ITEM 2

PAPER NO. WRWA 20-01

WESTERN RIVERSIDE WASTE AUTHORITY

MEETING	23rd January 2020
REPORT AUTHOR/ DATE	Treasurer (Chris Buss-Tel 0208 871 2788) 21st January 2020
SUBJECT	Report of the Treasurer on the Authority's Audited Accounts for 2018/19
CONTENTS	Page 1 Executive Summary and Background Page 3 Recommendations Pages 4 - 62 Appendix A – Statement of Accounts Pages 63 - 81 Appendix B – Report from the Auditor including Draft Isa 260 Pages 82 - 88 Appendix C – draft Letter of Representation
STATUS	Open-circulation of this paper is not restricted. **LATE CIRCULATION : AS PROVIDED FOR UNDER SECTION 100B (4)(b) OF THE LOCAL GOVERNMENT ACT 1972 , THE CHAIRMAN IS OF THE OPINION THAT THIS REPORT SHOULD BE CONSIDERED AT THE MEETING AS A MATTER OF URGENCY BY REASON OF SPECIAL CIRCUMSTANCES. THE CIRCUMSTANCES ARE THAT THE AUTHORITY NEEDS TO CONCLUDE THE AUDIT OF THE 2018/19 ACCOUNTS , SO THAT THE BUDGET FOR 2020/21 CAN BE SET ON THE BASIS OF AUDITED AND KNOWN RESERVES**
BACKGROUND PAPERS	No background papers were used in the production of this report

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EXECUTIVE SUMMARY AND BACKGROUND

1. As previously reported to the Authority in Paper No.s WRWA886, 887 and 893, the Authority has had differences of opinion with the external Auditors (Deloitte LLP) over the treatment of a number of issues relating to the WMSA and in particular relating to the treatment of the facilitation payment received from Cory in 2018. Following consideration of Paper No. WRWA893, the Chairman wrote to Deloitte requesting that they progress the audit. Following receipt of the letter, the Treasurer received a response which has now enabled progress to be made on settling the audit of the accounts for 2018/19.

2. The response from Deloitte requested that a number of disclosure notes be added to the accounts to add clarity to some of the accounting complexities relating to the WMSA. In addition, they agreed with the Authority's treatment of any potential gain arising from the residual value agreement and its arrangements on lease accounting. The note from Deloitte also repeated that in their view some aspects of the force majeure arrangements of the WMSA met the requirements of insurance accounting standards (IFRS 4) and they still disagreed with the Authority's treatment of the £3.5 million facilitation payment.

RESOLVING OUTSTANDING ISSUES

3. On receipt of the response from Deloitte, the Treasurer agreed to meet with them on December 20th 2019. At that meeting, the Authority accepted the need for disclosure notes and the insurance accounting point and submitted for evidence in support of its arrangements for treating the £3.5 million as an in-year rather than whole contract life transaction. The final response from the Auditor was received on 7th January 2020. This response re-iterated the Auditor's views that the proper way for the Authority to show the payment is for it to be drawn down by the Authority over the remaining 14 years of the contract starting from October 2018. If the Authority declined to do that the accounts would be qualified not only for 2018/19 but for subsequent years.

4. The view of the Treasurer is that the proposed accounting treatment is not logical and fundamentally misrepresents the nature of this payment. However, the alternative of having the Authority's accounts in effect permanently qualified is also not acceptable. An option would be to challenge the Auditors through the courts, which would have its own risks and would result in significant costs to the Authority which for a point of accounting nicety it would be impossible to defend as value for money. In addition, having looked at how the proposed treatment of the payment impacts the Authority's budget there is limited impact overall. Although it does impact the Authority's debt redemption policy. These are explained in more detail in the budget setting and Treasury Policy papers elsewhere on this agenda. In light of this it is recommended that the treatment of the facilitation payment in the accounts for 2018/19 and future years be on the basis set out by the Auditor enabling the accounts to be unqualified.

ACCOUNTS AND AUDIT 2018/19

5. As the responsible financial officer, the Treasurer signed and dated the Statement of Accounts for 2018/19 on 29th May 2019. Following the observations above, the draft audited set of accounts are now attached for approval by the Authority. These supersede the accounts submitted to the Audit committee on 31st July 2019 in Paper No. WRWA 886.

6. Under the Auditing Practices Board's International Auditing Standard (UK and Ireland) 260 – "Communication of audit matters with those charged with governance", the Auditor is required to report to those charged with governance on the significant findings from the audit as a prelude to issuing a formal Opinion on the Authority's accounts. The ISA260 is attached at Appendix B. This supplements the draft submitted to the Audit Committee on 31st July 2019 and may be subject to minor review. The Authority will be verbally updated of any changes on the night of the meeting.

7. The Audit report brings to your attention that there are a number of items arising largely relating to the matters referred to in paragraphs 2 to 4 above. An ongoing requirement will be for the Authority to take advice where necessary of any changes in the WMSA and in particular how these impact on the Authority's accounts. This is in addition to the requirement to see how changes to accounting standards may impact on the accounts. The nature of the WMSA is such that future changes in relation to items such as Force Majeure arrangements may well impact accounting arrangements because in accounting terms this is an insurance arrangement. It should be noted that the Authority will not be undertaking a large scale backdating of noting the accounting requirements but will be utilising the significant volume of work undertaken during this audit as the base for future changes.

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

9. Deloitte are required to be satisfied that proper arrangements have been made by the Authority for securing value for money in its use of resources. Deloitte 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.

10. Auditing standards require Deloitte 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.

11. Following the Audit, the Authority is requested to approve the audited Statement of Accounts for 2018/19 at Appendix A and to authorise the Treasurer and Chairman to sign it accordingly.

RECOMMENDATIONS

12. The Authority is recommended to:

(a) note the report from Deloitte relating to the Accounts for 2018/19 (Appendix B)

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

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

(d) otherwise receive this report for information

Western Riverside Waste Authority
Administration Office
Smugglers Way
LONDON SW18 1JS

CHRIS BUSS
Treasurer

21st January 2020

FINAL AUDITED

Western Riverside Waste Authority

Statement of Accounts

For the year ended 31 March 2019

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NARRATIVE REPORT TO ACCOMPANY THE STATEMENT OF ACCOUNTS

Introduction

This is the Statement of Accounts for the Authority for the year ended 31st March 2019. The purpose of the Statement of Accounts is to summarise the financial position of the Authority.

The report gives a general outline of the main items reported within the accounts and gives a summary of the Authority's overall financial performance for the year.

The format and content of the financial statements are prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, which in turn is underpinned by International Financial Reporting Standards.

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

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

Organisational Overview, External Environment and Operational Model

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

The Authority manages its affairs with a main contractor, Cory, through the Waste Management Services Agreement (WMSA) to minimise costs and maximise income from recycled materials. Total waste managed by the Authority reduced by 1,160 tonnes or less than 0.5% with General waste tonnage reducing by 3,339 tonnes, or just over 1%. Recycling represented just over 21% of total waste managed, slightly higher than 2017/18.

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

The Authority's key achievements in 2018/19 were to have undertaken an extensive review of the potential to increase waste minimisation and recycling performance within its area which

has led to the Authority developing a new waste minimisation focussed marketing campaign and beginning the development of a new joint waste policy document. In addition extensive negotiations with Cory's during refinancing have led to a payment of £3.5 million, to be recognised over the life of the contract, with £125,000 recognised in year.

Risks

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

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

European Union Referendum - On the 23 June 2016 the European Union (EU) Referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision made to leave the EU. There was no impact on the figures contained within the Accounts in either 2017/18 or 2018/19. It is still too early to determine if this decision will have any impact upon future finances of the Authority.

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

Performance

The operational income and expenditure of the Authority is wholly affected by the tonnage of waste managed during the year. The Usable Reserves Balances at the end of March 2019 stood at £18.625 million, an increase of £1.5 million compared to that reported in March 2018. The balance was £1 million more than anticipated when the budget for 2019/20 was set in February 2019 due in part to the recognition in revenue of £125,000 of the receipt of £3.5 million from the contractor, Cory, following the refinancing agreement of the WMSA. The Authority also did not make an MRP payment during the year as agreed in the amended Treasury management policy (-£299,000) and did not spend as much on legal and consultancy costs as allowed for in the budget (-£110,000). At the end of the year £5.125 million of the General Fund balance has been transferred to the Loan Repayment Reserve and the remaining in year surplus has been retained in the General Fund Reserve at this time.

Pensions

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

The Fund's net assets increased by £0.458 million to £8.108 million. The Fund's actuary estimated that the present value of scheme liabilities has reduced over the same period by £0.099 million, from £11.326 million to £11.425 million. The net pension liability therefore decreased by £0.359 million from £3.676 million to £3.317 million. The Authority has

considered the verdict of the recent McCloud Judgement and has concluded that this Judgement has only a marginal impact on liabilities due to the Authority's pensioner profile.

