

ITEM 3

PAPER NO. WRWA 836

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	20th September 2017
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 0208 871 2788) 12th September 2017
SUBJECT	Report of the Treasurer on the Authority's Audited Accounts for 2016/17
CONTENTS	Page 1 Executive Summary and Background Page 2 Recommendations Pages 3 - 53 Appendix A – Statement of Accounts Pages 54 – 76 Appendix B – Report from the Auditor Pages 77 - 83 Appendix C – draft Letter of Representation
STATUS	Open-circulation of this paper is not restricted.
BACKGROUND PAPERS	No background papers were used in the production of this report

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EXECUTIVE SUMMARY AND BACKGROUND

1. The Authority at its meeting on 28th June 2017 was presented with the outturn position for 2016/17 for information.

ACCOUNTS AND AUDIT 2016/17

2. As the responsible financial officer, the Treasurer signed and dated the Statement of Accounts for 2016/17 on 28th June 2017. The amended audited set of accounts are now attached for approval by the Authority.
3. Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 – "Communication of audit matters with those charged with governance", the Auditor is required to report to those charged with governance on the significant findings from the audit as a prelude to issuing a formal Opinion on the Authority's accounts. The ISA260 is attached at Appendix B.
4. The Audit report brings to your attention the fact that they are yet to complete their procedures on the valuation of Property, Plant and Equipment but subject to all outstanding queries being resolved, KPMG anticipate issuing an unqualified audit opinion on the Authority's financial statements. One recommendation has been raised in relation to the date the advertisement regarding the audit via a public inspection notice was issued in order to ensure this requirement is met in 2017/18. However, KPMG are satisfied that the Authority afforded electors an appropriate opportunity to exercise their rights. No areas of misstatement have been identified.
5. The Audit report has not noted any deficiencies in relation to systems of internal control.
6. KPMG are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing value for money in its use of resources. KPMG undertook their audit in accordance with the Code of Practice issued by the Audit Commission and have indicated that they will issue an Unqualified Opinion. The Auditor Opinion is included as Section two of the ISA260 report attached at Appendix B.
7. Auditing standards require KPMG to obtain a written representation from management on certain matters material to their Opinion. A draft Letter of Representation is attached at Appendix C. The Authority is requested to authorise the Treasurer to sign the Letter in this form on behalf of the Authority.
8. Following the Audit, the Authority is requested to approve the audited Statement of Accounts for 2016/17 at Appendix A and to authorise the

Treasurer and Chairman to sign it accordingly.

AUDITOR APPOINTMENT FROM 2018/19

9. The Authority opted into PSAA's (Public Sector Audit Appointments Limited) auditor appointment arrangements (Paper No. WRWA 811, September 2016) for the provision of auditors from 2018/19 for a period of 5 years. Under regulation 13 of the Regulations, the PSAA must appoint an external auditor to each opted-in authority and consult the authority about the proposed appointment.
10. Deloitte LLP was successful in winning a contract in the PSAA's procurement process and the PSAA proposes to appoint this firm as the auditor for the Authority. The Treasurer is satisfied that this firm is independent from the Authority's business and therefore recommends that this appointment is accepted. The Treasurer has been asked to respond to the consultation by 22nd September 2017.

RECOMMENDATIONS

11. The Authority is recommended to:
 - (a) note the report from KPMG relating to the Accounts for 2016/17 (Appendix B)
 - (b) authorise the Treasurer to sign the Letter of Representation (Appendix C)
 - (c) approve the Authority's Statement of Accounts (Appendix A)
 - (d) authorise the Treasurer to accept the appointment of Deloitte as the Authority's external auditor for a period of 5 years from 2018/19
 - (e) otherwise receive this report for information

CHRIS BUSS
Treasurer

Western Riverside Transfer Station
Wandsworth
LONDON SW18 1JS.

12th September 2017



Western Riverside Waste Authority

Statement of Accounts

For the year ended 31 March 2017

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NARRATIVE REPORT TO ACCOMPANY THE STATEMENT OF ACCOUNTS

Introduction

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.

This is the Statement of Accounts for the Authority for the year ended 31st March 2017. The Statement of Accounts is a complex, technical document, the form and content of which is governed by the Code of Practice on Local Authority Accounting in the United Kingdom (The Code). 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. The figures within the main body of the Statement of Accounts have been adjusted in line with International Financial Reporting Standards (IFRS), on the same basis as the rest of the public sector in the United Kingdom.

The statements and notes which form part of the financial statements are listed below in the order in which they appear in the accounts, with an explanation as to their purpose:

- **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. The operational income and expenditure of the Authority is wholly affected by the tonnage of waste managed during the year. The General Reserves Balances at the end of March 2017 stood at £12.880 million, a decrease of £0.4 million compared to that reported in March 2016. The balance was £2.9 million more than anticipated when the budget for 2017/18 was set in February 2017 due in part to the annual rebate from RRRL in relation to 'Triad payments' which are due to the Authority as part of the 'Energy uplift refund' under the WMSA which was uncertain at the time the budget was set. The Authority also received a reduced volume of tonnage at the Civic Amenity site than budgeted. It is proposed that an amount be retained in the General Fund Reserve to cover the Authority's £2.5 million contingencies and £1.5 million planning contingencies approved at the Budget Setting meeting in February 2017. The remaining amount has been agreed to be set aside in the Rates Stabilisation Reserve at the June 2017 meeting of the Authority.
- **Balance Sheet** - This summarises the Authority's financial position at 31st March in each year. The top half shows the assets and liabilities of the Authority, its net worth. The bottom half explains how this net worth is split between usable and unusable reserves. The Authority's fixed assets were valued at 31st March 2017 at £51.7 million.
- **Cash Flow Statement** - This summarises the flows of cash that have taken place into and out of the Authority's bank accounts over the financial year. The flows are separated into operating, investing and financing activities. The Authority's cash and

cash equivalents reduced by £3.881 million in 2016/17 (increased by £1.506 million in 2015/16).

- **Notes to the Accounts** - The notes provide further details to ensure a true and fair view is presented of the Council's financial position. They present information about the basis of preparation of the financial statements and the specific accounting policies used. They present information required by the Code that is not presented elsewhere in the financial statements and provide information that is relevant to the understanding of the financial statements.

Review of the Year

Total waste managed by the Authority reduced marginally by 3,970 tonnes or 1.02% with General waste tonnage reducing by just over 3,500 tonnes, or 1.15%. Recycling represented just under 20% of total waste managed, the same as in 2015/16.

