.

	2020/21 £000			2021/22 £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	575	66	641	**527**	**116**	**643**
Premises	591	-	591	**601**	**-**	**601**
General Waste Disposal	46,865	-	46,865	**48,396**	**-**	**48,396**
Other supplies and payments	343	-	343	**397**	**-**	**397**
Depreciation and Impairment (Note 11)	-	941	941	**-**	**967**	**967**
Operating Income	(45,843)	-	(45,843)	**(47,431)**	**-**	**(47,431)**
Net Cost of Services	2,531	1,007	3,538	**2,490**	**1,083**	**3,573**
Other Expenditure	117	(406)	(289)	**2,088**	**(2,200)**	**(112)**
Other Income	(781)	-	(781)	**(873)**	**-**	**(873)**
Levy income	(4,255)	-	(4,255)	**(4,405)**	**-**	**(4,405)**
Deficit/ (surplus)on Provision of Services	2,388	601	(1,788)	**(700)**	**(1,117)**	**(1,817)**
Opening Usable Reserve Balance	15,549			**17,937**		
Plus surplus or (Deficit) on Revenue Reserve in Year	2,388			**700**		
Usable Reserve Balance carried forward	17,936			**18,637**		

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 2021	**31 March 2022**
		£000	**£000**
Property, Plant and Equipment	11	57,966	**114,037**
Long Term Assets		57,966	**114,037**
Short Term Debtors	13	7,062	**6,219**
Short Term Investments	14	6,219	**6,508**
Cash and Cash Equivalents	14	8,920	**7,314**
Prepayments		35	**35**
Current Assets		22,236	**20,076**
Receipts in Advance		2,250	**-**
Deferred Income		2,875	**2,625**
Short Term Borrowing	12	2,000	**-**
Short Term Creditors	15	4,604	**3,956**
Current Liabilities		11,729	**6,581**
Long Term Borrowing	12	1,000	**1,000**
Pensions	28	3,954	**2,513**
Long Term Liabilities		4,954	**3,513**
Net Assets		63,519	**124,019**
Usable Reserves	17	17,936	**18,636**
Unusable Reserves	18	45,583	**105,383**
Total Reserves		63,519	**124,019**

The notes on pages 12 to 51 form part of the financial statements.

C Buss - Treasurer June 2022

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.

	2020/21 £000	**2021/22** **£000**
Net surplus on the provision of services	1,788	**1,817**
Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 19)	266	**(1,423)**
Net cash flows from Operating Activities	2,054	**394**
Net cash outflow from Investing Activities (Note 20)	-	**-**
Net cash outflow from Financing Activities (Note 21)	-	**(2,000)**
(Decrease)/increase in cash and cash equivalents	2,054	**1,606**
Represented by		
Cash and cash equivalents at the beginning of the reporting year (Note 14)	6,866	**8,920**
Cash and cash equivalent at the end of the reporting year (Note 14)	8,920	**7,314**
(Decrease)/increase in cash and cash equivalents	2,054	**1,606**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (England and Wales) 2015 as amended. These Regulations also require that the accounts be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), all relevant approved accounting standards issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Issues Committee (IFRIC) and any relevant statutory guidance issued by Government.

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

ii. Going Concern

The Authority's financial statements are prepared on the going concern basis; that is, the accounts are prepared on the assumption that the Authority will continue in operational existence in the foreseeable future.

iii. 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.
- Where cash is received in advance of being due, this is recorded as a Receipt in Advance.

iv. 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.

v. 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.

vi. 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.

vii. 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
- amortisation of intangible fixed assets attributable to the service

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. Following a review of MRP policy and the establishment of an earmarked reserve to redeem debt MRP was nil in 2020/21 and 2021/22.

viii. 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 would be 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, however, this is immaterial for the Authority and not recognised in the accounts.

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 Local Government Pension Scheme, the LPFA is the administering authority. 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 2.60% in 2021/22 compared to 1.95% in 2020/21 (based on the net present value of the notional cash flow, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve – this is consistent with the approach used at the previous accounting date).

The assets of the pension fund are valued at market value in the Balance Sheet. Further detail is outlined in note 28.

The change in the net pension's 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.

ix. 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; and
- 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.

x. 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 based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost;
- Fair value through profit or loss; and
- Fair value through other comprehensive income.

The Authority's business model is to hold investments to collect contractual cash flow. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

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.

Financial Assets Measured at Fair Value through Profit and Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- instruments with quoted market prices – the market price; and
- other instruments with fixed and determinable payments – discounted cash flow analysis.