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

Borrowing Facilities

The Authority finances debt through the Public Works Loan Board (PWLB) with loans totalling £8.5 million outstanding at 31st March 2019, with no new loans advanced during the financial year and £2 million repaid on 1st April 2019. The Authority's current policy is to redeem debt from balances wherever this is practicable and a new earmarked reserve has been established to enable debt to be redeemed as outlined above. Average balances of £11.9 million were invested via Wandsworth Council earning the investment rate achieved by the Council at an average of 0.69%. During the year, the Authority also deposited £1 million into a new Diversified Income Fund account with the CCLA 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 £17.460 million at 31st March 2019. The cash balances are shown as cash or cash equivalents in the balance sheet.

Outlook

The total level of waste managed by the Authority in 2018/19 has reduced but the level of waste managed could grow in future years in line with the increase in population forecast for its area. The Authority continues to drive forward efficiencies from within the WMSA in order to generate savings for Constituent Councils in the current financial climate.

Key challenge for 2019/20 and beyond are:

- Redevelopment proposals at Cringle Dock, providing a new transfer station for the Authority and financial benefits for the Constituent Councils;
- Cory's proposal to redevelop land adjacent to the EfW facility at Belvedere; and
- Delivering savings

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

- the avoidance of increasing government landfill tax costs;
- certainty of capacity to dispose and
- contractual agreements through the WMSA to receive 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 2019 and the authority's financial position as at 31 March 2019.

C Buss
Treasurer January 2020

Movement in Reserves Statement

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

(Restated)	**General Fund Balance**	**Pension Liability Reserve**	**Levy Equalisation Reserve**	**Stabilisation Reserve**	**Loan Repayment Reserve**	**Recycling Initiatives Reserve**	**Total Usable Reserves**	**Unusable Reserves**	**Total Authority Reserves**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2017 carried forward	**4,000**	**1,800**	**1,105**	**5,725**	**-**	**250**	**12,880**	**31,898**	**44,778**
Surplus on provision of services	4,449	-	-	-	**-**	-	**4,449**	-	**4,449**
Other Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**11,398**	**11,398**
Total Comprehensive Income and Expenditure	**4,449**	**-**	**-**	**-**	**-**	**-**	**4,449**	**11,398**	**15,847**
Adjustments between accounting basis and funding basis under regulations (Note 7)	**(238)**	**-**	**-**	**-**	**-**	**-**	**(238)**	238	**-**
Net (Decrease)/ Increase before Transfers to Earmarked Reserves	**4,211**	**-**	**-**	**-**	**-**	**-**	**4,211**	**11,636**	**15,847**
Transfers to/from Earmarked Reserves	**-**	**-**	**(1,105)**	**1,105**	**-**	**-**	**-**	-	**-**
(Decrease)/ Increase in Year	**4,211**	**-**	**(1,105)**	**1,105**	**-**	**-**	**4,211**	**11,636**	**15,847**
Balance at 31 March 2018 carried forward (as restated)	**8,211**	**1,800**	**-**	**6,830**	**-**	**250**	**17,091**	**43,534**	**60,625**

	General Fund Balance	Pension Liability Reserve	Levy Equalisation Reserve	Stabilisation Reserve	Loan Repayment Reserve	Recycling Initiatives Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Movement in Reserves during 2018/19									
Balance at 1 April 2018 carried forward (as previously stated)	**8,211**	**1,800**	**-**	**6,830**	**-**	**250**	**17,091**	**37,060**	**54,151**
Effect of prior year adjustment	-	-	-	-	-	-	**-**	6,474	**6,474**
Balance at 1 April 2018 carried forward (as restated)	**8,211**	**1,800**	**-**	**6,830**	**-**	**250**	**17,091**	**43,534**	**60,625**
Surplus on provision of services	367	-	-	-	-	-	**367**	-	**367**
Other Comprehensive Income and Expenditure	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**465**	**465**
Total Comprehensive Income and Expenditure	**367**	**-**	**-**	**-**	**-**	**-**	**367**	**465**	**832**
Adjustments between accounting basis and funding basis under regulations (Note 7)	**1,167**	**-**	**-**	**-**	**-**	**-**	**1,167**	(1,167)	**-**
Net (Decrease)/ Increase before Transfers to Earmarked Reserves	**1,534**	**-**	**-**	**-**	**-**	**-**	**1,534**	**(702)**	**832**
Transfers to/from Earmarked Reserves	**(5,125)**	**-**	**-**	**-**	**5,125**	**-**	**-**	-	**-**
(Decrease)/ Increase in Year	**(3,591)**	**-**	**-**	**-**	**5,125**	**-**	**1,534**	**(702)**	**832**
Balance at 31 March 2019 carried forward	**4,620**	**1,800**	**-**	**6,830**	**5,125**	**250**	**18,625**	**42,832**	**61,457**

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.

	2017/18 (Restated)[1]		2018/19	
	£000	£000	**£000**	**£000**
Operating expenditure				
Employees	578		**566**	
Premises	617		**614**	
General waste disposal	44,326		**48,436**	
Other supplies and payments	439		**567**	
Depreciation and Impairment (Note 11)	1,634		**1,061**	
Total		47,594		**51,244**
Operating Income (outside IFRS 15)				
Hammersmith and Fulham	(9,131)		**(9,127)**	
Kensington and Chelsea	(9,470)		**(9,546)**	
Lambeth	(14,126)		**(14,300)**	
Wandsworth	(12,463)		**(12,454)**	
Total		(45,190)		**(45,427)**
Net Cost of Services		2,404		**5,817**
Other Items				
Financing and investment income and expenditure (Note 9)		358		**291**
Other income recognised under IFRS 15 (Note 10)		(141)		**(289)**
Other income outside IFRS 15		(387)		**(223)**
Deficit on Provision of Services		2,234		**5,596**
Levy on Constituent Authorities (outside IFRS 15)				
Hammersmith and Fulham	(1,258)		**(1,125)**	
Kensington and Chelsea	(1,586)		**(1,392)**	
Lambeth	(1,714)		**(1,557)**	
Wandsworth	(2,125)		**(1,889)**	
		(6,683)		**(5,963)**
Surplus on Provision of Services		(4,449)		**(367)**
Surplus on revaluation of Property, Plant and Equipment assets (Note 11)		(10,808)		**-**
Remeasurements of the net defined benefit liability (Note 28)		(590)		**(465)**
Other Comprehensive Income and Expenditure		(11,398)		**(465)**
Total Comprehensive Income and Expenditure		(15,847)		**(832)**

[1] See Note 1vi

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.

	2017/18 £000			**2018/19 £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	450	128	578	**562**	**4**	**566**
Premises	617	-	617	**614**	**-**	**614**
General Waste Disposal	44,326	-	44,326	**48,436**	**-**	**48,436**
Other supplies and payments	439	-	439	**567**	**-**	**567**
Depreciation and Impairment (Note 11)	-	1,634	1,634	**-**	**1,061**	**1,061**
Operating Income	(45,190)	-	(45,190)	**(45,427)**	**-**	**(45,427)**
Net Cost of Services	642	1,762	2,404	**4,752**	**1,065**	**5,817**
Other Expenditure	2,358	(2,000)	358	**189**	**102**	**291**
Other Income	(528)	-	(528)	**(512)**	**-**	**(512)**
Levy income	(6,683)	-	(6,683)	**(5,963)**	**-**	**(5,963)**
Deficit/ (surplus)on Provision of Services	**(4,211)**	**(238)**	**(4,449)**	**(1,534)**	**1,167**	**(367)**
Opening Usable Reserve Balance	**12,880**			**17,091**		
Plus surplus or (Deficit) on Revenue Reserve in Year	**4,211**			**1,534**		
Usable Reserve Balance carried forward	**17,091**			**18,625**		

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	1 April 2017	31 March 2018 (Restated)	**31 March 2019**
		£000	£000	**£000**
Property, Plant and Equipment	11	51,735	60,909	**59,848**
Long Term Assets		51,735	60,909	**59,848**
Short Term Debtors	13	5,422	8,128	**5,120**
Short Term Investments	14	-	-	**1,003**
Cash and Cash Equivalents	14	8,859	9,119	**17,460**
Prepayments		14	16	**31**
Current Assets		14,295	17,263	**23,614**
Receipts in Advance		-	1,557	**2,890**
Deferred Income		-	-	**3,375**
Short Term Borrowing	12	2,000	2,000	**5,500**
Short Term Creditors	15	6,614	3,814	**3,923**
Provisions	16	-	-	**-**
Current Liabilities		8,614	7,371	**15,688**
Long Term Borrowing	12	8,500	6,500	**3,000**
Pensions	28	4,138	3,676	**3,317**
Long Term Liabilities		12,638	10,176	**6,317**
Net Assets		44,778	60,625	**61,457**
Usable Reserves	17	12,880	17,091	**18,625**
Unusable Reserves	18	31,898	43,534	**42,832**
Total Reserves		44,778	60,625	**61,457**

The notes on pages 13 to 50 form part of the financial statements.

C Buss
Treasurer

January 2020

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.

