**EAST LONDON WASTE AUTHORITY**
**STATEMENT OF ACCOUNTS**
**FOR THE YEAR ENDED 31 MARCH 2013**

# EAST LONDON WASTE AUTHORITY
# STATEMENT OF ACCOUNTS
# FOR THE YEAR ENDED 31 MARCH 2013

Contents

# PREFACE AND EXPLANATORY FORWARD

## 1. Preface

1.1 This publication presents the Authority's Accounts for the year ended 31st March 2013. Its purpose is to give clear and concise information about the financial affairs of the Authority to both Members of the Authority and the Public.

1.2 Any enquiries about the Accounts or requests for further financial information should be addressed to the Finance Director, Lynton House, 255-259 High Road, Ilford, Essex, IG1 1NN.

## 2. Explanatory Foreword

2.1 The Accounts for 2012/13 are set out on the following pages and consist of:

a) The Movement in Reserves Statement on pages 17 and 18 brings together all the movements in 2012/13 on these Balances.

b) The Comprehensive Income and Expenditure Statement on page 19 summarises the costs of the services provided by the Authority. It also shows how these costs are met from Service Income, Government Grants and the Levy Income.

c) The Balance Sheet on page 20 is a summary of the Authority's financial position at 31st March 2013.

d) The Cash Flow Statement on page 21 shows the total cash received by the Authority and how it was used.

e) The Authority's Accounts are accompanied by explanatory notes.

2.2 The Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 – Based on International Financial Reporting Standards (IFRS), developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The Code constitutes "proper accounting practice" with which, by law, Local Authorities must comply. The 2012-13 Code incorporates the Accounts and Audit Regulations 2011.

2.3 The Finance Director's Statement starting on page 4 identifies the more significant matters included within the Authority's Accounts and provides a summary of the Authority's overall financial position.

## FINANCE DIRECTOR'S STATEMENT

### 1. Introduction

1.1 The East London Waste Authority (ELWA) was created by Regulations made under the Local Government Act 1985. From 1 April 1986, ELWA assumed responsibility for the disposal of waste arising in the area covered by the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge.

1.2 The Statement of Accounts on the following pages sets out the Authority's financial position for the year to 31 March 2013. Further information on the nature and purposes of the Authority's expenditure is contained in the annual Revenue and Capital Budgets.

### 2. Income and Expenditure Account

2.1 The Authority's budget for 2012/13 projected that there would be a net deficit of £4.216 million which would require the use of Revenue reserves and the PFI contract reserve in order to ensure that a balanced budget was achieved. The Authority's final outturn position demonstrates an improvement from this budget, this is mainly the result of a lower than expected level of waste tonnage. This reduction in tonnage has had an impact on the final net revenue expenditure position. This is summarised in the table below.

| | Budget | Actual |
|---|---|---|
| | £'000 | £'000 |
| Net Revenue Expenditure (inc. Contingency) | 48,965 | 47,522 |
| Levy Raised | -44,749 | -44,749 |
| Balance before accountancy adjustments | 4,216 | 2,773 |

2.2 As a result of the accounting adjustments that are required to be made under IFRS, the outturn for the year as shown in the Comprehensive Income and Expenditure Statement is a deficit of £2.942 million. The table on page 5 provides a reconciliation between this net deficit figure and the final outturn position shown above of a £2.773 million deficit. Further detailed analysis can be seen in Note 19.

Reconciliation of the Accounting Adjustments required under IFRS

| | Actual £'000 | Actual £'000 |
|---|---|---|
| **Balance before accountancy adjustments** (see Note 19**)** | | **2,773** |
| Accountancy adjustments | | 21 |
| Balance of net expenditure to be financed by reserves | | 2,794 |
| **PFI contract accountancy adjustments (**see Note 26): | | |
| Service Charge | -6,972 | |
| Lifecycle Asset Addition | -1,266 | |
| Contingent Rent | -2,590 | |
| Depreciation and Impairment of PFI assets | 5,397 | |
| Interest Payable on Finance Leases | 5,579 | 148 |
| **Deficit for the year after PFI adjustments** | | **2,942** |
| **Movement between Revenue Reserve and Reserves** | | |
| Net Transfer from PFI Contract Reserve | | -2,715 |
| Transfer from Capital Adjustment Account | | 4,355 |
| Accumulated Absences Account | | 3 |
| Transfer to Pensions Reserve | | -17 |
| **Net Effect on Revenue Reserve** | | **4,568** |
| Revenue Reserves Brought Forward | | -13,050 |
| **Revenue Reserves Carried Forward** | | **-8,482** |

2.3 The adjustments arising from IFRS compliant accounting treatment have had no impact on overall net expenditure and movements on reserves.