The Authority's key achievements in 2016/17 were:

- Ensure that the contractual terms within the WMSA were enforced as part of the the refinancing by Cory, the main contractor at the end of March 2017, producing an ongoing benefit to the authority in excess of £1 million per annum.
- Progressing the redevelopment proposals at Cringle Dock, including successfully receiving a revised planning permission alongside Battersea Project Land Company Limited (BPLCL) in March 2017 in respect of the bulk bays at Cringle dock and the proposed Bulk bays at Feathers wharf

Pensions

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

The Fund's net assets increased by £1.191 million to £7.426 million. The Fund's actuary estimated that the present value of scheme liabilities has increased over the same period by £1.495 million, from £10.069 million to £11.564 million. The net pension liability therefore increased by £0.304 million from £3.834 million to £4.138 million.

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

Borrowing Facilities

The Authority finances debt through the Public Works Loan Board (PWLB) with loans totalling £10.5 million outstanding at 31st March 2017, with no new loans advanced during the financial year. Average balances of £8.2 million were invested via Wandsworth Council earning the investment rate achieved by the Council at an average of 0.64% whilst the cashflow is managed within a Special Interest Bearing Account (SIBA) with the current retail banker (RBS/

Nat West) earning 0.25%. The Authority's total cash balance was £8.859 million at 31st March 2017. The cash balances are shown as cash or cash equivalents in the balance sheet.

European Union Referendum

On the 23 June 2016 the European Union (EU) Referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision made to leave the EU. There was no impact on the figures contained within the Accounts in either 2015/16 or 2016/17. It is too early to determine if this decision will have any impact upon future finances of the Authority.

Forward Look

The total level of waste managed by the Authority in 2016/17 has reduced slightly but it is still anticipated that the level of waste managed could grow at around 2% above that received in 2016/17 for the upcoming few years. The Authority manages its affairs with the main contractor, Cory, through the Waste Management Services Agreement (WMSA) to minimise costs and maximise income from recycled materials. The Authority continues to drive forward efficiencies from within the WMSA in order to generate savings for Constituent Councils in the current financial climate.

Key challenge for 2017/18 and beyond is:

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

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

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

Conclusion

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

STATEMENT OF RESPONSIBILITIES FOR THE ACCOUNTS

The Responsibility of the Authority

The Authority is required to:

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

The Responsibility of the Treasurer

The Treasurer is responsible for the preparation of the 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
- 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 2017 and the authority's financial position as at 31 March 2017.

C Buss
Treasurer

29th September 2017

Movement in Reserves Statement

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

	General Fund Balance	Pension Liability Reserve	Levy Equalisation Reserve	Rates Stabilisation Reserve	Recycling Initiatives Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2015 carried forward	10,979	1,800	-	-	-	12,779	33,796	46,575
Movement in reserves during 2015/16								
(Deficit)/ Surplus on provision of services	-427	-	-	-	-	-427	-	-427
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	248	248
Total Comprehensive Income and Expenditure	-427	-	-	-	-	-427	248	-179
Adjustments between accounting basis and funding basis under regulations (Note 6)	904	-	-	-	-	904	-904	-
Net (Decrease)/Increase before Transfers to Earmarked Reserves	477	-	-	-	-	477	-656	-179
Transfers to/from Earmarked Reserves	-4,730	-	1,105	3,375	250	-	-	-
(Decrease)/Increase in 2015/16	-4,253	-	1,105	3,375	250	477	-656	-179
Balance at 31 March 2016 carried forward	6,726	1,800	1,105	3,375	250	13,256	33,140	46,396

Appendix A
Western Riverside Waste Authority

	General Fund Balance	Pension Liability Reserve	Levy Equalisation Reserve	Rates Stabilisation Reserve	Recycling Initiatives Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000
<u>Movement in Reserves during 2016/17</u>								
Balance at 31 March 2016 carried forward	6,725	1,800	1,105	3,375	250	13,256	33,140	46,396
(Deficit)/ Surplus on provision of services	-1,267	-	-	-	-	-1,267	-	-1,267
Other Comprehensive Income and Expenditure	-	-	-	-	-	-	-351	-351
Total Comprehensive Income and Expenditure	-1,267	-	-	-	-	-1,267	-351	-1,618
Adjustments between accounting basis and funding basis under regulations (Note 6)	891	-	-	-	-	891	-891	-
Net (Decrease)/ Increase before Transfers to Earmarked Reserves	-376	-	-	-	-	-376	-1,242	-1,618
Transfers to/from Earmarked Reserves	-2,349	-	-	2,349	-	-	-	-
(Decrease)/ Increase in Year	-2,725	-	-	2,349	-	-376	-1,242	-1,618
Balance at 31 March 2017 carried forward	4,000	1,800	1,105	5,724	250	12,880	31,898	44,778

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.

	2015/16 Restated		2016/17	
	£000	£000	£000	£000
Operating expenditure				
Employees	297		324	
Premises	675		679	
General waste disposal	45,957		47,239	
Other supplies and payments	1,159		1,150	
Depreciation and Impairment (Note 9)	1,654		1,654	
Total		49,742		51,046
Operating Income				
Hammersmith and Fulham	(8,717)		(9,275)	
Kensington and Chelsea	(8,866)		(9,355)	
Lambeth	(13,237)		(14,199)	
Wandsworth	(11,642)		(12,475)	
Total		(42,462)		(45,304)
Net Cost of Services		7,280		5,742
Other Items				
Financing and investment income and expenditure (Note 8)		614		596
Other income		(557)		(660)
Deficit on Provision of Services		7,337		5,677
Levy on Constituent Authorities				
Hammersmith and Fulham	(1,298)		(824)	
Kensington and Chelsea	(1,673)		(1,053)	
Lambeth	(1,763)		(1,123)	
Wandsworth	(2,176)		(1,410)	
		(6,910)		(4,410)
(Surplus)/ Deficit on Provision of Services		427		1,267
Surplus on revaluation of Property, Plant and Equipment assets (Note 9)		-		-
Remeasurements of the net defined benefit liability (Note 25)		(248)		351
Other Comprehensive Income and Expenditure		(248)		351
Total Comprehensive Income and Expenditure		179		1,618

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.