	2017/18 £000	**2018/19** **£000**
Net surplus on the provision of services	(4,449)	**(367)**
Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 19)	2,189	**(8,977)**
Net cash flows from Operating Activities	(2,260)	**(9,344)**
Investing Activities (Note 20)	-	**1,000**
Financing Activities (Note 21)	2,000	**3**
Net increase in cash and cash equivalents	(260)	**(8,341)**
Represented by		
Cash and cash equivalents at the beginning of the reporting year (Note 14)	(8,859)	**(9,119)**
Cash and cash equivalent at the end of the reporting year (Note 14)	(9,119)	**(17,460)**
Increase in cash and cash equivalents	(260)	**(8,341)**

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19, 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. New Accounting Policies – IFRS 15

Revenue transactions can be broadly divided into two types i.e. those which are exchange transactions and those which are non-exchange transactions. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use

of assets) to another entity in exchange. Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an authority either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange. There are other occasions that authorities can charge other bodies and for which there is no exchange or consideration in return. Income from constituent councils falls into this latter category as both the direct levy and tonnage charges are levied by statute to cover the entire costs of the Authority. Other income, such as income, from the use of facilities by Westminster is recognised as an exchange transaction according to IFRS 15 principles.

iv. Cash and Cash Equivalents

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

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

v. Exceptional Items

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

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

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

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

Material errors discovered in prior year figures are corrected retrospectively by amending opening balances and comparative amounts for the prior year. The Authority discovered an error in the revaluation of Property, Plant and Equipment completed as at 31 March 2018. This meant that Long Term Assets were undervalued by £6.474m.

In order to correct this error, the Authority has restated the prior year information for 2017/18 Balance sheet and reflected the £6.474m adjustment in the Revaluation Reserve.

The impact on assets, reserves, and the comprehensive income and expenditure as at 31 March 2018 of the correction to the valuation of property, plant and equipment is as follows:

	As previously reported	Prior year adjustment	As restated
Property, plant and equipment	54,435	6,474	60,909
Total effect on net assets	54,151	6,474	60,625
Unusable Reserves	37,060	6,474	43,534
Total effect on reserves	54,151	6,474	60,625
Surplus on revaluation of PPE	(4,334)	(6,474)	(10,808)
Total Comprehensive Income and Expenditure	(9,373)	(6,474)	(15,847)

vii. Charges to Revenue for Non-Current Assets

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

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

The Authority is not required to charge constituent Boroughs to fund depreciation, revaluation and impairment losses. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two. Following a review of MRP policy and the establishment of an earmarked reserve to redeem debt MRP is nil in 2018/19 and reduced in future years.

viii. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. health checks) for current employees and are recognised as an expense for services in the year in which employees render service to the

Authority. An accrual would be made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year, however, this is immaterial for the Authority and not recognised in the accounts.

Termination Benefits

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

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

Post Employment Benefits

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

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

Liabilities are discounted to their value at current prices, using a discount rate of 2.35% in 2018/19 compared to 2.55% in 2017/18 (based on the net present value of the notional cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve – this has changed from the 'spot rate' approach adopted at the previous accounting date).

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit

on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;

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

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

ix. Events After the Balance Sheet Date

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

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

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

x. Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Financial Assets Measured at Fair Value through Profit and Loss

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

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

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

The inputs to the measurement techniques are categorised in accordance with the following three levels:

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
- Level 3 inputs – unobservable inputs for the asset.

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

xi. Leases

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

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

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

The Authority as Lessee

Operating Leases

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

The Authority as Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment which it owns, the asset is retained in the Balance Sheet. Rental income is credited to the Other 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.

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: Building structure –60 years, Roof – 35 years, fixed plant (heating etc) – 20 years, and electrical equipment – 35 years). Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The depreciation policy was amended between 2017/18 and 2018/19 to reflect revised remaining useful economic lives provided as part of the 2018 revaluation.

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

xiii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xiv. Reserves

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

xv. VAT

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

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

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

The Code introduces changes in Accounting Policies which will need to be adopted fully by the Authority in the 2019/20 financial statements. The Authority is required to disclose information relating to the expected impact of the accounting changes on the financial statements because of adoption by the Code of a new standard that has been issued but is not yet required to be adopted by the Authority.

The amendments are as follows:

- IFRS 16: Leases
- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

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

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Services provided by Cory

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

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

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

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

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

Residual Value Agreement

The design life of the EfW extends past the end of the main WMSA in 2032. The Authority has a Residual Value Agreement with Cory, which reflects that payments to 2032 will have financed the construction of an asset with life beyond that date. The Authority will have the option between 2032 and 2046 to:

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

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

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

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

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

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

Authority sites

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

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

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

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

EfW site leases

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

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

Force Majeure provisions

The WMSA includes provisions to address various potential termination scenarios, including the possibility of Force Majeure events leading to termination of the contract. In the event of specified Force Majeure events occurring (and not being remedied by Cory), the Authority would be obligated to pay Cory an amount intended to cover inter alia the repayment of relevant elements of the Senior Debt. In return, the EfW facility would transfer to the Authority. Depending upon the situation arising, this could result in a valuable asset transferring to the Authority for under value, or the Authority acquiring an asset requiring

significant expenditure to enable on-going operations. The principal element of any payment would be in respect of relevant elements of Cory's Senior Debt, the Authority assessed the risk of payment as less than 1 in 1,600 a year.

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

Refinancing

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

- In 2017, the main contractor undertook a qualifying refinancing, with the result being treated as a combined arrangement with the Authority and resulting in a net benefit recognised over time via a change to the contract price and therefore reflected each year dependent upon the volume of activity
- In 2018, the Authority received £3.5m from the main contractor which was in effect a payment to facilitate their refinancing, this payment has no impact on future potential or contingent liabilities and thus future costs. However, as this payment has arisen due to the existence of the WMSA, it has been agreed with the Authority's auditors that this income be recognised over the remaining life of the contract and therefore is held as deferred income and gradually released into revenue. An amount of £125,000 has been recognised in the 2018/19 accounts.

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

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

There is a high degree of uncertainty about the government's Landfill Tax policy. However, the Authority has determined that this uncertainty is not sufficient to undermine predictions about future levels of AWDC charges and the Residual Levy due to the use of the EfW plant.

The items in the Authority's Balance Sheet at 31 March 2019 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	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.

	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.	After the Valuation as at 31st March 2018, It is estimated that the annual depreciation charge for buildings would increase by £16,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £181,000. 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 £404,000.
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.

5. MATERIAL ITEMS OF INCOME AND EXPENSE

The Authority received £3.5 million cash receipt as a result of Cory executing a debt refinancing of the Belvedere Energy from Waste plant in October 2018 which has been classified as deferred income in the accounts and recognised gradually in revenue over the lifetime of the WMSA, that being for the 14 years until 2032.

6. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was authorised for issue by the Treasurer on 23rd January 2020. 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 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting

practice to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

The General Fund is the statutory fund into which all the receipts of the Authority are required to be paid and out of which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the 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.

2018/19	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	**(1,061)**	**1,061**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:		
Statutory provision for the financing of capital investment	**-**	**-**
Loan repayment charged against the General Fund	**-**	**-**
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 27)	**(216)**	**216**
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 27)	**110**	**(110)**
Total Adjustments	**(1,167)**	**1,167**

2017/18	General Fund Balance £000	Movement in Unusable Reserves £000
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	**(1,634)**	**1,634**
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:		
Statutory provision for the financing of capital investment	**-**	**-**
Loan repayment charged against the General Fund	**2,000**	**(2,000)**
Capital expenditure charged against the General Fund	**-**	**-**
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 27)	**(236)**	**236**
Employer's pensions contributions and direct payments to pensioners payable in the year (see Note 27)	**108**	**(108)**
Total Adjustments	**238**	**(238)**

8. TRANSFERS TO/FROM EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

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

In 2015/16 the Authority set up the Levy Equalisation Reserve, Rates Stabilisation Reserve and Recycling Initiatives Reserve. These first two reserves were set up as a prudent approach to offset potential changes in rates and the Levy as a result of circumstances outside the Authority's control. With effect from 1st April 2017 these two reserves were merged enabling the Authority to have greater flexibility in how it meets spending pressures in these two key areas. The Recycling Initiatives Reserve will enable future recycling projects to be proposed and funded without the requirement of additional borough funding. In 2018/19 a Loan Repayment Reserve has been established to provide for the redemption of the majority of current debt with the PWLB.

	Balance 1 April 2017 £000	Transfers Out 2017/18 £000	Transfers In 2017/18 £000	Balance 31 Mar 2018 £000	**Transfers Out 2018/19** £000	**Transfers In 2018/19** £000	**Balance 31 Mar 2019** £000
General Fund:							
General Fund Balance	**4,000**	**(2,000)**	**6,211**	**8,211**	**(5,125)**	**1,534**	**4,620**
Pension Liability Reserve	**1,800**	**-**	**-**	**1,800**	**-**	**-**	**1,800**
Levy Equalisation Reserve	**1,105**	**(1,105)**	**-**	**-**	**-**	**-**	**-**
Rates Stabilisation Reserve/ renamed Stabilisation Reserve	**5,724**	**1,105**	**-**	**6,829**	**-**	**-**	**6,829**
Loan Repayment Reserve	**-**	**-**	**-**	**-**	**-**	**5,125**	**5,125**
Recycling Initiatives Reserve	**250**	**-**	**-**	**250**	**-**	**-**	**250**
Total	**12,879**	**(2,000)**	**6,211**	**17,090**	**(5,125)**	**6,659**	**18,625**

9. FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2017/18 £000	**2018/19 £000**
Interest payable and similar charges	304	**342**
Net interest on the net defined benefit liability (asset)	116	**102**
Interest receivable and similar income	(62)	**(153)**
Total	358	**291**

10. OTHER INCOME

Amounts included in the Comprehensive Income and Expenditure Statement for other income include the part year recognition of £125,000 of the £3.5m receipt from Cory classified as deferred income and £154,000 income from Westminster council for the use of the Authority's civic amenity site:

	2017/18	**2018/19**
	£000	**£000**
Other income	141	**289**

Nothing is included in the Balance Sheet for contracts with service recipients.