For Pooled Investment Funds which includes the Authority's DIF with the CCLA, the government has introduced a regulation to mitigate the effects of changes in fair value on the Authority for a period of 5 years from 1 April 2018. Changes in fair value are transferred from the CIES to an account established solely for this purpose on the Balance Sheet. This account is called the Pooled Investment Funds Adjustment Account.

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Pooled Investment Funds Adjustment Account.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

xi. 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 income outside IFRS 15 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.

xii. 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; and
- 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); and
- 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: Building structure –60 years, External works –60 years, Roof – 35 years, fixed plant (heating etc) – 35 years, and electrical equipment – 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.

xiii. 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.

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 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.

xiv. 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 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.

xv. 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.

xvi. *Rounding* – it is not the Authority's policy to adjust for immaterial cross-casting difference between the main statements and disclosure notes.

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The Code introduces changes in Accounting Policies which will need to be adopted fully by the Authority in the 2022/23 financial statements. The Authority is required to disclose information relating to the expected impact of the accounting changes on the financial statements because of adoption by the Code of a new standard that has been issued but is not yet required to be adopted by the Authority.

IFRS 16 –Leases (CIPFA has agreed to defer implementation until 2024/25)
IFRS 16 (Leases) will require local authorities to recognise assets on their Balance Sheet where any contract gives rise to a 'right of use asset'. Currently, a distinction exists between operating and finance leases for lessees. Finance leases are accounted for as acquisitions (asset on the Balance Sheet) and operating leases are expensed in year therefore are not currently required to be reported on lessee balance sheets. IFRS 16 largely removes this distinction, unless it is a short term (12 months or less) or low value contract. For lessors the reporting requirements are largely unchanged as under the revised IFRS 16 there is still a distinction between operating and finance leases. The implementation of IFRS 16 has been deferred until 1 April 2024.

There is unlikely to be any areas within the above which will materially affect the Authority. IFRS 16 will apply to the Authority's leases, but as it is a lessor (other than in respect of the Energy from Waste facility, discussed in note 3), there will be limited impact of the new standard.

Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) prohibits deducting from the cost of an item, any proceeds from selling items produced while making that item to be available for its intended use, for example during a necessary commissioning period. This amendment is not expected to affect the Authority.

3. 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:

In 2002 the Authority entered into a long term Waste Management Services Agreement (WMSA) with Cory Environmental Limited. This agreement has been restated where required to meet the needs of the Authority, most significantly in 2008 when Cory commenced construction of the Energy from Waste (EfW) facility at Belvedere. The Authority's arrangements with Cory are complex, and accounting for them involves a number of Critical Accounting Judgements, as well as accounting estimates that are disclosed as Key Sources of Estimation Uncertainty. The principal aspects of these arrangements are disclosed below.

Services provided by Cory

The WMSA with Cory runs until 2032. The WMSA requires the Authority to direct its Constituent Councils to delivery all authority waste they are responsible for to Cory at agreed locations. Any waste that is not recycled is made available to Cory for incineration in the EfW facility. There is no minimum tonnage that must be supplied and no minimum payment.

The Authority pays a price per tonne for waste delivered to Cory (the "gate fee"), which is indexed each year. The gate fee was determined based on a financial model that took account of Cory's financing costs for the construction of the EfW facility, and the Authority has contractual protections to enable it to share in any refinancing gain if Cory refinances its debt (discussed further below).

The calculation of the gate fee for each period includes an energy revenue risk share mechanism, based on the average price (for electricity or other outputs) achieved during the financial year by Cory (with a lower price resulting in a higher cost to the Authority and vice versa). This variation is considered to be closely related to the underlying services provided by Cory, and so is not separated and separately accounted for.

The cost of services provided is accrued based upon the volume of activity and the applicable gate fee for the period. No account is taken of the Residual Value Agreement (discussed further below).

The cost of services is presented as a single net figure, including the refinancing benefit arising from the 2017 refinancing by Cory and without any grossing up for other elements of the Authority's arrangements with Cory for the reasons discussed below.

Residual Value Agreement

The design life of the EfW extends past the end of the main WMSA in 2032. The Authority has a Residual Value Agreement with Cory, which reflects that payments to 2032 will have

financed the construction of an asset with life beyond that date. The Authority will have the option between 2032 and 2046 to:

- Subject to agreement of commercial terms, to continue to deliver waste to Cory, and receive a reduced gate fee; and/or
- Receive a royalty on waste from other sources processed at the plant.

The Authority's ability to benefit under the Residual Value Agreement is dependent upon the continued operation of the EfW facility past 2032, and the volume of waste (including Authority waste) processed at the facility. These may be affected by legislative and/or policy changes.

The potential estimated annual value of this entitlement (which is indexed and so will vary over time) is difficult to estimate but could be as much as £11 million in the first year of the Residual Value Agreement.