	2015/16 £000			2016/17 £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	324	(27)	297	371	(47)	324
Premises	675		675	679	-	679
General Waste Disposal	45,957		45,957	47,239	-	47,239
Other supplies and payments	1,159		1,159	1,150	-	1,150
Depreciation and Impairment (Note 9)	-	1,654	1,654	-	1,654	1,654
Operating Income	(42,462)	-	(42,462)	(45,304)	-	(45,304)
Net Cost of Services	5,653	1,627	7,280	4,135	1,607	5,742
Other Expenditure	1,337	(723)	614	1,311	(716)	595
Other Income	(557)	-	(557)	(660)	-	(660)
Levy income	(6,910)	-	(6,910)	(4,410)	-	(4,410)
Deficit on Provision of Services	(477)	904	427	376	891	1,267
Net Expenditure chargeable to Reserves	(477)	904	427	376	891	1,267
Opening Usable Reserve Balance	12,779			13,256		
Plus (surplus) or Deficit on Revenue Reserve in Year	(477)			376		
Usable Reserve Balance carried forward	13,256			12,880		

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 2016	31 March 2017
		£000	£000
Property, Plant and Equipment	9	53,389	51,735
Long Term Assets		53,389	51,735
Short Term Debtors	11	5,574	5,422
Cash and Cash Equivalents	12	12,740	8,859
Prepayments		194	14
Current Assets		18,508	14,295
Cash and Cash Equivalents	12	-	-
Receipts in Advance		1,761	-
Short Term Borrowing	10	3,500	2,000
Short Term Creditors	13	5,705	6,614
Provisions	14	200	-
Current Liabilities		11,166	8,614
Long Term Borrowing	10	10,500	8,500
Pensions	25	3,834	4,138
Long Term Liabilities		14,334	12,638
Net Assets		46,397	44,778
Usable Reserves	15	13,256	12,880
Unusable Reserves	16	33,140	31,898
Total Reserves		46,396	44,778

The notes on pages 11 to 43 form part of the financial statements.

C Buss
Treasurer

29th September 2017

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.

	2015/16	2016/17
	£000	£000
Net deficit/ (surplus) on the provision of services	427	1,267
Adjustments to net surplus or deficit on the provision of services for non-cash movements	(1,933)	(886)
Net cash flows from Operating Activities	(1,506)	380
Investing Activities (Note 18)	0	0
Financing Activities (Note 19)	0	3,500
Net decrease/(increase) in cash and cash equivalents	<u>(1,506)</u>	<u>3,881</u>
 Represented by		
Cash and cash equivalents at the beginning of the reporting year (Note 12)	(11,234)	(12,740)
Cash and cash equivalent at the end of the reporting year (Note 12)	(12,740)	(8,859)
Increase in cash and cash equivalents	<u>(1,506)</u>	<u>3,881</u>

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (England and Wales) 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS).

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

ii. Accruals of Income and Expenditure

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

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

iii. Cash and Cash Equivalents

Cash is represented by deposits with current retail banker (RBS/ Nat West) and investments via Wandsworth Council repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in a specified period, no more than three months

from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Exceptional Items

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

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

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

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

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

vi. Charges to Revenue for Non-Current Assets

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

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

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

vii. Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

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

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

Post Employment Benefits

Employees of the Authority are members of the LPFA pension schemes. 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 2.6% in 2016/17 compared to 3.5% in 2015/16 (based on the indicative rate of return on the Merrill Lynch AA rated over 16 year corporate bond index).

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

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

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

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

viii. Events After the Balance Sheet Date

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

- Those that provide evidence of conditions that existed at the end of the reporting year – the Statement of Accounts is adjusted to reflect such events

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

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

ix. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Loans and Receivables

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

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

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

x. Leases

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

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

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

The Authority as Lessee

Operating Leases

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

The Authority as Lessor

Operating Leases

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

xi. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2016/17* (SerCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, apart from Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

This category is defined in SerCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services. However, this is not required in 2016/17.

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

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

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

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

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

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on buildings, vehicles, plant, furniture and equipment on a straight-line basis over the useful life of the property as estimated by the valuer. (Remaining useful economic lives are as follows: Buildings – range between 5 and 46 years, fixed plant and equipment – between 3 and 25 years, vehicles and moveable plant – 1 year). 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 to the relevant service.

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

Contingent Liabilities

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

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

Contingent Assets

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

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

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 to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against the levy for the expenditure.

The Authority created a Pension Liability Reserve in 2012/13 of £1.8 million. In order to recover the deficit on their pension fund, the London Pension Fund Authority (LPFA) notified the Authority of the deficits to be recovered in respect of previous and current employees. To guard against a major increase in the Levy, the Reserve was created to provide against future increases in charges from the LPFA. It remains at £1.8 million in 2016/17. In 2015/16 the Authority added £1.1 million to the Levy Equalisation Reserve, £3.4 million to the Rates Stabilisation Reserve and £0.25 million to the Recycling Initiatives Reserve. These first two reserves were set up as a prudent approach to offset potential changes in rates and the Levy as a result of circumstances outside the Authority's control. An additional £2.4 million has been added to the Rates Stabilisation Reserve in 2016/17 and it is proposed to merge this reserve with the Levy Equalisation Reserve from 1st April 2017. The Recycling Initiatives Reserve may be drawn upon to fund recycling projects in 2017/18 without the need for additional borough funding.

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.

2. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

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

The items in the Authority's Balance Sheet at 31 March 2017 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 £92,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £182,000. 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 £447,000.
Arrears	The Authority recovers the significant majority of its costs from the Constituent Authorities under statute. Late payment by the Constituent Authorities will incur additional cash flow charges or result in a reduction in interest earned on cash flow movements.	If collection rates were to deteriorate, a higher penalty rate would have to be imposed on Constituent Councils to ensure cash flow losses are not incurred.

4. MATERIAL ITEMS OF INCOME AND EXPENSE

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

5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Treasurer on 28th June 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

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

2016/17	General Fund Balance £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(1,654)	1,654
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:		
Statutory provision for the financing of capital investment	716	(716)
Capital expenditure charged against the General Fund	-	-
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 25)	(226)	226
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 25)	273	(273)
Total Adjustments	(891)	891
2015/16	General Fund Balance £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(1,654)	1,654
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:		
Statutory provision for the financing of capital investment	722	(722)
Capital expenditure charged against the General Fund	-	-
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 25)	(235)	235
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 25)	262	(262)
Total Adjustments	(905)	905

7. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2016/17.

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

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

	Balance 1 April 2015 £000	Transfers Out 2015/16 £000	Transfers In 2015/16 £000	Balance 31 March 2016 £000	Transfers Out 2016/17 £000	Transfers In 2016/17 £000	Balance 31 March 2017 £000
General Fund:							
General Fund Balance	10,979	4,730	477	6,726	2,725	-	4,000
Pension Liability Reserve	1,800	-	-	1,800	-	-	1,800
Levy Equalisation Reserve	-	-	1,105	1,105	-	-	1,105
Rates Stabilisation Reserve	-	-	3,375	3,375	-	2,349	5,724
Recycling Initiatives Reserve	-	-	250	250	-	-	250
Total	12,779	4,730	5,207	13,256	2,725	2,349	12,880

8. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2015/16	2016/17
	£000	£000
Interest payable and similar charges	541	529
Net interest on the net defined benefit liability (asset)	136	137
Interest receivable and similar income	(63)	(70)
Total	614	596

9. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances 2016/17

A valuation was carried out by the Authority's Valuer, Paul Lidgley BSc (Hons), MRICS, Director, Valuation of Lambert Smith Hampton, on land, buildings and fixed plant and equipment as at 31st March 2014. The results of the valuation are shown below. Assets are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years.