11. PROPERTY, PLANT AND EQUIPMENT

Movement on Balances 2018/19

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

	Land and Buildings	Fixed Plant and Equipment	Vehicles and Moveable Plant	**Total**
	£000	£000	£000	**£000**
Cost or valuation at 1 April 2018 (as restated)	54,796	8,780	223	**63,799**
Additions	-	-	-	**-**
Reclassifications	-	-	-	**-**
Revaluation increases/ (decreases) recognised in Revaluation Reserve	-	-	-	**-**
Revaluation increases to Surplus/ Deficit on Provision of Services	-	-	-	**-**
At 31 March 2019	**54,796**	**8,780**	**223**	**63,799**
Accumulated Depreciation and Impairment at 1 April 2018	-	(2,667)	(223)	**(2,890)**
Depreciation charge	(791)	(270)		**(1,061)**
Depreciation written out to the Revaluation Reserve	-	-	-	**-**
At 31 March 2019	**(791)**	**(2,937)**	**(223)**	**(3,951)**
Net Book Value				
at 31 March 2019	**54,005**	**5,843**	**-**	**59,848**
at 31 March 2018	**54,796**	**6,113**	**-**	**60,909**

Fixed Plant and Equipment

No capital expenditure was incurred during 2018/19.

2017/18

(Restated)	Land and Buildings	Fixed Plant and Equipment	Vehicles and Moveable Plant	**Total**
	£000	£000	£000	**£000**
Cost or valuation at 1 April 2017	42,790	13,550	223	**56,563**
Additions	-	-	-	**-**
Reclassifications	-	-	-	**-**
Revaluation increases/ (decreases) recognised in Revaluation Reserve	12,006	(4,770)	-	**7,236**
Revaluation increases to Surplus/ Deficit on Provision of Services	-	-	-	**-**
At 31 March 2018 (as restated)	**54,796**	**8,780**	**223**	**63,799**
Accumulated Depreciation and Impairment at 1 April 2017	(2,613)	(1,992)	(223)	**(4,828)**
Depreciation charge	(959)	(675)		**(1,634)**
Depreciation written out to the Revaluation Reserve	3,572	-	-	**3,572**
At 31 March 2018	**-**	**(2,667)**	**(223)**	**(2,890)**
Net Book Value				
at 31 March 2018 (as restated)	**54,796**	**6,113**	**-**	**60,909**
at 31 March 2017	**40,177**	**11,558**	**-**	**51,735**

12. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

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

	Long-term		Current	
	31 March 2018	**31 March 2019**	31 March 2018	**31 March 2019**
	£000	**£000**	£000	**£000**
Financial Assets				
Fair value through profit and loss	-	-	-	**1,003**
Amortised cost	-	-	8,129	**5,120**
Total Financial Assets	**-**	**-**	8,129	**6,123**
Financial Liabilities				
Fair value through profit and loss	-	**-**	-	**-**
Amortised cost	6,500	3,000	5,814	**9,423**
Total Financial Liabilities	**6,500**	**3,000**	5,814	**9,423**

* The 31 March 2018 loans outstanding have been separated out between current and long-term liabilities

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 2019 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:

Financial Liabilities	31 March 2018 Carrying amount £000	Fair value £000	**31 March 2019 Carrying amount £000**	**Fair value £000**
Financial Liabilities held at amortised cost – short term borrowing	2,000	2,059	**5,500**	**5,610**
Financial Liabilities held at amortised cost – long term borrowing	6,500	7,223	**3,000**	**3,434**
Total	8,500	9,282	**8,500**	**9,044**

The fair value of outstanding long term debts as at 31st March 2019 was higher than the book value due to the changes in market factors since the original borrowing was made.

Financial Assets	31 March 2018 Carrying amount £000	Fair value £000	**31 March 2019 Carrying amount £000**	**Fair value £000**
Financial assets held at fair value through Profit and loss – Diversified income fund	-	-	**1,003**	**1,003**
Financial Assets held at amortised cost	8,129	8,129	**5,120**	**5,120**
Total	8,129	8,129	**6,123**	**6,123**

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

Financial Assets measured at fair value

Recurring fair value measurements	Input level in fair value hierarchy	Valuation technique used to measure fair value	As at 31 March 2018 £000	As at 31 March 2019 £000
Fair Value Through Profit or Loss				
Diversified Income Fund	Level 1	Unadjusted quoted prices in statement received	-	1,003
Total			-	1,003

13. SHORT TERM DEBTORS

Short term debtors and other receivables at 31st March 2018 and 31st March 2019 can be analysed as follows:

ITEM	31 March 2018 £000	**31 March 2019 £000**
Trade Receivables	4,925	**3,591**
Other Receivable Amounts	3,203	**1,529**
Total	**8,128**	**5,120**

14. CASH AND CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

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

	31 March 2018 £000	**31 March 2019 £000**
Cash at bank	1,086	**2,221**
Cash held by Wandsworth Council	8,033	**15,239**
Total	**9,119**	**17,460**

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

	31 March 2018 £000	**31 March 2019 £000**
Diversified Income Fund	0	**1,003**
Total	**0**	**1,003**

15. SHORT TERM CREDITORS

Creditor payments 31st March 2018 and 31st March 2019 can be analysed as follows:-

ITEM	31 March 2018 £000	**31 March 2019 £000**
Trade payables	3,628	**3,836**
Other payables	186	**87**
Total	**3,814**	**3,923**

16. PROVISIONS

There are no provisions recognised at 31 March 2019 (31 March 2018 was also nil).

17. USABLE RESERVES

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

18. UNUSABLE RESERVES

	31 March 2018 as previously stated £000	**31 March 2018 as restated £000** (see Note 1vi)	**31 March 2019 £000**
Revaluation Reserve	22,887	29,360	**29,360**
Pensions Reserve	(3,676)	(3,676)	**(3,317)**
Capital Adjustment Account	17,850	17,850	**16,789**
Accumulated Absences Account	-	-	**-**
Total Unusable Reserves	37,061	43,534	**42,832**

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.

	2017/18 £000	**2018/19 £000**
Balance at 1 April	(4,138)	**(3,676)**
Remeasurements of the net defined benefit liability/ (asset)	590	**465**
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	(236)	**(216)**
Employer's pensions contributions and direct payments to pensioners payable in the year	108	**110**
Balance at 31 March	(3,676)	**(3,317)**

Capital Adjustment Account

The Capital Adjustment Account contains the amounts contributed from the Comprehensive Income and Expenditure Statement for the repayment of external loans, and is adjusted for depreciation. There has been no provision for debt redemption in 2018/19 as voluntary additional contributions have been made to date and therefore a payment 'holiday' is in operation. In 2017/18 £2m of PWLB loans were repaid and in order to write out the annual provision for debt redemption in relation to these debts, a payment has been made between the General Fund and the Capital Adjustment Account.

	2017/18 £000	**2018/19 £000**
Balance at 1 April	17,484	**17,850**
Provision for debt redemption	-	**-**
Depreciation provision	(1,634)	**(1,061)**
Revaluation losses on Property, Plant and Equipment	-	**-**
Repayment of PWLB loans	2,000	**-**
Balance at 31 March	17,850	**16,789**

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 2019 is deemed immaterial in the accounts.

19. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2017/18 £000	**2018/19 £000**
Interest received	62	**153**
Interest paid	(304)	**(342)**
Total	(242)	**(189)**

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

	2017/18 £000	**2018/19 £000**
Depreciation	(1,634)	**(1,061)**
Increase in receipts in advance	(1,557)	**(1,333)**
Increase in deferred income	-	**(3,375)**
Decrease/(Increase) in creditors	2,798	**(108)**
Increase/(Decrease) in debtors	2,708	**(3,009)**
Increase in prepayments	2	**15**
Movement in pension liability	(128)	**(106)**
	2,189	**(8,977)**

20. CASH FLOW STATEMENT – INVESTING ACTIVITIES

	2017/18 £000	**2018/19 £000**
Purchase of property, plant and equipment	-	**-**
Purchase of short-term and long-term investments	-	**1,000**
Other payments for investing activities	-	**-**
Other receipts from investing activities	-	**-**
Net cash flows from investing activities	-	**1,000**

21. CASH FLOW STATEMENT – FINANCING ACTIVITIES

	2017/18 £000	**2018/19 £000**
Cash receipts of short- and long-term borrowing	**-**	-
Other receipts from financing activities	-	**3**
Repayments of short- and long-term borrowing	2,000	**-**
Net cash flows from financing activities	2,000	**3**

22. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

There are no liabilities arising from the financing activities during the year 2018/19. During 2017/18 a £2m PWLB loan was repaid:

	1 April 2017	Financing cashflows	Non-cash changes	31 March 2018
Long term borrowing	8,500	-	(2,000)	6,500
Short term borrowing	2,000	(2,000)	2,000	2,000
Total liabilities from financing activities	**10,500**	**(2,000)**	**-**	**8,500**

	1 April 2018	Financing cashflows	Non-cash changes	31 March 2019
Long term borrowing	6,500	-	(3,500)	3,000
Short term borrowing	2,000		3,500	5,500
Total liabilities from financing activities	**8,500**	**-**	**-**	**8,500**

23. OFFICERS' REMUNERATION

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

Title	Year	Salary, Fees and Allowances £000	Bonuses £000	Expenses Allowances £000	Pension Contribution £000	**Total £000**
General Manager	2017/18	129	11	1	17	158
	2018/19	**132**	**11**	**1**	**18**	**162**
Deputy General Manager	2017/18	73	6	-	10	89
	2018/19	**75**	**7**	**-**	**10**	**92**

Bonuses relates to a Performance Related Pay award.

Remuneration band	2017/18 Number of Employees	2018/19 Number of Employees
£75,000 - £79,999	1	0
£80,000 - £84,999	0	1
£140,000 - £144,999	1	1

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

There are no allowances paid to Members by the Authority and no exit packages in either 2017/18 or 2018/19.

24. EXTERNAL AUDIT COSTS

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

	2017/18 £000	**2018/19 £000**
Fees payable to KPMG LLP and Deloitte with regard to external audit services carried out by the appointed auditor for the year 2017/18 and 2018/19 respectively	16	**12**

25. 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 Treasurer was a chief officer of Kensington and Chelsea from 1st April – 21st July 2018. 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:

	2017/18 £000	**2018/19 £000**
Financial Services	52	**54**
Other Services (admin support etc)	32	**37**
Total	84	**91**

At 31st March 2018 and 31st March 2019 the following Authority balances related to Wandsworth Council:

	31 March 2018 £000	**31 March 2019 £000**
Debtors and Accrued Income	1,025	**1,012**

These sums relate to invoices which are not payable until April 2018 and April 2019 respectively.

The Authority invests cash via Wandsworth Council with a balance of £15.2m held with Wandsworth as at 31st March 2019 (£8.0m as at 31st March 2018). Net interest payments on cash flow balances of £78,544 were received by the Authority from Wandsworth Council for the year 2018/19 whilst net interest payments for 2017/18 amounted to £37,844.

26. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2017/18 £000	**2018/19** **£000**
Opening Capital Financing Requirement	15,633	**13,633**
Capital investment		
Capital Expenditure	-	**-**
Sources of finance		
MRP	-	**-**
Direct revenue contributions	(2,000)	**-**
Closing Capital Financing Requirement	13,633	**13,633**
Explanation of movements in year		
Reduction in underlying need to borrow (unsupported by government financial assistance)	(2,000)	**-**
Decrease in Capital Financing Requirement	(2,000)	**-**

27. LEASES

Authority as Lessor

Operating Leases

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

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

	Minimum Lease Payments	
	31 March 2018 £000	31 March 2019 £000
Not later than one year	159	159
Later than one year and not later than five years	634	634
Later than five years	1,223	1,065
Total	2,016	1,858

Authority as Lessee

Operating Leases

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

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 2018 to 31st March 2019.

28. DEFINED BENEFIT PENSION SCHEMES

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

2. Local Government Pension Scheme. All permanent staff are eligible for inclusion in the statutory Local Government Pensions Scheme (LGPS) which is administered by the London Pensions Fund Authority (LPFA) under the Local Government Pension Scheme Regulations. Employee costs shown in the accounts include the contributions paid to the scheme in respect of the employees concerned in accordance with Regulations governing the Scheme. An independent firm of actuaries, Barnett Waddingham, was instructed to undertake IAS 19 calculations on behalf of the Authority as at 31st March 2019.

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 2018 £000	**Year to 31 March 2019 £000**
Comprehensive Income and Expenditure Statement		
Service cost	120	**114**
Financing and Investment Income and Expenditure		
Net Interest Expense	116	**102**
Total Post-employment Benefits charged to the Surplus of Deficit on the Provision of Services	236	**216**
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(218)	**(497)**
Actuarial gains and losses arising on changes in demographic assumptions	-	**-**
Actuarial gains and losses arising on changes in financial assumptions	(372)	**531**
Actuarial gains and losses arising on changes in demographic assumptions	-	**(499)**
Experience gain/(loss) on defined benefit obligation	-	**-**
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	(590)	**(465)**
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(236)	**(216)**
Actual amount charged against the General Fund Balance for pensions in the year:		
Employers' contributions payable to scheme	108	**110**

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

mean that the majority are outside of the impact of this judgement and therefore exposure to this risk is limited.

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:

	2017/18 £000	**2018/19 £000**
Present value of the defined benefit obligation	11,304	**11,407**
Fair value of scheme assets	(7,650)	**(8,108)**
Present value of unfunded obligation	22	**18**
Net liability arising from defined benefit obligation	3,676	**3,317**

Reconciliation of the Movements in the Fair Value of Scheme Assets

	2017/18 £000	**2018/19 £000**
Opening fair value of scheme assets	7,426	**7,650**
Interest income	191	192
Remeasurement gain/ (loss):		
The return on assets, excluding the amount included in the net interest expense	218	497
Other actuarial gains/ (losses)	-	-
Contributions from employer	108	110
Contributions from employees into the scheme	30	30
Benefits paid plus unfunded net of transfers in	(313)	(361)
Administration expenses	(10)	(10)
Closing fair value of scheme assets	7,650	**8,108**

Local Government Pension Scheme Assets Comprised:

	2017/18		**2018/19**	
	£000	%	£000	%
Equities	4,677	61	4,411	54
Target Return Portfolio	1,714	22	2,162	27
Infrastructure	335	4	489	6
Property	551	7	762	9
Cash	373	5	284	4
Total	7,650	100	**8,108**	**100**

Reconciliation of Present Value of the Scheme Liabilities

	2017/18 £000	**2018/19 £000**
Opening balance 1 April	11,564	**11,326**
Current service cost	120	114
Interest cost	297	284
Contributions from scheme participants	30	30
Remeasurement (gains) and losses:		
- Actuarial gains/losses arising from changes in demographic assumptions	-	(499)
- Actuarial gains/losses arising from changes in financial assumptions	(372)	531
Experience loss/(gain) on defined benefit obligation	-	-
Past Service Cost	-	-
Liabilities assumed on entity combinations		
Benefits paid	(308)	(356)
Unfunded pension payments	(5)	(5)
Closing balance at 31 March	11,326	**11,425**

4. Basis for Estimating Assets and Liabilities

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

The significant assumptions used by the actuary have been:

	2017/18	**2018/19**
Longevity at 65 for current pensioners:		
-Men	20.7	**19.8**
-Women	23.9	**22.9**
Longevity at 65 for future pensioners:		
-Men	23.1	**21.6**
-Women	26.2	**24.6**
Rate of inflation	2.35	**2.45**
Rate of increase in salaries	3.85	**3.95**
Rate of increase in pensions	2.35	**2.45**
Rate for discounting scheme liabilities	2.55	**2.35**

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

to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	£000	£000	£000
Longevity (sensitivity)	+1 Year	None	-1 Year
Present Value of Total Obligation	11,829	11,425	11,034
Projected Service Cost	119	115	111
Rate of increase in salaries (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,446	11,425	11,403
Projected Service Cost	115	115	115
Rate of increase in pensions (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,587	11,425	11,265
Projected Service Cost	118	115	112
Rate for discounting scheme liabilities (sensitivity)	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	11,244	11,425	11,608
Projected Service Cost	112	115	118

29. CONTINGENT ASSETS

A power disruption at the Energy from Waste Facility at Belvedere in October 2018 caused the Turbine to be damaged and didn't become fully operational until 29th May 2019. The energy risk share mechanism within the WMSA is based around the average wholesale electricity price achieved during the financial year. As little or no electricity has been sold during the winter months, when wholesale electricity prices are higher, the effect has been to depress the average price of electricity and therefore increase costs to the Authority.

30. CONTINGENT LIABILITY

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

31. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority.
- Liquidity risk – the possibility that the Authority may not have the funds available to meet its commitments to make payment.

- Refinancing risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates.

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

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

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

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

Credit risk

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

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

Credit risks can arise from the Authority's exposure to customers. As the great majority of income due to WRWA is derived from its four constituent boroughs, risks are low. Payments for services are either required in advance or due at the time the service is provided. As at 31st March 2019, £5.120 million (£8.129 million as at 31 March 2018) is due to the Authority from its customers. Of this sum, constituent councils were liable to pay a net £3.591 million all of which was accrued income to the authority, and payable in April 2019. VAT due from the HMRC for February and March 2019 totalled £1.5 million whilst VAT due for February and March 2018 amounted to £1.4 million. These sums were received in April and May 2019 and 2018 respectively.