## 3. Capital Programme/Borrowing Facilities

3.1 Since the introduction of the Prudential Code in 2004, the Authority can set its own capital spending limit as long as it is affordable, sustainable and prudent. The Local Government and Housing Act 1989 specifies that all new capital receipts generated from the sale of non-housing land, buildings and other assets are available to finance capital expenditure.

3.2 ELWA can borrow for any purpose for which it is legally entitled to incur expenditure. Loans can be raised for new capital requirements, to replace maturing debt and also to meet short-term revenue cash flow deficits. No capital expenditure or financing was incurred during 2012/13.

## 4. ELWA Operations

4.1 ELWA transferred its principal operations and contracts to Shanks Waste Management Limited as part of the 25-year Integrated Waste Management Strategy (IWMS) Contract partly backed by PFI funding in December 2002. Since then ELWA's limited direct operational responsibilities have been in relation to its four closed landfill sites.

## 5. Local Government Pension Scheme (LGPS)

5.1 The Authority is legally obliged to offer guaranteed pension benefits to its employees. The statutory pension fund provider for the Authority is the London Pensions Fund Authority (LPFA). The LPFA Fund is maintained at a level to eventually meet the Authority's long-term liabilities for pension benefits, with the Authority's contributions fixed accordingly.

5.2 The results of the 2010 triennial actuarial valuation were used as part of the calculations for these accounts. The next valuation is due as at 31 March 2013 and this information will be used in the 2013/14 accounts.

5.3 As at 31 March 2013 the Authority's estimated liability for retirement benefits exceeded the value of assets by £821,000 (as at 31 March 2012 £782,000) when valued in accordance with the accounting standards. The increase in liability was due to the fair value of scheme assets not increasing in line with the funds obligation.

## 6. Future Outlook

6.1 The future outlook for the Authority continues to be the subject to a variety of uncertain factors. These include possible further changes in landfill tax, the medium term direction of waste tonnage levels across the four constituent boroughs as well as inflation and interest rate pressures. Although the Authority was able to freeze its overall levy in 2012/13 an increase of 5.4% was required for 2013/14. Zero and low percentage increases in the levy are unlikely to be sustainable in the future unless there continue to be significant on-going reductions in overall waste tonnages and the amount of waste disposed at landfill. This and the costs arising from the IWMS contract are key issues for the Authority as any significant levy increases in the future will be difficult to absorb for the constituent councils who will face continued expenditure constraints in the years to come. Addressing this may require a critical review of the current contract.

## 7. Conclusion

7.1 I would like to thank all the ELWA staff and the relevant staff and colleagues in the four Constituent Councils for their continued support in the production of these Statement of Accounts.

G Pearce, BA, CPFA
Finance Director
25th September 2013

## ANNUAL GOVERNANCE STATEMENT

### 1. Introduction

1.1 Each year the Authority is required by regulation to produce a statement that details the framework for making decisions and controlling the resources of the Authority. The statement covers both the Authority's governance arrangements as well as internal control issues. This statement should enable stakeholders to have assurance that decisions are properly made and public money is being properly spent on citizens' behalf. The statement below complies with the Accounts and Audit Regulations 2011 as amended.

### 2. Scope of responsibility

2.1 The East London Waste Authority (ELWA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. ELWA 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.

2.2 In discharging these obligations, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

### 3. The purpose of the Governance Framework

3.1 The Governance Framework comprises of the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to and engages with 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.

3.2 The system of internal control is a significant part of the governance 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 being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

3.3 The Authority's governance framework is established through its systems, processes, cultures and values. Its systems and controls are regularly reviewed to reflect changing needs. The local Code has been incorporated into the constitution as a single point of reference for the Authority's framework for its Governance arrangements.

### 4. Vision and Purpose

4.1 ELWA has the vision "To provide an effective and efficient waste management service that is environmentally acceptable and delivers services that local people value". This vision is supported by objectives and joint targets. The vision was adopted in consultation with stakeholders.

4.2 The Integrated Waste Management Strategy (IWMS) sets out the Authority's strategic direction. It shows the integrated planning process that links the Strategy, Vision, Aims and Priorities. It also outlines the actions to be taken to deliver on the strategic priorities. This is reviewed annually to identify new key actions to be considered in the service planning process a range of performance indicators assists in the monitoring of activity.