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

Fixed Plant and Equipment

No capital expenditure was incurred during 2016/17. There were two fires at the Materials Recycling Facility in quick succession in July 2016. However, repairs were completed and the facility was fully operational again in early May 2017 and therefore the assets have not been impaired on the balance sheet as at 31st March 2017.

2015/16

	Land and Buildings £000	Fixed Plant and Equipment £000	Vehicles and Moveable Plant £000	Total £000
Cost or valuation at 1 April 2015	42,790	13,550	223	56,563
Additions	-	-	-	-
Reclassifications	-	-	-	-
Revaluation increases/ (decreases) recognised in Revaluation Reserve	-	-	-	-
Revaluation increases to Surplus/ Deficit on Provision of Services	-	-	-	-
At 31 March 2016	42,790	13,550	223	56,563
Accumulated Depreciation and Impairment at 1 April 2015	(694)	(643)	(183)	(1,520)
Depreciation charge	(959)	(675)	(20)	(1,654)
Depreciation written out to the Revaluation Reserve	-	-	-	-
At 31 March 2016	(1,654)	(1,318)	(203)	(3,174)
Net Book Value at 31 March 2016	41,136	12,232	20	53,389
at 31 March 2015	42,096	12,907	40	55,043

10. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2016 £000	31 March 2017 £000	31 March 2016 £000	31 March 2017 £000
Debtors				
Loans and receivables	-	-	5,574	5,422
Total Debtors	-	-	5,574	5,422
Borrowings				
PWLB loans	14,000	10,500	-	-
Total borrowings	14,000	10,500	-	-
Creditors				
Financial liabilities at amortised cost	-	-	-	-
Financial liabilities carried at contract amount	-	-	7,466	6,614
Total Creditors	-	-	7,466	6,614

Fair Values of Assets and Liabilities

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

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

The fair values calculated are as follows:

	31 March 2016		31 March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Public Works Loans Board	14,000	15,605	10,500	11,810

The fair value of outstanding long term debts as at 31st March 2017 was higher than the book value due to the changes in market factors since the original borrowing was made.

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

11. SHORT TERM DEBTORS

Short term debtors and accrued income at 31st March 2016 and 31st March 2017 can be analysed as follows:

ITEM	31 March	31 March
	2016 £000	2017 £000
Constituent Councils	3,922	3,606
VAT Reimbursements due	1,206	1,441
Other sums due	446	375
Total	5,574	5,422

12. CASH AND CASH EQUIVALENTS

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

	31 March	31 March
	2016 £000	2017 £000
Short term credit in cash flow held by RBS/ Nat West	4,058	919
Short term credit in cash Flow held by Wandsworth Council	8,682	7,940
Total	12,740	8,859

13. SHORT TERM CREDITORS

Creditor payments 31st March 2016 and 31st March 2017 can be analysed as follows:-

ITEM	31 March	31 March
	2016	2017
	£000	£000
Main contractor	5,505	3,833
Other creditors	200	2,781
Total	5,705	6,614

14. PROVISIONS

	31 March 2016		31 March 2017	
	Total	Provisions Made	Provisions Written back	Total
	£000	£000	£000	£000
General Provisions	200	-	200	-
Total Provisions	200	-	200	-

The provision brought forward into 2016/17 related to the remaining disputed payment to the main contractor for contaminated waste processed over the period January 2012 to March 2013. This dispute was settled during 2016/17 and the unused amount credited back to the income and expenditure account.

15. USABLE RESERVES

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

16. UNUSABLE RESERVES

	31 March 2016	31 March 2017
	£000	£000
Revaluation Reserve	18,552	18,552
Pensions Reserve	(3,834)	(4,138)
Capital Adjustment Account	18,422	17,484
Accumulated Absences Account	-	-
Total Unusable Reserves	33,140	31,898

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.

	2015/16 £000	2016/17 £000
Balance at 1 April	(4,109)	(3,834)
Remeasurements of the net defined benefit liability/ (asset)	248	(351)
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	(235)	(226)
Employer's pensions contributions and direct payments to pensioners payable in the year	262	273
Balance at 31 March	(3,834)	(4,138)

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.

	2015/16	2016/17
	£000	£000
Balance at 1 April	19,354	18,422
Provision for debt redemption	722	716
Depreciation provision	(1,654)	(1,654)
Revaluation losses on Property, Plant and Equipment	-	-
Capital expenditure charged against the General Fund	-	-
Balance at 31 March	18,422	17,484

Accumulated Absences Account

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

The effect of any annual leave entitlement carried forward at 31 March 2017 is deemed immaterial in the accounts.

17. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2015/16	2016/17
	£000	£000
Interest received	(63)	(70)
Interest paid	542	529

18. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2015/16	2016/17
	£000	£000
Purchase of property, plant and equipment	-	-
Other payments for investing activities	-	-
Other receipts from investing activities	-	-
Net cash flows from investing activities	-	-

19. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2015/16 £000	2016/17 £000
Cash receipts of short- and long-term borrowing	-	-
Repayments of short- and long-term borrowing	-	3,500
Net cash flows from financing activities	-	3,500

20. OFFICERS' REMUNERATION

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

Title	Year	Salary, Fees and Allowances £	Bonuses £	Expenses Allowances £	Pension Contribution £	Total £
General Manager	2015/16	119,221	10,783	2,446	15,820	148,270
	2016/17	124,154	11,121	11,392	16,434	163,101
Deputy General Manager	2015/16	66,968	6,059	2,532	9,045	84,604
	2016/17	69,776	6,249	11,478	9,384	96,887

Expenses allowances includes a one-off compensation payment for the withdrawal of the offer of Private Medical Insurance.

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

21. EXTERNAL AUDIT COSTS

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

	2015/16 £000	2016/17 £000
Fees payable to Ernst & Young LLP with regard to external audit services carried out by the appointed auditor for the year 2015/16 and to KPMG LLP with regard to external audit services carried out by the appointed auditor for the year 2016/17	16	16

22. RELATED PARTIES

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

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

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

	2015/16	2016/17
	£	£
Financial Services	54,000	50,000
Other Services (admin support etc)	48,000	41,000
Total	102,000	91,000

At 31st March 2016 and 31st March 2017 the following Authority balances related to Wandsworth Council:

	31 March 2016	31 March 2017
	£	£
Debtors and Accrued Income	1,089,079	986,786

These sums relate to invoices which are not payable until April 2016 and April 2017 respectively.

Net interest payments on cash flow balances of £52,949 were received by the Authority from Wandsworth Council for the year 2016/17 whilst net interest payments for 2015/16 amounted to £50,539.

23. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2015/16	2016/17
	£000	£000
Opening Capital Financing Requirement	17,071	16,349
Capital investment		
Capital Expenditure	-	-
Sources of finance		
MRP	(722)	(716)
Direct revenue contributions	-	-
Closing Capital Financing Requirement	16,349	15,633
Explanation of movements in year		
Reduction in underlying need to borrow (unsupported by government financial assistance)	(722)	(716)
Decrease in Capital Financing Requirement	(722)	(716)

24. LEASES

Authority as Lessee

Operating Leases

The Authority leases the Energy from Waste facility at Belvedere at a peppercorn rent. The Authority relinquished a lease from Wandsworth Borough Council for the use of Feather's Wharf at the end of October 2013. Therefore no lease payments have been made for the year 1st April 2016 to 31st March 2017.

25. DEFINED BENEFIT PENSION SCHEMES

1. PENSION FUND. As part of the terms and conditions of employment of its officers, the Authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.
2. Local Government Pension Scheme. All permanent staff are eligible for inclusion in the statutory Local Government Pensions Scheme (LGPS) which is administered by the London Pensions Fund Authority (LPFA) under the Local Government Pension Scheme Regulations. Employee costs shown in the accounts include the contributions paid to the scheme in respect of the employees concerned in accordance with Regulations governing the Scheme. An independent firm of actuaries, Barnett Waddingham, was instructed to undertake IAS 19 calculations on behalf of the Authority as at 31st March 2017.
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 2016 £000	Year to 31 March 2017 £000
<u>Comprehensive Income and Expenditure Statement</u>		
Service cost	99	89
<i>Financing and Investment Income and Expenditure</i>		
Net Interest Expense	136	137
<i>Total Post-employment Benefits charged to the Surplus of Deficit on the Provision of Services</i>	235	226
<i>Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	251	(1,055)
Actuarial gains and losses arising on changes in demographic assumptions	-	(23)
Actuarial gains and losses arising on changes in financial assumptions	(502)	1,821
Actuarial gains and losses arising on changes in demographic assumptions	-	(117)
Experience gain/(loss) on defined benefit obligation	3	(275)
<i>Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement</i>	(248)	351
<u>Movement in Reserves Statement</u>		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(235)	(226)
<i>Actual amount charged against the General Fund Balance for pensions in the year:</i>		
Employers' contributions payable to scheme	262	273

4. Pension Assets and Liabilities Recognised in the Balance Sheet

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

	2015/16 £000	2016/17 £000
Present value of the defined benefit obligation	10,040	11,538
Fair value of scheme assets	6,235	7,426
Present value of unfunded obligation	29	26
Net liability arising from defined benefit obligation	3,834	4,138

Reconciliation of the Movements in the Fair Value of Scheme Assets

ITEM	2015/16 £000	2016/17 £000
Opening fair value of scheme assets	6,307	6,235
Interest income	202	217
Remeasurement gain/ (loss):		
The return on assets, excluding the amount included in the net interest expense	(251)	1,055
Other actuarial gains/ (losses)	-	23
Contributions from employer	262	273
Contributions from employees into the scheme	34	34
Benefits paid	(310)	(403)
Administration expenses	(9)	(8)
Closing fair value of scheme assets	6,235	7,426

Reconciliation of Present Value of the Scheme Liabilities

ITEM	2015/16 £000	2016/17 £000
Opening balance 1 April	10,416	10,069
Current service cost	99	89
Interest cost	329	346
Contributions from scheme participants	34	34
Remeasurement (gains) and losses:		
- Actuarial gains/losses arising from changes in demographic assumptions	-	(117)
- Actuarial gains/losses arising from changes in financial assumptions	(502)	1,821
Experience loss/(gain) on defined benefit obligation	3	(275)
Past Service Cost	-	-
Liabilities assumed on entity combinations		
Benefits paid	(305)	(398)
Unfunded pension payments	(5)	(5)
Closing balance at 31 March	10,069	11,564

5. Basis for Estimating Assets and Liabilities

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

The significant assumptions used by the actuary have been:

	2015/16	2016/17
Longevity at 65 for current pensioners:		
-Men	21.5	20.6
-Women	24.6	23.8
Longevity at 65 for future pensioners:		
-Men	23.9	23.0
-Women	26.9	26.1
Rate of inflation	2.3	2.6
Rate of increase in salaries	4.1	4.1
Rate of increase in pensions	2.3	2.6
Rate for discounting scheme liabilities	3.5	2.6

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume

that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	£000	£000	£000
Longevity (sensitivity)	+1 Year	None	-1 Year
Present Value of Total Obligation	12,011	11,564	11,134
Projected Service Cost	132	128	124
Rate of increase in salaries (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,594	11,564	11,535
Projected Service Cost	128	128	128
Rate of increase in pensions (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,720	11,564	11,411
Projected Service Cost	131	128	125
Rate for discounting scheme liabilities (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,382	11,564	11,750
Projected Service Cost	125	128	131

26. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

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

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

- by formally adopting the requirements of the Code of Practice;
- by approving annually in advance prudential indicators which limit the Authority's overall borrowing, 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, with the remainder invested with the current retail banker (RBS/ Nat West) in a Special Interest Bearing Account (SIBA). WRWA receives reports and monitors the treasury management performance of the London Borough of Wandsworth on a regular basis.

Credit risk

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

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

Credit risks can arise from the Authority's exposure to customers. As the great majority of income due to WRWA is derived from its four constituent boroughs, risks are low. Payments for services are either required in advance or due at the time the service is provided. As at 31st March 2017, £5.422 million (£4.368 million as at 31 March 2016) is due to the Authority from its customers. Of this sum, constituent councils were liable to pay a net £1.106 million all of which was accrued income to the authority, and payable in April 2017. VAT due from the HMRC for February and March 2017 totalled £1.4 million whilst VAT due for February and March 2016 amounted to £0.7 million. These sums were received in April and May 2017 and 2016 respectively.

There was no provision for bad debts as at 31st March 2016 and 31st March 2017 as all outstanding debtors are expected to be paid.

Credit risk arising from deposits with Banks and Financial Institutions.

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

Liquidity Risk

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

The Authority has ready access to the Public Works Loans Board (PWLB). The PWLB provides access to longer-term funds and acts as lender of last resort to authorities. Therefore there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. As at 31st March 2017, all of the Authority's outstanding loans were with PWLB.