There was no provision for bad debts as at 31st March 2018 and 31st March 2019 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 2019, 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 2018 and 31st March 2019 is set out below and is within the Authority's Prudential Code limits for 2017/18 and 2018/19 as set out in its Treasury Management Strategy:

Renewal Period	Market Loans Outstanding as at 31 March 2018 £000	% of Total borrowing	**Market Loans Outstanding as at 31 March 2019 £000**	**% of Total borrowing**
Less than One Year	2,000	23.5	**5,500**	**64.7**
Between One and Two Years	3,500	41.2	**-**	**-**
Between Two and Five Years	2,000	23.5	**2,000**	**23.5**
Between Five and Ten Years	1,000	11.8	**1,000**	**11.8**
More than Ten Years	-	-	**-**	**-**
Total	8,500	100.0	**8,500**	**100.0**

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

Market Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Interest rates during 2017/18 and 2018/19 continue at a reasonably low level. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

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

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

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

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

- Ensure the average maturity period for all new loans is at least 4 years.

In view of the fact that the Authority has no variable rate borrowings, no financial impact on the Authority's financial performance for 2018/19 is reported in the key financial statements.

It should also be noted that the Authority has further protected against these risks by the establishment of an earmarked reserve to pay outstanding debt as it is due. As at 31st March 2019 the value of this reserve was equivalent to the debt to be redeemed if the latter is held until the due redemption date.

WESTERN RIVERSIDE WASTE AUTHORITY

ANNUAL GOVERNANCE STATEMENT 2018/19

1. SCOPE OF RESPONSIBILITY

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

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

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

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

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

The governance arrangements that have been in place at the Authority for the year ended 31st March 2019 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 current vision, purpose and intended outcomes for citizens and service users and are published on the Authority website. In December 2018 the Government published a Resources and Waste Strategy for England and consulted on aspects of it in February 2019. The outcome of these consultations on consistency in waste collections, extended producer responsibility and the introduction of a deposit return scheme together with a tax on plastic packaging is likely to change the type and quantity of waste in the future and the Authority is preparing to update its joint waste policy when the outcome of the consultations and how the Government intends to implement them are known.

- **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 was independently endorsed in 2018 and different metrics to measure performance explored and the results will underpin the development of a new joint waste policy once the Government's has published how it intends to implement its Resources and Waste strategy for England.

- **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 15th July 2019

Deloitte.



Western Riverside Waste Authority

Final Report to the Members of the Authority on the audit for the year ended 31 March 2019

Issued on 21 January 2020 for the meeting on 23 January 2020

Deloitte Confidential: Government and Public Services

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

We present our updated ISA 260 report to the Members of Western Riverside Waste Authority (the Authority) for the 2019 audit. We have included the conclusions from our July 2019 report as an appendix. The scope of our audit was set out within our planning report presented to the committee in April 2019.

Status of the audit	The completion of the audit has been delayed due to: • prior year misstatements in the valuation of property, plant and equipment; and • issues in the accounting for the £3.5m received from Cory Limited during the year. Our planning paper identified a significant risk in relation to the accounting of the £3.5m payment from Cory. We have been in discussion on the accounting rationale of this transaction with management. In working through the accounting for this transaction, this has raised broader questions in respect of the accounting and related disclosures for the Authority's contract with Cory. In order to be able to conclude the audit, we needed to obtain an understanding of the underlying features of the WMSA and the accounting implications and any associated judgements therein, which were not disclosed in the statement of accounts. More details has been included on page 5 of this report. The need to conclude upon this matter in our first year as your auditors has delayed completion of the audit. Other outstanding matters as at the date of this report are: • completion of internal quality assurance procedures; • update for any changes in legal advice in respect of potential liabilities in respect of insurance claims and related amounts due to Cory through to signing; • receipt of signed management representation letter; and • our review of events since 31 March 2019 through to signing. We have identified a number of control deficiencies which were included in our previous report. An additional deficiency has been identified and reported on page 7.
Key areas of focus	• The key judgements in the audit process related to: • accounting for the £3.5m payment from Cory; • accounting for the complex arrangements included within the WMSA • property valuations, and whether opening balances and comparative information should be restated to correct prior year misstatements; and • the classification of instruments classified within cash equivalents. • Details of matters where our conclusions were reported upon in our July 2019 report are included in the Appendix. • Adjusted audit misstatements have increased net assets by £6.5m and increased reserves by £6.5m. • Unadjusted audit misstatements would increase net expenditure in the CIES by £0.1m, reduce net assets by £0.1m, and reduce useable reserves by £0.1m. If the Authority had a liability, rather than an insurance receivable, in respect of Cory outages, then this would increase to £0.5m – this has been treated as a judgement in the representation letter.

Introduction

The key messages in this report (continued)

Value for Money	• We do not anticipate reporting any matters within our audit report in respect of the Authority's arrangements for securing the economy, efficiency and effectiveness of the use of resources.
Narrative Report & Annual Governance Statement	• We have reviewed the Authority's Narrative Report & Annual Governance Statement to consider whether it is misleading or inconsistent with other information known to us from our audit work. We have no additional matters to report since our report of July 2019. • We have no matters to raise with you in respect of the Narrative Report or Annual Governance Statement.
Duties as public auditor	• We did not receive any queries or objections. • We have not identified any matters that would require us to issue a public interest report. • We have not had to exercise any other audit powers under the Local Audit and Accountability Act 2014.
Whole of Government Accounts	• The Authority is not a sampled component for WGA reporting. • We are required to report our overall audit opinion and key issues from our audit to the National Audit Office following completion of the audit.
Management representations	We will obtain written representations from those charged with governance on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter will be circulated separately.
Audit fee	As explained in our fee letter, our audit fee is based on assumptions about the scope of our work. We have incurred additional costs compared to those assumed in the scale fee in addressing a number of issues including: • Quality of initial draft financial statements, including review of multiple iterations; • Additional work in respect of property valuations due to prior year misstatements; • Accounting considerations in respect of the Authority's arrangements with Cory Limited. Additional costs incurred to date compared to the scale fee are £23k, at the agreed PSAA rate card set out in the appendix. We will update in respect of the total cost following resolution of the outstanding matters in the audit.

Significant risks

Accounting for the Authority's arrangements with Cory

Risk identified

In 2008, Cory took out financing to fund the construction of the Energy from Waste Facility (EfW). In order to enable financing, the Authority provided a guarantee in limited circumstances over the debt. During 2017/18, Cory refinanced the debt, changing the profile of debt being guaranteed, and an agreed adjustment was made to pricing of circa £1m per year over the remainder of the Waste Management Service Agreement, which is being recognised as a reduction in expenditure each year. During 2018/19, Cory was acquired, and new debt has been taken out. Whilst the parties did not agree whether this was a Qualifying Refinancing, a payment of £3.5m was agreed which was recognised as income for the year in the draft financial statements.

Deloitte response

We reviewed the contractual and other relevant documentation around the payment of the £3.5m, together with explanations provided by management, in respect of the transaction and the underlying arrangements with Cory, with support from our accounting technical team, in order to critically challenge what the appropriate basis for accounting for the payment received from Cory is. This included considering which accounting standard it should be accounted for under and whether this requires income to be recognised over the remainder of the contract rather than in year.

In analysing the accounting for this transaction, we identified a number of wider issues in the Authority's contractual arrangements with Cory, for which additional analysis was required to understand the arrangements, their potential interpretation under accounting standards, and determine whether the accounting historically adopted was appropriate and adequately disclosed. This identified a number of areas which required consideration and for which the related judgements had not previously been disclosed in the financial statements, including in respect of:

- The Residual value agreement
- The leases of Authority sites to Cory
- The lease and leaseback of the EfW site
- Force majeure provisions
- Judgements in respect of the 2017 and 2018 refinancing

Deloitte view

Following review and challenge of the approach to accounting for the £3.5m, we disagreed with the proposed treatment. Notwithstanding management's position that the 2018 refinancing did not lead to any increase in the Authority's risk, we consider that transaction forms part of the overall arrangements with Cory and should not be considered in isolation. It was agreed with management that the £3.5m received in 2018/19 will be spread over the remaining period of the contract rather than being recognised in full in 2018/19 as was the case in the draft accounts. The income has thus been spread, with £125k recognised in the year and the remainder deferred.

We proposed additional disclosures on critical accounting judgements and key sources of estimation uncertainty (as well as other amendments to disclosures) in respect of the elements of the Authority's arrangements with Cory set out above. Management have included relevant disclosures in the updated financial statements.

We have reviewed the updated disclosures and consider they appropriately disclose the substance of the Authority's arrangements.

We recommend that the Authority should have appropriate standing accounting documentation in place, updated on an on-going basis for changes to the contractual arrangements and accounting standards, as detailed on page 8.