4.3 The Integrated Waste Management Strategy underpins the annual service delivery plans that are agreed by ELWA and the Contractor. These are required under the IWMS Contract, which was established in 2002, at the commencement of the 25 year waste contract. These requirements are:

a) The Overall Service Delivery Plan (OSDP) of ELWA Limited is a Plan that covers the 25 years of the Contract. This is a schedule to the Contract and is essentially the operational and technical proposal by Shanks Waste Management (SWM) to meet ELWA's requirements.

b) The 3 or 5 Year Service Delivery Plan (SDP) follows a similar format to the OSDP but provides a greater level of detail. The first 5 Year SDP is also a schedule to the Contract.

c) The Annual Budget and Service Delivery Plan (ABSDP) follow a similar format to the other SDPs but provide a greater level of detail, particularly in respect of financial matters. The first ABSDP, relating to the period up until 31st March 2003, was finalised and incorporated as a schedule to the Contract. The ABSDP is normally considered in the autumn prior to the commencement of the relevant financial year to which it relates. This ensures that the levy report in February can fully reflect the likely expenditure commitments arising from the Contract.

4.4 The Authority can apply various penalties under its IWMS contract if these Plans, once approved, are not adhered to and met. In extreme circumstances, the Authority could terminate the Contract.

4.5 It is recognised that the Authority cannot achieve its vision alone. It needs to work in partnership with its four Constituent Councils, other agencies and the community to make this happen. An example of this partnership working includes the work undertaken with all partners for the improvement in the collection and sorting of dry recyclables.

## 5. Performance Management and Reporting

5.1 The performance management framework demonstrates how effective the actions being taken are and assists in monitoring progress in the way in which the Authority's strategies are translated into action plans. It also helps to identify if any risks are materialising when indicators do not show the level of progression anticipated.

5.2 The performance management framework is therefore instrumental in identifying and mapping continuous improvement of services across the Authority.

5.3 The fundamentals of contractual performance management are embedded in the way the Authority operates. There is:

a) A corporately defined process that ensures that Plans are linked to strategic aims and that performance statements and other published information are accurate and reliable;

b) Mechanisms whereby performance is reported to Members and Officers.

5.4 A performance management system is now in place for all Authority Officers. This ensures each member of staff has clear and measurable objectives that are ultimately aligned to the strategic objectives of the Authority.

## 6. Authority Constitution

6.1 This sets out the roles and responsibilities of Members and Officers. It provides details about how decisions are made and who can make them. It also contains the rules for managing our finances and resources effectively.

6.2 Emerging changes to our governance structure, including the constitution, are presented at Authority meetings for approval. A copy of the constitution is on the Authority's website. This includes a clear reference to the scheme of delegation, which outlines who is authorised to make particular decisions in particular areas. In addition, clear rules regarding financial and contractual regulations are outlined within the Constitution.

## 7. Codes of Conduct

7.1 Part E of the ELWA Constitution deals with the Codes of Conduct for Members and Employees. Each of ELWA's four Constituent Councils has adopted the mandatory provisions of the Model Code. ELWA is not required to adopt a Code of Conduct for its Members. However, the Members are bound by their respective Council Codes when they act in their official capacity for ELWA.

## 8. Risk Management

8.1 The Authority has embedded risk management processes throughout its structure. A Risk Management Policy and Strategy is agreed and reviewed by the ELWA Management Board and Authority Members on a regular basis.

8.2 Financial and operational risks are embedded within individual reports that are presented at Authority meetings.

Risk identification and management processes are also in place for projects, partnerships and contracts.

## 9. Compliance with policies, laws and regulations

9.1 The Constitution sets out the legal framework for making decisions and publishing them.

9.2 The Authority has the following statutory officers; Head of Paid Service – Managing Director, Section 151 officer (Local Government Act 1972) – Finance Director, and Monitoring Officer – Legal Adviser each of whom has the power to refer matters to the full Authority if a breach of regulation is possible. These officers form part of the Management Board. None of these officers have been required to use their powers during the year.

9.3 The statutory officers also provide professional advice on all key decision-making reports to ensure legal, financial, risk management, procedure and equality implications are addressed.

## 10. Counter Fraud including Whistle-blowing

10.1 The Authority has an agreed Anti-Fraud & Corruption Strategy that is regularly reviewed to ensure it remains effective and adaptive to emerging issues and risks. Two key components that support this Strategy are:

a) Whistle blowing arrangements that are available to the general public, employees, contractors and partners.

b) Delivering a programme of anti-fraud training and guidance, including a Fraud Response Plan to instil a culture and awareness that fraud will not be tolerated.