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

Refinancing and Maturity Risk

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

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

The maturity structure for borrowing as at 31st March 2016 and 31st March 2017 is set out below and is within the Authority's Prudential Code limits for 2015/16 and 2016/17 as set out in its Treasury Management Strategy:

<u>Renewal Period</u>	Market Loans Outstanding as at 31 March 2016 £000	% of Total borrowing	Market Loans Outstanding as at 31 March 2017 £000	% of Total borrowing
Less than One Year	3,500	25.0	2,000	19.0
Between One and Two Years	2,000	14.3	-	-
Between Two and Five Years	5,500	39.3	7,500	71.4
Between Five and Ten Years	3,000	21.4	1,000	9.5
More than Ten Years	-	-	-	-
Total	14,000	100.0	10,500	100.0

Market Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings. Interest rates during 2015/16 and 2016/17 continue at a low level.

Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would cause the fair value of the liabilities to fall because our borrowings are at fixed rates.

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

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

- All the Authority's borrowings are at fixed rates for the period of the loan.
- Spreading the maturity of loans so that a large proportion of loans do not mature in the same year.
- Ensure the average maturity period of the portfolio is at least 3 years.

In view of the fact that the Authority has no variable rate borrowings, no financial impact on the Authority's financial performance for 2016/17 is reported in the key financial statements.

WESTERN RIVERSIDE WASTE AUTHORITY

ANNUAL GOVERNANCE STATEMENT 2016/17

1. SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk. The Authority has reviewed governance arrangements against the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* (including the subsequent Addendum).

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance arrangements that have been in place at the Authority for the year ended 31st March 2017 and up to the date of approval of the statement of accounts comprise:

- **Identifying and communicating the Authority's vision of its purpose and intended outcomes for citizens and service users.** The Authority's strategic approach was established within the framework of the Riverside Waste Partnership (Joint Municipal Waste Management Strategy) with its four constituent councils, the London Boroughs of Hammersmith and Fulham, Lambeth and Wandsworth and the

Royal Borough of Kensington and Chelsea. This Strategy was supplemented in 2013 with the adoption of a joint waste policy document and in 2016 the Authority, jointly with the other five statutory joint waste disposal authorities, endorsed a number of points it believes are critical to developing a 'Circular Economy' and agreed a position paper on recycling. These documents, together with the Authority's Annual Report are the key documents that contain the vision, purpose and intended outcomes for citizens and service users and published on the Authority website.

- **Reviewing the Authority's vision and its implications for the Authority's governance arrangements.** As set out in the joint waste policy document, the Authority's vision is to continue to promote the use of waste management techniques higher up the waste hierarchy as they represent best value both environmentally and economically. Performance is reviewed annually within an Annual Report. The joint strategy/waste policy document was due for review in 2015 but the Authority decided to postpone this review until the new Mayor of London's position on waste was known and what England's plans for a Circular Economy would be following the 2016 EU Referendum. In February 2017 the Authority agreed to the production of an in depth report on recycling for its meeting in June 2017. This recycling report is likely to be the first stage in a process that could lead to the development of a new joint waste strategy in 2018.
- **Measuring the quality of services for users, for ensuring they are delivered in accordance with the Authority's objectives and for ensuring that they represent the best use of resources.** The Authority has an effective performance management culture and system with regular review of key performance indicators at officer and Member level. In-year monitoring reports and year-end reviews are presented to the Authority to monitor progress and action plans for seeking continuous improvement are in place and progress reviewed.
- **Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication.** The Authority's Constitution and Standing Orders set out how the Authority operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. The membership of the Authority comprises eight elected Members, with each of the four constituent councils appointing two Members, providing a high level of scrutiny for the Authority.
- **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and staff.** Members from the constituent authorities comply with their own authority codes. The officer Codes of Conduct are robust and set out clear and distinctive rules in relation to the giving and

receiving of gifts and hospitality and are made available to officers. These were reviewed during 2015/16.

- **Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks.** As part of a complete review of governance arrangements the Authority undertook a comprehensive review of delegations and proper officer functions in 2015/16. The Authority has a Risk Management Strategy that is embedded within the management processes and a specific risk assessment is undertaken as part of the annual review of the Authority's internal control procedures.
- **Undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*.** Due to the nature and size of the Authority these functions are effectively undertaken at the Authority level.
- **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.** Authority officers provide appropriate advice at the points of consideration and report to Members on progress and the outcome of decisions taken. Monitoring of compliance is undertaken by the Clerk to the Authority (as the Authority's monitoring officer), supported by the General Manager and the Treasurer (as the s.73 officer), with legal advice available via the Authority's legal advisers. Members are informed of relevant legal advice as it is received. All reports that have actual or potential financial implications include a Treasurer's comment.
- **Counter-fraud, anti-corruption, whistle-blowing and receiving and investigating complaints from the public.** The relevant Policies and Procedures, which were reviewed in 2015/16, when combined with proper procedures and audits, are effective in terms of reports of possible frauds or financial regularities. The Authority's complaints system is effective with numbers of complaints and reasons for complaints monitored by officers.
- **Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training.** Formal protocols are not required within the Authority, given its size and the simplicity of its decision making processes, although Members are informed of their role in an induction pack. Officer training needs are judged to be adequately identified at annual review meetings with line managers and catered for as required with individual training plans.
- **Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open**

consultation. The Authority works in partnership with its constituent councils and maintains an effective internet site to provide feedback for all stakeholders. All meetings of the Authority are open to the press and public, except when exempt information is being considered, and minutes of the meetings are published on the Authority's website.

3. REVIEW OF EFFECTIVENESS

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

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

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

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

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

Internal Audit. The annual review of the procedures and controls in place at the Authority concluded that there is basically a sound system of control in operation. Robust review mechanisms are in place that enable Members to take reasonable

assurance that the Authority’s governance arrangements, including internal control, are effective, operated vigorously and contribute to the achievement of the Authority’s overarching objectives.

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

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

4. CONCLUSION

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

5. CERTIFICATE

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

Signed:

Clerk

Chairman

On behalf of Western Riverside Waste Authority

20th September 2017



External audit report 2016/17

Western Riverside Waste Authority

—

September 2017



Summary for the Authority

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Western Riverside Waste Authority ('the Authority').

This report focusses on our on-site work which was undertaken in July 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 6 to 11.

We are yet to complete our procedures on the valuation of Property Plant and Equipment (PPE), and the judgements made by the Authority in response to the information received/available.

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September.

To date we have not identified any audit adjustments.

Based on our work to date, we have raised one recommendation. Details on our recommendations can be found in Appendix 1.

We noted that the Authority failed to advertise the audit via a public inspection notice in accordance with the Accounts and Audit Regulations 2015. Following the Notice being made later that required by the Regulations, we are satisfied that the Authority has afforded electors an appropriate opportunity to exercise their rights. We have raised a high priority recommendation in relation to this.

Other than the PPE work noted above, we are now in the completion stage of the audit. Subject to finalising these steps we anticipate issuing our completion certificate by the end of September 2017; and Annual Audit letter in October 2017.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion.

See further details on page 12.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

We ask the Authority to note this report.