Other areas of audit focus

Power outage receivable / payable

A power disruption at the Energy from Waste Facility in October 2018 damaged a turbine. The energy risk share mechanism in the WMSA is based around the average wholesale electricity price achieved for the financial year. Lack of production and therefore sales during the winter months depressed the average price of electricity and so increased amounts payable to Cory.
Cory has claimed on its insurance, and the Authority has included a contingent asset in the financial statements (on the basis that it is not sufficiently certain to recognise an asset).
Discussions with the Authority's insurers and Cory have identified a potential interpretation of the relevant agreements, under which the Authority would instead have an additional liability of up to £0.4m.
The Authority does not consider this a reasonable interpretation, but is taking counsel's advice in respect of the interpretation of the agreement.
The potential liability is immaterial, and we have included a representation in respect of the judgement that no amounts should be recognised in the letter of representation.

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Other significant findings

Internal control and risk management

Appendix B

During the course of our audit we have identified a number of internal control and risk management findings which were previously communicated to you in our July 2019 report. We have included below an additional finding identified in finalisation of our work.

Area	Observation	Priority
Accounting documentation regarding the arrangement with Cory	During the course of the audit, papers and responses have been prepared on a number of specific elements of the Authority's arrangements with Cory. Although these address a number of areas, the Authority does not have in place comprehensive accounting papers and analysis covering the complex arrangements in place with Cory, covering the relevant features of the arrangements, the relevant requirements of the accounting standards and the Code, the fact pattern (including details of relevant terms of contracts etc), an assessment of how the standards apply in this context, consideration of potential alternative treatments, the proposed approach to measurement/calculation of accounting entries required, and the required disclosures. Our work on understanding the Authority's arrangements has identified a number of disclosures which have not been made in previous years to explain significant judgements and estimates in the Authority's accounting. We would expect organisations with complex long term arrangements to have in place accounting documentation as to the rationale for the accounting followed, and to refresh this as accounting standards and/or the contractual arrangements change and evolve. As changes occur, the accounting impact should be assessed and disclosed in the financial statements if necessary. We recommend that the Authority put in place standing accounting documentation in respect of the key judgements in accounting for its arrangements with Cory and updates these for any future changes in arrangements and/or relevant accounting standards.	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Members of the Authority and the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

This report has been prepared for the Members of the Authority and Authority, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

We welcome the opportunity to discuss our report with you and receive your feedback.



Ben Sheriff

for and on behalf of Deloitte LLP

St Albans

21 January 2020

Appendices



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Audit adjustments

Unadjusted misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Uncorrected misstatements decrease the surplus on the CIES by £0.5 million, decrease net assets by £0.5 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	If applicable, control deficiency identified
Misstatements identified in current year					
Depreciation of Property, Plant and Equipment on correction of revaluation increase	[1]	0.1	(0.1)		Yes
Total		**0.1**	**(0.1)**		

(1) Depreciation adjustment following the restatement of property, plant and equipment revaluation increase.

Audit adjustments

Corrected misstatements

The following uncorrected misstatements have been identified up to the date of this report which we request that you ask management to correct as required by ISAs (UK). Corrected misstatements decrease CIES by £3.4m, increase net assets by £6.5 million, and increase reserves by £9.9 million.

		Debit/ (credit) CIES £m	Debit/ (credit) in net assets £m	Debit/ (credit) prior year reserves £m	If applicable, control deficiency identified
Prior year error on Property, Plant and Equipment Revaluation	[1]		6.5	(6.5)	Yes
Reclassification of Diversified Income Fund	[2]		(1.0) 1.0	-	Yes
Correction of the recognition of income from Cory	[3]	3.4		(3.4)	Yes
Total		**3.4**	**6.5**	**9.9**	

(1) Correction of prior period error identified regarding Property, plant and equipment valuation as 31 March 2018

(2) Reclassification of the Diversified Income Fund from cash and cash equivalents to short-term investments.

(3) Correction of the recognition of the £3.5m received from Cory by spreading the income over the remainder of the contract

Fraud responsibilities and representations

Responsibilities explained

Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that are not aware of any fraud or suspected fraud that affects the Authority.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed:

In our planning we identified revenue and expenditure recognition and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Members of the authority on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been raised in relation to fraud or whistleblowing during our procedures

Independence and fees

	Proposed £ (exc VAT)	Planned £ (exc VAT)	Comments
Code audit fee	35,058	12,058	We have incurred additional costs in our work on the 2018/19 audit due to the issues discussed in the paper in respect of: accounting for the Authority's arrangements with Cory, including treatment of the £3.5m received in year; prior period errors in respect of the property valuation; quality of initial draft financial statements; and additional quality assurance and senior input required due to the issues arising on the audit. The fee is subject to finalisation of the costs incurred following completion of the audit and approval by Public Sector Audit Appointments Limited. Additional time is charged using the following rate card. Our current estimate of additional costs is c£23,000.
Total audit	35,058	12,058	

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Matters concluded upon in our July 2019 report – Significant Risks

Revenue and expenditure recognition

Risk identified

Under UK auditing standards, there is a presumed risk in respect of revenue recognition due to fraud. For the Authority, we consider this significant risk to be the validity, accuracy and completeness of the variable element of the revenue relating to the actual direct tonnage charged to the four constituents councils.

Given that revenue is driven by the volume of activity during the year, this risk is also linked to the recognition of expenditure. The Authority has a significant contract with Cory Limited for the provision of waste management services. The risk includes the accuracy and completeness of expenditure calculated by Cory and whether the Authority is accounting for expenditure appropriately and consistently in line with activity.

In 2018/19, the Authority approved a gross expenditure budget of £51m. Given the pressures across the whole of the public sector, there is an inherent risk that the year-end position could be manipulated by omitting or misstating accruals.

Deloitte response

In considering the risk identified, we performed the following audit procedures that directly address this risk:

- We obtained an understanding of and tested the design and implementation of the key controls in place in relation to recording completeness of expenditure and accruals;
- We reviewed the contract in place between the Authority and Cory Limited;
- We performed focused testing in relation to the completeness of expenditure including a detailed review of expenditure and accruals;
- We reviewed the accuracy of the expenditure calculated by Cory.
- As part of this focused testing, we challenged the assumptions made in relation to year-end accruals; and
- In addition, we reviewed the year on year movement in expenditure and accruals and investigated any significant movements

Deloitte view

As discussed in the main section of the report, the accounting for £3.5m received from Cory during 2018/19 has been amended to reflect the spreading of the income over time rather than in year recognition. No other issues have been noted.

Matters concluded upon in our July 2019 report – Significant Risks

Valuation of property assets

Risk identified

We have reassessed valuation of property assets as a significant risk, based on issues identified in respect of the opening valuation. We have pinpointed the risk to the arithmetic accuracy of the valuation and the valuation of land.

Key judgements and our challenge of them

A full revaluation was performed on land, buildings and fixed plant and equipment as at 31 March 2018. The Authority's valuer had advised there had been no material movement for the year to 31 March 2019.

Upon review of the 31 March 2018 valuation to assess the reasonableness of this, we identified a) an arithmetic error of £5.1m, and b) that land was held at what appeared a very low valuation. Upon enquiry of the Authority's valuers, it was confirmed that a) the valuation at 31 March 2018 was overstated by £5.1m due to arithmetic error, and b) that upon further consideration the land value should be increased by £11.5m reflecting an increase in price per hectare from £825k to £4m. The net effect is an understatement of £6.5m.

We have also challenged the 31 March 2017 valuation figures for similar errors and concluded that the 2013 valuation was conducted by a different firm of valuer and the valuation does not appear to have had similar issues. The land figures were based on assumptions that are consistent with the updated March 2018 valuation.

Deloitte response

- We have tested the design and implementation of controls around property valuations
- We have used our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the valuation of the Authority's properties, and of the judgement that there was no material movement during the year.
- We have checked whether any adjustments to the value of previously capitalised works are required and how these have been calculated.
- We have challenged challenge management's assessment as to whether any impairment arises in respect of newly capitalised expenditure.
- We considered the impact of uncertainties relating to the UK's exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Deloitte view

We have identified a control deficiency and an immaterial error of £0.1m (page 11) which has not been corrected.
We have identified a material prior year error in the valuation of £6.5m on cost. We found material arithmetic errors and challenged the valuer on their judgements.

As a result, the statement of accounts have been restated to reflect a reasonable estimate of the fair value at year end.

Following restatement, we have concluded that the net book value of property assets is not materially misstated. The Authority's revised valuation assumptions have been reasonable, in line with other Authorities and fall within the expected range highlighted by Deloitte Real Estate.

Matters concluded upon in our July 2019 report – Significant Risks

Appendix B

Management override of controls

Risk identified

In accordance with ISA 240 (UK and Ireland) management override of controls is a presumed significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

Judgment and Estimates:

The key judgments in the financial statements are those which we have selected as areas of audit focus, pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Significant Transaction:

We noted that the Authority had entered into a refinancing agreement with Cory Limited during the year and had received a £3.5m payment as part of the contract. This has been separately identified as a significant risk.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Authority's results throughout the year was closely monitored; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

Our work on the £3.5m payment from Cory will be reported separately.

Journals

We have performed design and implementation testing of the controls in place for journal approval.