A critical accounting judgement is whether any amounts should be recognised in respect of this in advance of 2032 (which would reduce the expense recognised pre-2032, and increase the net expense recognised post-2032). The Authority is of the view that there is a significant level of uncertainty as to whether this value will accrue and has decided not to reflect this within the accounts.

In particular, no intangible asset has been recognised in respect of this, on the basis that:

- The "cost" paid as part of the gate fee to 2032 is not separately identifiable; and
- There is no active market to determine the fair value of the asset.

It should be noted that during 2020/21 the Authority was approached by Cory regarding whether it wished to review the arrangements under the Residual Value Agreement which might amend the situation stated above in future. Following discussions with the constituent councils no further action was taken on this review.

Authority sites

The Authority owns the Smugglers Way and Cringle Dock sites. These sites, including buildings and plant thereon, are leased to Cory until 2032 for an annual payment of £1.

Under the terms of the WMSA, Cory was required to carry out various capital works on the site, including the construction of the Civic Amenity Facility and Municipal Recycling Facility. The Authority paid separately for the construction of these assets, with payments accounted for as capital expenditure.

The Authority considers these arrangements represent operating leases, as the Authority retains substantially all the risks and rewards incidental to ownership of the assets. The economic value of the lease to Cory is not separately identifiable within the WMSA and lease agreement, and so it is not possible to show separately lease income and gross cost paid to Cory.

The assets are shown within Property, Plant and Equipment, and are revalued on a freehold basis as detailed in note xii above.

EfW site leases

Cory owns the site of the EfW facility. This has been leased to the Authority on a peppercorn lease until the earlier of 2058 or the end of the Residual Value period. This is then leased back to Cory for a peppercorn until 2032, and thereafter for the amount of any royalties due under the Residual Value Agreement.

The Authority has considered the substance of this arrangement, and has concluded that this does not represent a lease, and is instead in substance a protective provision to ensure payments of any amounts due under the Residual Value Agreement.

Force Majeure provisions

The WMSA includes provisions to address various potential termination scenarios, including the possibility of Force Majeure events leading to termination of the contract. In the event of specified Force Majeure events occurring (and not being remedied by Cory), the Authority would be obligated to pay Cory an amount intended to cover inter alia the repayment of relevant elements of the Senior Debt. In return, the EfW facility would transfer to the Authority. Depending upon the situation arising, this could result in a valuable asset transferring to the Authority for under value, or the Authority acquiring an asset requiring significant expenditure to enable on-going operations. The principal element of any payment would be in respect of relevant elements of Cory's Senior Debt, the Authority assessed the risk of payment as less than 1 in 1,600 a year.

This arrangement involves the Authority taking on insurance risk, and therefore is considered under the requirements of IFRS 4. The Authority considers that there is no separately identifiable consideration for this arrangement that should be presented as income. The Authority has assessed the minimum level of provision required and has not recognised a provision as the possibility of cash outflows is currently considered remote.

Refinancing

The WMSA includes provisions to ensure that the Authority shares in any refinancing gains from Cory refinancing its borrowings.

- In 2017, the main contractor undertook a qualifying refinancing, with the result being treated as a combined arrangement with the Authority and resulting in a net benefit recognised over time via a change to the contract price and therefore reflected each year dependent upon the volume of activity.
- In 2018, the Authority received £3.5m from the main contractor which was in effect a payment to facilitate their refinancing, this payment has no impact on future potential or contingent liabilities and thus future costs. However, as this payment has arisen due to the existence of the WMSA, it has been agreed with the Authority's auditors that this income be recognised over the remaining life of the contract and therefore is held as deferred income and gradually released into revenue. An amount of £250,000 has been recognised as revenue in the 2021/22 accounts, the same value as that recognised in the previous two years.

4. 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.

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.

The items in the Authority's Balance Sheet at 31 March 2022 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. It is estimated that the annual depreciation charge for buildings would increase by £37,500 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 £190,000. 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 £583,000. A detailed sensitivity analysis for changes in assumptions is included in note 28.

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.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The Authority received £3.5 million cash receipt as a result of Cory executing a debt refinancing of the Belvedere Energy from Waste plant in October 2018 which has been classified as deferred income in the accounts and recognised gradually in revenue over the lifetime of the WMSA, that being for the period until October 2032. The amount included within revenue in 2021/22 is £250,000 which is the same as that recognised in 2020/21.

6. EVENTS AFTER THE BALANCE SHEET DATE

The Draft Statement of Accounts was authorised for issue by the Treasurer on 23rd June 2022. 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 2022 the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. 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 Authority 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.