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

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

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

Section one

Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a deficit on provision of services of £1.26 million. The impact on the General Fund has been a decrease of £0.38 million in usable reserves.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. Professional standards require us to consider two standard risks for all organisations and our evaluation is set out below. We have not identified any other significant risks for the Authority.

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.



Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.

There are no matters arising from this work that we need to bring to your attention.

Other areas of audit focus

We identified four areas of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures.

Other areas of audit focus	Our work to address the areas
1. Significant changes in the pension liability due to LGPS Triennial Valuation	<p>Risk</p> <p>During the year, the Local Government Pension Scheme for the London Pensions Fund Authority (LPFA) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The pension numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.</p> <p>Further there are significant judgements made in relation to the assumptions to be adopted when calculating the pension liability.</p> <p>What we have done</p> <p>As part of our audit, we have agreed data provided by the Authority to the actuary, back to the relevant systems and reports from which it was derived, in addition to checking the accuracy of this data.</p> <p>We have also reviewed the assumptions adopted in calculating the pension liability using the work of independent experts engaged by the NAO.</p>
2. Opening balances	<p>Risk</p> <p>The balances reported as the opening position and comparators in the 2016/17 financial statements comprise an integral part of your financial statements and are included within the assurance opinion we provide to you. As this is our first year of your audit, we have to conduct further work over these balances to be able to assure those charged with governance that they are free from material misstatement due to fraud or error.</p> <p>What we have done</p> <p>As required by professional auditing standards we met with the outgoing auditor to ensure that key information and significant findings had been communicated to us.</p> <p>We have also performed an analysis of the opening balances recorded within the accounting system and agreed these to the audited 2015/16 financial statements.</p>

Other areas of audit focus

Other areas of audit focus

Our work to address the areas

3. Assuring the fair value and impairment of PPE

Risk

In 2015/16 the Authority reported PPE of £56.6 million (Gross Book Value). During July 2016, there have been two unrelated fires at the Smugglers Way facility. Reinstatement works were expected to be completed before the year end (31 March 2017). Local authorities exercise judgement in determining the fair value of the different classes of assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value; consideration of fires at Smugglers Way; and the judgement involved in determining the carrying amounts of assets we consider this to be an area of audit focus.

What we have done

[We are yet to complete our procedures in relation to the valuation, and the judgements made by the Authority in response to the information received/available]

In relation to the reinstatement works at the Smuggler's Way facility, we noted that the works were not actually completed until May 2017. The Authority's view was that as the works were almost complete, it would be appropriate to not impair the value of plant and machinery in use at 31 March 2017. On the basis of the evidence provided we were satisfied that there was not a material mis-statement in the value of plant and machinery at 31 March 2017, but the Authority needed to explain the position and circumstances as a disclosure in the financial statements.

4. Complex and revised supplier arrangements

Risk

The Authority has a significant contract with Cory Limited (for the provision of waste management services) as part of a 30 year Waste Management Services Agreement. (The Agreement commenced in May 2002.) As part of company refinancing and reorganisation, Cory has been negotiating a refinanced contract with the Authority.

What we have done

As part of our audit, we have:

- Reviewed the contract in place between the Authority and Cory Limited, including an understanding of the changes agreed in March 2017;
- Substantively tested transactions that relate to the contract;
- Performed unrecorded liabilities testing, cut off testing and considered any post year-end credit notes; and
- Reviewed the relevant disclosures in the financial statements.

We have no matters to bring to your attention from completing this work.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Authority on 20 September 2017.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £950,000. Audit differences below £45,000 are not considered significant.

We have not identified any misstatements.

We have identified a small number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE*;
- and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in June 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

The quality of working papers provided met the standards specified in our *Accounts Audit Protocol*.



Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Western Riverside Waste Authority for the year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Western Riverside Waste Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We will provide a template to the Deputy Treasurer for presentation to the Authority. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Section two

Value for money



Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

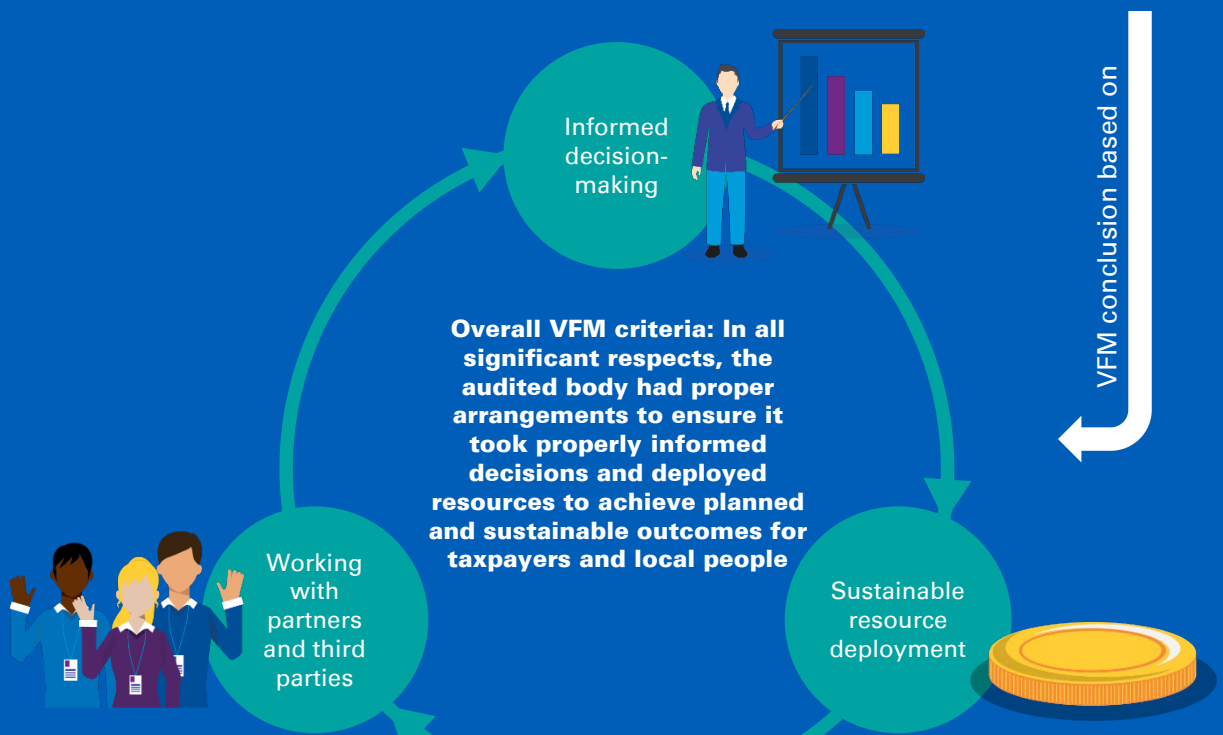
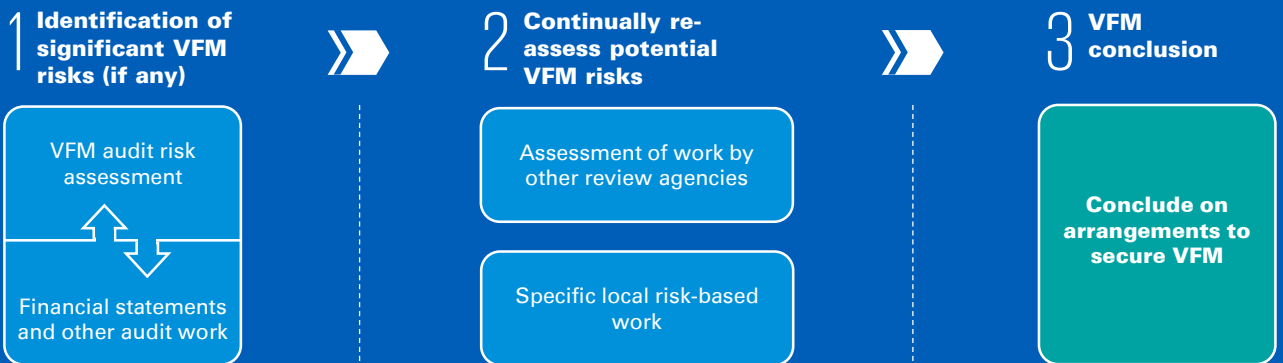
VFM conclusion