We have used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Accounting estimates (see next page)

We have performed design and implementation testing of the controls over key accounting estimates and judgements.

The key judgements in the financial statements are those selected as significant audit risks and other areas of audit interest as discussed elsewhere in this report.

We reviewed accounting estimates for biases that could result in material misstatements due to fraud. We note that overall the changes to estimates in the period were balanced and did not indicate a bias to achieve a particular result.

We tested accounting estimates and judgements, focusing on the areas of greatest judgement and value. Our procedures included comparing amounts recorded or inputs to estimates to relevant supporting information from third party sources.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

We have identified a control deficiency relating to financial statement preparation which was previously reported to the members in July 2019.

Matters concluded upon in our July 2019 report – Other areas of audit focus

Defined benefits pension scheme

	Pension Assets	Pension liabilities	Net pension deficit
2019 Actual	**£8.1m**	**£11.4m**	**£3.3m**
2018 Actual	**£7.7m**	**£11.3m**	**£3.7m**

Background

The Authority participates in the London Pension Fund Authority Local Government Pension Scheme, administered by London Pension Fund Authority.

The net pension liability has increased from £11.3m at 31 March 2018 to £11.4m at 31 March 2019 primarily as a result of slight increase in the discount rates and movements in asset values.

The Authority's pension liability is not materially affected by the McCloud legal cases in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Subsequent to year-end, the Government was denied leave to appeal the case, removing the uncertainty over recognition of a liability. Management consider the likely impact (with only 7 active members) as clearly trivial, and we concur with this judgement.

Deloitte response

- We obtained a copy of the actuarial report produced by Barnett Waddingham, the scheme actuary, and agreed in the disclosures to notes in the accounts.
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- We reviewed and challenged the assumptions made by Barnett Waddingham, including benchmarking key actuarial assumptions.
- We obtained assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.
- We assessed the reasonableness of the Authority's share of the total assets of the scheme with the Pension Fund financial statements for the year as at 31 March 2018 and performed analytic procedures to test the asset value and movements for the year.
- We have evaluated the impact of the McCloud case on pension liabilities.
- We reviewed the disclosures within the accounts against the Code.

Deloitte view

The Authority has not adjusted the pension liability for the impact of the McCloud case, and has instead disclosed as a contingent liability. We consider the likely impact to be below our reporting threshold of £50k and so have not raised an adjustment in respect of this.

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Matters concluded upon in our July 2019 report – Value for Money

Appendix B

Background

Under the National Audit Office's Code of Audit Practice, we are required to report whether, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Code and supporting Auditor Guidance Notes require us to perform a risk assessment to identify any risks that have the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. We are required to carry out further work where we identify a significant risk - if we do not identify any significant risks, there is no requirement to carry out further work.

Deloitte risk assessment

- We obtained an understanding of the Authority's budget for 2019/20.
- We considered the appropriateness of the governance arrangements and due diligence performed.
- We discussed the Authority's arrangements with senior operational staff – Chris Buss, Treasurer and inspected the internal audit reports.
- We have considered the arrangements around the re-financing with Cory.
- We reviewed the Authority's draft Narrative Report, Annual Governance Statement and relevant Authority papers and minutes.
- We considered the Authority's financial results for the year and the assumptions in the budget for future years.
- We considered matters identified by the National Audit Office as potential value for money risks for Councils for 2018/19.

Deloitte view

- Based upon the work performed in our risk assessment, we did not identify any significant audit risks, which is consistent with our Planning Report.

Deloitte.

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Appendix C

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

Room 111, The Town Hall, Wandsworth High Street, London SW18 2PU

Contact: Katherine Burston

Direct Dial: 020 8871 6499
Fax:
E-Mail: Katherine.burston@richmondandwandsworth.gov.uk

Date: 21st January 2020

Deloitte LLP
3 Victoria Square
Victoria Street
St Albans
AL1 3TF

Our Ref: BJS/AS/2020

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the Western Riverside Waste Authority ("the Authority") for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Western Riverside Waste Authority as of 31 March 2019 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19.

We confirm, to the best of our knowledge and belief, the following representations.

Financial statements

1. We understand and have fulfilled our responsibilities for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2018/19 which give a true and fair view, as set out in the terms of the audit engagement letter.

2. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

3. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures".*

4. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.

5. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.

6. We confirm that the financial statements have been prepared on the going concern basis and disclose in accordance with IAS 1 all matters of which we are aware that are relevant to the Authority's ability to continue as a going concern, including principal conditions or events and our plans. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Authority's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.

7. The measurement processes, including related assumptions and models used to determine accounting estimates in the context of the applicable financial reporting framework are appropriate and have been applied consistently.

8. The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures.

9. The disclosures related to accounting estimates under the entity's applicable financial reporting framework are complete and appropriate.

10. There have been no subsequent events that require adjustment to the accounting estimates and disclosures included in the financial statements.

11. The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets and assets pledged as collateral.

12. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and have disclosed in Note 30 to the financial statements all guarantees that we have given to third parties.

13. We are not aware of any deficiencies in internal control.

14. All minutes of member and management meetings during and since the financial year have been made available to you.

15. With respect to the revaluation of properties in accordance with the Code:

    a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;

b) the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;

c) the disclosures are complete and appropriate.

d) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.

e) the information supplied for the valuation of the Authority's property and investment property assets includes up to date rental and other relevant data to inform the valuation, and there are no circumstances we are aware of that would impact upon the valuation of assets (such as issues with condition) that have not been shared with the valuer;

16. We have reconsidered the remaining useful lives of the fixed assets and confirm that the present rates of depreciation are appropriate to amortise the cost or revalued amount less residual value over the remaining useful lives.

17. We are not aware of events or changes in circumstances occurring during the period which indicate that the carrying amount of fixed assets or goodwill may not be recoverable.

18. We confirm that:

19. all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;

20. all settlements and curtailments have been identified and properly accounted for;

21. all events which relate to the determination of pension liabilities have been brought to the actuary's attention;

22. the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;

23. the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and

24. the amounts included in the financial statements derived from the work of the actuary are appropriate.

25. We have considered the impact on the Authority's pension liability of the the McCloud legal cases and do not consider the impact of any adjustment for the Authority's 7 active members to be significant to the financial statements.

26. We confirm that all of the disclosures within the Narrative Report and Annual Governance Statement, and in the remuneration disclosures within the financial statements, have been prepared in accordance with the relevant legislation and guidance.

Information provided

27. We have provided you with:

28. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

29. additional information that you have requested from us for the purpose of the audit; and;

30. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

With respect to the Authority's contractual arrangements with Cory, we have provided all relevant documentation, and, based upon our consideration of the contracts and the requirements of the CIPFA Code and International Financial Reporting Standards, have not identified any other features of the arrangements which may require consideration in determining the accounting for these arrangements or might impact upon the conclusions on the matters disclosed in the financial statements and/or discussed in the course of the audit. The Authority's agreements with Cory do not include any separately identifiable pricing of

- the Force Majeure provisions;
- Payments giving rise to an identifiable receivable during the Residual Value period.

31. We have considered the substance of the Authority's lease and lease back of the Energy from Waste site from Cory, and consider that in substance this is a security mechanism to ensure payment of amounts potentially due from Cory, rather than a genuine lease arrangement.

32. We have considered the terms and substance of the Authority's leases of Authority sites to Cory, and confirm that we consider these arrangements represent operating leases, as the Authority retains substantially all the risks and rewards incidental to ownership of the assets. The economic value of the lease to Cory is not separately

identifiable within the WMSA and lease agreement, and so it is not possible to show separately lease income and gross cost paid to Cory.

33. We have considered the minimum level of provision required under IAS 37 in respect of the Force Majeure provision and have not recognised a provision as the possibility of cash outflows is currently considered remote.

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

35. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

36. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

37. We are not aware of any fraud or suspected fraud that affects the entity or group and involves:

    (i) management;

    (ii) employees who have significant roles in internal control; or

    (iii) others where the fraud could have a material effect on the financial statements.

38. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

39. We have disclosed to you all known instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements.

40. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

41. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the applicable financial reporting framework. On the basis of legal advice we have set them out in the attachment with our estimates of their potential effect. No other claims in connection with litigation have been or are expected to be received.

42. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

43. We confirm that we consider the balance held with Wandsworth Council amounting to £15.2m to be a demand deposit and subject to insignificant changes in value and thus appropriately classified as cash and cash equivalents.

44. We have considered the valuation of the Authority's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year.

45. We have considered the potential impact of the power disruption at the Energy from Waste plant, and the potential for an additional liability of £0.4m, without insurance recovery, to arise if the alternate interpretation of the contract is correct. While we are continuing to take legal advice on the correct interpretation in this context, we do not consider any potential liability to be material in the context of the financial statements, or any additional disclosure to be required.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Chris Buss
Treasurer
Signed on behalf of Western Riverside Waste Authority

Appendix 1

Schedule of Uncorrected Misstatements

Description	Assets DR / (CR) £	Liabilities DR / (CR) £	Equity DR / (CR) £	Income Statement DR / (CR) £
DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT ON CORRECTION OF REVALUATION INCREASE	(0.1)			0.1