2021/22	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	**(967)**	**967**
Changes in fair value of pooled investments	**288**	**(288)**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:		
Provision for debt redemption	**-**	**-**
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 28)	**(262)**	**262**
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 28)	**58**	**(58)**
Total Adjustments	**1,117**	**(1,117)**

2020/21	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	(941)	941
Changes in fair value of pooled investments	482	(482)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:		
Provision for debt redemption	-	-
Loan repayment charged against the General Fund	-	-
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 28)	(203)	203
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 28)	61	(61)
Total Adjustments	**(601)**	**601**

8. 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 2021/22.

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 31 March 2019, 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. The next triennial valuation will be calculated as at 31 March 2022 and will be known during 2022/23.

The Authority has set aside a Stabilisation Reserve and Recycling Initiatives Reserve. The first of these reserves provides a prudent approach to offset potential changes in rates and the Levy as a result of circumstances outside the Authority's control. The Recycling Initiatives Reserve will enable future recycling projects to be proposed and funded without the requirement of additional borough funding. In 2018/19 a Loan Repayment Reserve was established to provide for the redemption of the majority of current debt with the PWLB which was then applied in full during 2019/20 to fund the repayment of loans. At the end of 2020/21 this reserve was topped up again to cover the remaining PWLB loan balances outstanding and partially used to fund the £2m loan repayment during 2021/22.

At the end of 2021/22 a Capital Reserve has been created in order to set aside funds for any potential legislative changes arising from the Environment Act 2021. A sum of £2.2 million has been transferred into this Reserve for future use.

	Balance 1 April 2020 £000	Transfers Out 2020/21 £000	Transfers In 2020/21 £000	Balance 31 Mar 2021 £000	**Transfers Out 2021/22 £000**	**Transfers In 2021/22 £000**	**Balance 31 Mar 2022 £000**
General Fund:							
General Fund Balance	3,313	(2,389)	2,388	**3,312**	**(3,327)**	**3,817**	**3,802**
Pension Liability Reserve	1,800	-	-	**1,800**	**-**	**-**	**1,800**
Capital Reserve	-	-	-	-	**-**	**2,210**	**2,210**
Stabilisation Reserve	10,186	(611)	-	**9,575**	**-**	**-**	**9,575**
Loan Repayment Reserve	-	-	3,000	**3,000**	**(2,000)**	**-**	**1,000**
Recycling Initiatives Reserve	250	-	-	**250**	**-**	**-**	**250**
Total	15,549	(3,000)	5,389	**17,936**	**(5,327)**	**6,027**	**18,636**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2020/21 £000	**2021/22 £000**
Interest payable and similar charges	128	**99**
Net interest on the net defined benefit liability (asset)	76	**88**
Interest receivable and similar income	(11)	**(11)**
Movements in fair value of financial instruments	(482)	**(288)**
Total	(289)	**(112)**

10. OTHER INCOME

Amounts included in the Comprehensive Income and Expenditure Statement for other income include the full year recognition of £250,000 of the £3.5m receipt from Cory classified as deferred income, and £266,000 income from Westminster council for the use of the Authority's Household Waste and Recycling Centres:

	2020/21	**2021/22**
	£000	**£000**
Other income	663	**531**

Nothing is included in the Balance Sheet for contracts with service recipients, nor was there in 2020/21.

11. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances 2021/22

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 31 March 2022. 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 and a full valuation took place as at 31 March 2022. There has been a revaluation increase of £50.46m resulting from movement in land values around the Cringle Dock and Smugglers Way Transfer Station sites.

	Land and Buildings	Fixed Plant and Equipment	Vehicles and Moveable Plant	**Total**
	£000	£000	£000	**£000**
Cost or valuation at 1 April 2021	54,796	8,780	223	**63,799**
Additions	-	-	-	**-**
Reclassifications	-	-	-	**-**
Revaluation increases/ (decreases) recognised in Revaluation Reserve	45,209	5,252	-	**50,461**
Revaluation increases to Surplus/ Deficit on Provision of Services	-	-	-	**-**
At 31 March 2022	**100,005**	**14,032**	**223**	**114,260**
Accumulated Depreciation and Impairment at 1 April 2021	(2,195)	(3,415)	(223)	**(5,833)**
Depreciation charge	(717)	(250)		**(967)**
Depreciation written out to the Revaluation Reserve	2,912	3,665	-	**6,577**
At 31 March 2022	**-**	**-**	**(223)**	**(225)**
Net Book Value				
at 31 March 2022	**100,005**	**14,032**	**-**	**114,037**
at 31 March 2021	**52,601**	**5,365**	**-**	**57,966**

Fixed Plant and Equipment

No capital expenditure was incurred during 2021/22 or 2020/21.