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

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

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.



The table below summarises our assessment of the Authority's VFM arrangements against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
Overall summary	✓	✓	✓

We did not identify any VFM risks in our External audit plan 2016/17 presented to you in June 2017.

We have worked with officers throughout the year to discuss VFM. There are no matters of any significance arising as result of our VFM audit work.

We have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Financial position

The net position for operating expenditure (direct tonnage charges to boroughs) is a surplus of £326,000, some £1.6 million better than the budget. This is mainly due to 'Triad payments' which are due to the Authority as part of the 'Energy uplift refund' under the contract with Cory. The Energy from Waste facility at Belvedere successfully met the specific test of energy generation on three particular days of the year set by the National Grid. The Authority's share was worth £1.4 million in 2016/17 but was not included in the budget due to the uncertainty of the payment.

General running costs were underspent by £1.4 million compared to the revised budget set in January 2017. This

was due to a reduced volume of tonnage delivered to the civic amenity site than budgeted (£700,000); and the provision of capital expenditure as part of the Cringle Dock redevelopment was not needed (£400,000).

At 31 March 2017, the Authority's General Fund balance was £4 million and usable reserves were £8.9 million (the largest of which were the Levy Stabilisation/Rates Stabilisation Reserves (£6.8 million).

A balanced budget has been set for 2017/18. This included the planned use of the Rates Stabilisation Reserve, totalling £1.3 million. This was based upon the most pessimistic scenario where refinancing was unsuccessful, electricity prices remained low and Triad payments were not hit.

The success of the refinancing agreement with Cory will now reduce the estimated cost of General Waste by £4.44 per tonne, reducing the planned use of reserves by just over £1 million, with similar levels of benefits for the remaining duration of the contract through to 2032.

However, if electricity prices continue to be low as expected throughout 2017/18, the Authority will not benefit from any additional income from the achievement of any Triads as they would be kept by Cory to off-set the lower income levels, as set out in the contract.


Appendices


Key issues and recommendations


Our audit work on the Authority’s 2016/17 financial statements has identified one issue. We have included the issue in this appendix together with our recommendation which we have agreed with Management. We have also included Management’s response to the recommendation.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendation. We will formally follow up the recommendation next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

High priority
Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 

Medium priority
Issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 

Low priority
Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	Number raised for 2016/17
High	1
Medium	-
Low	-
Total	1



High
priority

1. Notice of Audit

The Authority has failed to advertise the audit via a public inspection notice in accordance with the Accounts and Audit Regulations 2015. The Regulations require the accounts to be available for public inspection for 30 working days and for the year ended 31 March 2017, this period must include the first 10 working days in July 2017. The Authority's period commenced on 7 August 2017 and end on 18 September 2017. Although this is not in accordance with the Regulations, we are satisfied that the Authority has afforded electors an appropriate opportunity to exercise their rights.

Recommendation

The Authority must ensure that it advertises the audit of its accounts in accordance with the Accounts and Audit Regulations 2015. For the financial year ended 31 March 2018, the period is required to include the first 10 working days of June 2018.

Management Response

[Accepted/Not accepted]

[TBC]

Owner

[TBC]

Deadline

[TBC]

Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Authority). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted and unadjusted audit differences

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

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.

Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.

Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in June 2017.

Materiality for the Authority's accounts was set at £950,000 which equates to around 1.9 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Authority

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Authority any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

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

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

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice (the 'Code') which states that:

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd Terms of Appointment ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of *ISA (UK&I) 260 'Communication of Audit Matters with Those Charged with Governance'* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our Annual Audit Letter.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Authority.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Western Riverside Waste Authority for the financial year ending 31 March 2017, we confirm that there were no relationships between KPMG LLP and Western Riverside Waste Authority, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Non-audit work and independence

We have not undertaken any non-audit work at the Authority in 2016/17.

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £15,660 plus VAT (£15,660 in 2015/16).

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee	15,660	15,660
Total fee for the Authority set by the PSAA	15,660	15,660

All fees are quoted exclusive of VAT.



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Western Riverside Waste Authority

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General Manager: Mark Broxup
Treasurer: Chris Buss

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Direct Dial: 020 8871 2788

E-Mail: chris@wrwa.gov.uk

Date: 28th September 2017

Joanne Lees
KPMG LLP
15 Canada Square
London
E14 5GL

Dear Ms Lees

This representation letter is provided in connection with your audit of the financial statements of Western Riverside Waste Authority (“the Authority”), for the year ended 31 March 2017, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

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

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

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2017 and of the Authority’s expenditure and income for the year then ended; and
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

Information provided

4. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

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

- ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are

free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them as defined in IAS 24 and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

10. The Authority confirms that:

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

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

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

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

This letter was tabled and agreed at the meeting of the Authority on 20 September 2017.

Yours faithfully,

Chris Buss, Treasurer

Councillor Paul Warrick, Chairman of the Authority

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

Financial Statements

A complete set of financial statements comprises:

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

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

A housing authority must present:

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

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

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

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

Material Matters

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

IAS 1.7 and IAS 8.5 state that:

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

misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

Fraud

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

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

Error

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

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

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

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

Management

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

Related Party and Related Party Transaction

Related party:

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

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or

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

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

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

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

Related party transaction:

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