2020/21

	Land and Buildings	Fixed Plant and Equipment	Vehicles and Moveable Plant	**Total**
	£000	£000	£000	**£000**
Cost or valuation at 1 April 2020	54,796	8,780	223	**63,799**
Additions	-	-	-	**-**
Reclassifications	-	-	-	**-**
Revaluation increases/ (decreases) recognised in Revaluation Reserve	-	-	-	**-**
Revaluation increases to Surplus/ Deficit on Provision of Services	-	-	-	**-**
At 31 March 2021	**54,796**	**8,780**	**223**	**63,799**
Accumulated Depreciation and Impairment at 1 April 2020	(1,493)	(3,176)	(223)	**(4,892)**
Depreciation charge	(702)	(239)		**(941)**
Depreciation written out to the Revaluation Reserve	-	-	-	**-**
At 31 March 2021	**(2,195)**	**(3,415)**	**(223)**	**(5,833)**
Net Book Value				
at 31 March 2021	**52,601**	**5,365**	**-**	**57,966**
at 31 March 2020	**53,303**	**5,604**	**-**	**58,907**

12. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2021 £000	**31 March 2022 £000**	31 March 2021 £000	**31 March 2022 £000**
Financial Assets				
Fair value through profit and loss	-	-	6,219	**6,507**
Amortised cost	-	-	7,062	**6,219**
Total Financial Assets	**-**	**-**	13,281	**12,726**
Financial Liabilities				
Fair value through profit and loss	-	**-**	-	**-**
Amortised cost	3,000	1,000	6,854	**3,956**
Total Financial Liabilities	**3,000**	**1,000**	**6,854**	**3,956**

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:

- the interest rate at 31 March 2021 of 3.69% for loans from the Public Works Loan Board (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:

Financial Liabilities	31 March 2021 Carrying amount £000	Fair value £000	**31 March 2022 Carrying amount £000**	**Fair value £000**
Financial Liabilities held at amortised cost – short term borrowing	2,000	2,000	**-**	**-**
Financial Liabilities held at amortised cost – long term borrowing	1,000	1,159	**1,000**	**1,084**
Total	3,000	3,159	**1,000**	**1,084**

The fair value of outstanding long term debts as at 31 March 2022 was higher than the book value due to the changes in market factors since the original borrowing was made.

Financial Assets	31 March 2021 Carrying amount £000	Fair value £000	**31 March 2022 Carrying amount £000**	**Fair value £000**
Financial assets held at fair value through Profit and loss – Diversified income fund	5,737	6,219	**5,737**	**6,507**
Financial Assets held at amortised cost	7,062	7,062	**6,219**	**6,219**
Total	12,799	13,281	**11,956**	**12,726**

Fair Values of Financial Assets
Some of the Authority's financial assets are measured at fair value on a recurring basis and are described in the following table, including the valuation techniques used to measure them.

Financial Assets measured at fair value

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2021 £000	As at 31 March 2022 £000
Fair Value Through Profit or Loss				
Diversified Income Fund	Level 1	Unadjusted quoted prices in statement received	6,219	6,507
Total			6,219	6,507

13. SHORT TERM DEBTORS

Short term debtors and other receivables at 31 March 2021 and 31 March 2022 can be analysed as follows:

ITEM	31 March 2021 £000	**31 March 2022 £000**
Trade Receivables	940	**6**
Accrued Income	4,668	**4,752**
Other Receivable Amounts	1,454	**1,461**
Total	**7,062**	**6,219**

14. CASH AND CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

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

	31 March 2021 £000	**31 March 2022 £000**
Cash at bank	894	**2,442**
Cash held by Wandsworth Council	8,026	**4,872**
Total	**8,920**	**7,314**

The balance of Short Term Investments is made up of the following:

	31 March 2021 £000	**31 March 2022 £000**
Diversified Income Fund	6,219	6,507
Total	**6,219**	**6,507**

15. SHORT TERM CREDITORS

Creditor payments 31 March 2021 and 31 March 2022 can be analysed as follows:-

ITEM	31 March 2021 £000	**31 March 2022 £000**
Accruals	4,604	**3,956**
Total	**4,604**	**3,956**

16. PROVISIONS

There are no provisions recognised at 31 March 2022 (31 March 2021 was also nil).

17. USABLE RESERVES

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

18. UNUSABLE RESERVES

	31 March 2021 £000	31 March 2022 £000
Revaluation Reserve	29,360	**86,398**
Pensions Reserve	(3,954)	**(2,513)**
Capital Adjustment Account	20,461	**21,494**
Pooled Investment Funds Adjustment Account	(284)	**4**
Total Unusable Reserves	45,583	**105,381**

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.

	2020/21 £000	**2021/22 £000**
Balance at 1 April	(2,827)	**(3,954)**
Remeasurements of the net defined benefit liability	(985)	**1,645**
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	(203)	**(262)**
Employer's pensions contributions and direct payments to pensioners payable in the year	61	**58**
Balance at 31 March	(3,954)	**(2,513)**

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. In 2020/21 and 2021/22 there has been a payment 'holiday' in relation to debt redemption. In 2021/22 £2.0m of PWLB loans were 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.

	2020/21 £000	**2021/22 £000**
Balance at 1 April	21,402	**20,461**
Provision for debt redemption	-	**-**
Depreciation provision	(941)	**(967)**
Repayment of PWLB loans	-	**2,000**
Balance at 31 March	20,461	**21,494**

Pooled Investments Adjustment Account

The Pooled Investments Adjustment Account reflects the balance between fair value and investment originally made for funds held in the CCLA Diversified Income Fund. As noted there is a five year exemption operational from 2018 which allows for the accounting treatment in this way.

19. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2020/21 £000	**2021/22 £000**
Interest received	11	**11**
Interest paid	(128)	**(99)**
Total	(117)	**(88)**

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2020/21 £000	**2021/22 £000**
Depreciation	941	**967**
Impairment and downward valuations	(482)	**(288)**
(Decrease) in receipts in advance	(352)	**(2,252)**
(Increase) in deferred income	(250)	**(250)**
Increase/(Decrease) in creditors	672	**(648)**
(Decrease)/Increase in debtors	(413)	**844**
(Decrease)/Increase in prepayments	8	**-**
Movement in pension liability	142	**204**
	266	**1,423**

20. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2020/21 £000	**2021/22 £000**
Purchase of short-term and long-term investments	-	**-**
Net cash flows from investing activities	-	**-**

21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2020/21 £000	**2021/22 £000**
Repayments of short- and long-term borrowing	-	**(2,000)**
Net cash flows from financing activities	-	**(2,000)**

22. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

There are no liabilities arising from the financing activities during the year 2020/21. During 2021/22 £m of PWLB loans were repaid:

	1 April 2020	Financing cash flows	Non-cash changes	31 March 2021
Long term borrowing	3,000	-	(2,000)	1,000
Short term borrowing	-	-	2,000	2,000
Total liabilities from financing activities	**3,000**	**-**	**-**	**3,000**

	1 April 2021	Financing cash flows	Non-cash changes	31 March 2022
Long term borrowing	1,000	-	-	1,000
Short term borrowing	2,000	(2,000)	-	-
Total liabilities from financing activities	**3,000**	**(2,000)**	**-**	**1,000**

23. OFFICERS' REMUNERATION

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

Title	Year	Salary, Fees and Allowances £000	Bonuses £000	Expenses Allowances £000	Pension Contribution £000	**Total £000**
General Manager – Mark Broxup	2020/21	141	13	-	21	175
	2021/22	**145**	**13**	**-**	**22**	**180**
Deputy General Manager	2020/21	81	7	-	12	100
	2021/22*	**50**	**12**	**-**	**8**	**70**
Clerk	2020/21	11	-	-	-	11
	2021/22	**12**	**-**	**-**	**2**	**14**
Treasurer	2020/21	11	-	-	-	11
	2021/22	**12**	**-**	**-**	**-**	**12**

*Deputy General Manager left the Authority's paid employment during 2021/22.
Bonuses relates to a Performance Related Pay award.

Remuneration band	2020/21 Number of Employees	2021/22 Number of Employees
£60,000 - £64,999	0	1
£85,000 - £89,999	1	0
£150,000 - £154,999	1	0
£155,000 - £159,999	0	1

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

There are no allowances paid to Members by the Authority and no exit packages in either 2020/21 or 2021/22.

24. 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:

	2020/21 £000	**2021/22 £000**
Fees payable to Deloitte with regard to external audit services carried out by the appointed auditor for the year 2020/21 and 2021/22 respectively	12	**12**

Any 2020/21 additional fees have not yet been agreed with the Public Sector Audit Appointments Limited (PSAA) body and are therefore not included in this table.

25. RELATED PARTIES

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely.

Central Government: Central government has effective control over the general operations of the Authority in that it is responsible for providing the statutory framework within which the Authority operates.

Members: Each of the four constituent boroughs of the Authority appoints two of their Members to the Authority. Apart from this dual role, no Member of the Authority has reported that he/she or members of their families and households exercised any control or influence on any of the companies or other bodies with which the Authority transacted in 2021/22.

Officers: Finance and admin support services have been provided by Wandsworth Borough Council in 2021/22. The Clerk to the Authority is also a Senior Officer at the London Borough of Lambeth. No other officer or member of their family or household, whether working wholly for the Authority or in an advisory role has indicated that they or members of their families and households exercised any control or influence on any of the companies or other bodies with which the Authority transacted in 2021/22.

The Authority's operations are financed by charges to constituent councils for the disposal costs of waste, Apportionment of Waste Disposal Costs (AWDC) charges and levies upon those councils. The cost of the support services from Wandsworth are also set out below and are include in the Comprehensive Income and Expenditure Account.

	Hammersmith and Fulham £000	Kensington and Chelsea £000	Lambeth £000	Wandsworth £000
Income				
Levies	839	1,006	1,150	1,411
AWDC	9,430	9,217	14,994	13,790
Total 2021/22	**10,269**	**10,223**	**16,144**	**15,201**
Expenditure				
Financial Services	0	0	0	**64**
Other Services (admin support etc)	0	0	0	**27**
Total 2021/22	**0**	**0**	**0**	**91**

At 31 March 2021 and 31 March 2022 the following Authority balances related to the constituent councils:

Debtors and Accrued Income	31 March 2021 £000	**31 March 2022 £000**
Hammersmith and Fulham	809	**781**
Kensington and Chelsea	682	**800**
Lambeth	2,263	**1,126**
Wandsworth	1,246	**1,158**

The Authority invests cash via Wandsworth Council with a balance of £4.9m held with Wandsworth as at 31 March 2022 (£8.0m as at 31 March 2021). Net interest payments on cash flow balances of £7,667.16 were received by the Authority from Wandsworth Council for the year 2021/22 whilst net interest payments for 2020/21 amounted to £7,029.

26. CAPITAL EXPENDITURE AND CAPITAL FINANCING

There was no capital expenditure incurred in the year as 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.

	2020/21 £000	**2021/22 £000**
Opening Capital Financing Requirement	8,079	**8,079**
Capital investment		
Capital Expenditure	-	**-**
Sources of finance		
Direct revenue contributions	-	**(2,000)**
Closing Capital Financing Requirement	8,079	**6,079**
Explanation of movements in year		
Reduction in underlying need to borrow (unsupported by government financial assistance)	-	**2,000**
Decrease in Capital Financing Requirement	-	**2,000**

27. LEASES

Authority as Lessor

Operating Leases

The Authority has leased out land at Institute Wharf, Smugglers Way to Chartwell Properties Ltd on a 15 year lease with effect from 2015 for a rental value of £158,599 per annum.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2021 £000	31 March 2022 £000
Not later than one year	159	159
Later than one year and not later than five years	634	634
Later than five years	747	588
Total	1,540	1,381

Authority as Lessee

Operating Leases

The Authority leases and leases back the Energy from Waste facility at Belvedere at a peppercorn rent. As discussed in note 3, the Authority considers that in substance this arrangement is not a lease and so is not accounted for as such.

28. 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 31 March 2022.

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 2021 £000	**Year to 31 March 2022 £000**
Comprehensive Income and Expenditure Statement		
Service cost	127	**174**
Financing and Investment Income and Expenditure		
Net Interest Expense	76	**88**
Total Post-employment Benefits charged to the Surplus of Deficit on the Provision of Services	203	**262**
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)	(1,140)	**(1,213)**
Actuarial gains and losses arising on changes in demographic assumptions	(108)	**-**
Actuarial gains and losses arising on changes in financial assumptions	2,352	**(448)**
Other actuarial gains and losses	-	**-**
Experience gain/(loss) on defined benefit obligation	(119)	**16**
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	985	**(1,645)**
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	(203)	**(262)**
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	61	**58**

At the end of 2018/19, the Supreme Court ruled on the McCloud case, challenging the 2015 rule changes to the public sector pensions as discriminatory to younger employees. The ruling means that local government pension funds are likely to have to compensate and account for payments to ensure that no employee is left out of pocket. However, the structure of the Authority's liabilities with most being either deferred or already in receipt of pension will

mean that the majority are outside of the impact of this judgement and therefore exposure to this risk is limited. The figures here include the estimated impact of the McCloud judgement.

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:

	2020/21 £000	**2021/22** **£000**
Present value of the defined benefit obligation	12,506	**11,982**
Fair value of scheme assets	(8,552)	**(9,469)**
Present value of unfunded obligation	-	**-**
Net liability arising from defined benefit obligation	3,954	**2,513**

Reconciliation of the Movements in the Fair Value of Scheme Assets

	2020/21 £000	**2021/22** **£000**
Opening fair value of scheme assets	7,458	**8,552**
Interest income	173	162
Remeasurement (loss)/gain:		
The return on assets, excluding the amount included in the net interest expense	1,140	1,213
Other actuarial (losses)	-	-
Contributions from employer	61	58
Contributions from employees into the scheme	31	29
Benefits paid plus unfunded net of transfers in	(301)	(534)
Administration expenses	(10)	(11)
Closing fair value of scheme assets	8,552	**9,469**

Local Government Pension Scheme Assets Comprised:

	2020/21		2021/22	
	£000	£000	£000	%
Equities	4,646	5,389	5,389	57
Target Return Portfolio	2,013	2,039	2,039	22
Infrastructure	725	965	965	10
Property	778	850	850	9
Cash	390	226	226	2
Total	**8,552**	**9,469**	**9,469**	100

36.0% of total assets do not have a quoted market price in an active market and therefore there is a higher degree of estimation uncertainty over their valuation at 31 March 2022, compared to 35% at 31 March 2021.

Reconciliation of Present Value of the Scheme Liabilities

	2020/21 £000	2021/22 £000
Opening balance 1 April	**10,285**	**12,506**
Current service cost	127	174
Interest cost	239	239
Contributions from scheme participants	31	29
Remeasurement (gains) and losses:		
- Actuarial gains/losses arising from changes in demographic assumptions	(108)	-
- Actuarial gains/losses arising from changes in financial assumptions	2,352	(448)
Experience loss/(gain) on defined benefit obligation	(119)	16
Past Service Cost	-	-
Liabilities assumed on entity combinations		
Benefits paid	(301)	(534)
Unfunded pension payments	-	-
Closing balance at 31 March	**12,506**	**11,982**

4. 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 scheme has been assessed by Barnett Waddingham based upon the latest triennial valuation, as at 31 March 2019.

The significant assumptions used by the actuary have been:

	2020/21*	**2021/22**
Longevity at 65 for current pensioners:		
-Men	21.6	**21.7**
-Women	22.5	**22.6**
Longevity at 65 for future pensioners:		
-Men	23.5	**23.6**
-Women	25.4	**25.5**
Rate of inflation (CPI)	2.90	**3.35**
Rate of increase in salaries	3.90	**4.35**
Rate of increase in pensions	2.90	**3.35**
Rate for discounting scheme liabilities	1.95	**2.60**

*2020/21 figures reflect the updated IAS19 report for 31 March 2021

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. Whilst the post retirement mortality assumptions are consistent with the previous year, it has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This reflects the incorporation of the exceptional mortality experienced due to the coronavirus pandemic without having a disproportionate impact on results. 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	12,565	11,982	11,428
Projected Service Cost	166	159	152
Rate of increase in salaries (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	12,006	11,982	11,958
Projected Service Cost	159	159	159
Rate of increase in pensions (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	12,149	11,982	11,817
Projected Service Cost	164	159	155
Rate for discounting scheme liabilities (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,792	11,982	12,175
Projected Service Cost	155	159	164

29. CONTINGENT LIABILITY

The Authority's contract with Cory includes provisions in the event of early termination where in some circumstances the Authority may become liable for the repayment of the contractor's senior debt. The amount payable would depend upon the nature of the termination and timing. This would be offset either in part or in full by the transfer of the contractor's assets.

30. 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, its 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, there is a sum invested within a Diversified

Income Fund and the remainder is 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 31 March 2022, £4.758 million (£5.108 million as at 31 March 2021) is due to the Authority from its customers. Of this sum, constituent councils were liable to pay a net £3.865 million all of which was accrued income to the authority, and payable in April 2022. VAT due from the HMRC for February and March 2022 totalled £1.461 million whilst VAT due for February and March 202 amounted to £1.454 million. These sums were received in April and May 2022 and 2021 respectively.

There was no provision for bad debts as at 31 March 2021 and 31 March 2022 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 31 March 2022, 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 31 March 2021 and 31 March 2022 is set out below and is within the Authority's Prudential Code limits for 2020/21 and 2021/22 as set out in its Treasury Management Strategy:

Renewal Period	Market Loans Outstanding as at 31 March 2021 £000	% of Total borrowing	**Market Loans Outstanding as at 31 March 2022 £000**	**% of Total borrowing**
Less than One Year	2,000	66.7	**-**	**-**
Between One and Two Years	-	-	**-**	**-**
Between Two and Five Years	1,000	33.3	**1,000**	**100.0**
Between Five and Ten Years	-	-	**-**	**-**
More than Ten Years	-	-	**-**	**-**
Total	3,000	100.0	**1,000**	**100.0**

All trade and other payables are due to be paid in less than one year

Market Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Interest rates during 2020/21 and 2021/22 continue at a low level although are just starting to rise at the end of 2021/22. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the provision of services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

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 2021/22 is reported in the key financial statements.

WESTERN RIVERSIDE WASTE AUTHORITY

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