10.2 Work has taken place throughout 2012/13 to identify the best way in which information is made available and visible on the Authority's website. A new website for the Authority was developed and went live in 2012. This brings together the Authority website and the site that is used to engage directly with the community on waste disposal and reduction matters.

## 11. Complaints process

11.1 The Authority has a recognised complaints process, and aims to comply and conform to the complaints procedures operating in each of the four Constituent Councils.

11.2 Members also receive enquiries and complaints via their surgeries, walkabouts or by correspondence. ELWA Officers support Members in addressing these queries to ensure that the public receive an appropriate answer.

11.3 Members of the public may also complain to the Local Government Ombudsman. The Authority has had no previous history of any such complaints.

11.4 Complaints are analysed and assessed so that the organisation can identify trends and issues and if necessary, put in place changes and improvements to prevent complaints reoccurring.

## 12. Training and development

12.1 Members receive a briefing to keep them up to date with changes and to supplement their training needs via their Constituent Councils. This is supplemented by formal and informal information about ELWA through briefings, workshops and conferences.

12.2 Training and development of staff continues via professional associations, committee reports, conferences, seminars, courses run by Constituent Councils, on-line tuition and bespoke courses. These are related to the demands of new legislation and operational practices.

## 13. Communication and engagement

13.1 The Authority has a responsibility to communicate how to access basic services and information. The Authority's primary communication methods are comprehensive reporting, its website, leaflets and briefings for Constituent Councils. In addition, the Authority and the Constituent Councils have combined with the main service provider to implement a Communications Strategy to drive through improvements in waste management performance from the kerbside.

13.2 User satisfaction surveys provide services with feedback on Authority performance, used to shape service delivery and policy.

## 14. Partnerships

14.1 The most significant partnerships for the Authority are with its four Constituent Boroughs and through the IWMS Contract with Shanks Waste Management.

14.2 There are sound governance arrangements in place for partnerships. They are implemented via regular formal meetings with Shanks Waste Management including those at ELWA Limited and regular formal meetings with the Boroughs including those at the ELWA Management Board and Operational Management Team.

## 15. Review of effectiveness

15.1 ELWA has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Directors who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Auditor for the London Borough of Redbridge, and also by comments made by the external auditors and other review agencies and inspectorates.

15.2 During 2012/13, significant time and effort has been invested by ELWA, the Boroughs and the Service Provider in consulting and negotiating and specifying the medium term service delivery plans for the majority of ELWA's activities.

15.3 The 5 yearly and annual processes, conducted within a formal framework provided by the Integrated Waste Management Strategy and Contract, enforce a disciplined review of objectives and effectiveness.

## 16. Role of the Finance Director

16.1 In statute, the Chief Financial Officer (CFO) is the organisation's senior executive who is charged with leading and directing financial strategy and administration, occupying a pivotal role, both for external stakeholders and within the Leadership Team. At ELWA, this role is held by the Finance Director. The Authority fully complies with the requirements and principles as set out in the CIPFA Statement on the Role of the Chief Financial Officer.

## 17. Internal Audit

17.1 Internal Audit and External Audit operate a joint working arrangement to maximise the effectiveness of the audit scrutiny of the Authority. In accordance with the Audit Commission's Code of Audit Practice, the external auditors seek to place reliance upon Internal Audit's work in the assessment of risk, core accounting processes, and the effectiveness of internal control. An effective Internal Audit function is a core part of the Authority's arrangements to ensure the proper conduct of its financial affairs. Internal Audit priorities are risk based and agreed with the Finance Director, following consultation with the Management Board and External Audit as part of the annual planning process.

The Chief Auditor for the London Borough of Redbridge is authorised to complete a programme of audit reviews within the Authority. To assist in the accomplishment of this programme, the Financial Regulations of the Authority give authority for Internal Auditors to have full, free and unrestricted access to all Authority assets, records, documents, correspondence and personnel for the purposes of that audit. Recommendations arising from the work of both internal and external auditors are discussed and agreed with management, including acceptable timescales for their implementation. The Chief Auditor for the London Borough of Redbridge reports on the outcomes of the annual programme of audit work to Members and management.

## 18. External Audit

18.1 The Authority's external Auditor, PricewaterhouseCoopers LLP (PwC), has an annual audit plan in place that is risk based and focuses on undertaking areas of work that enables them to fulfil their duties in providing an opinion on the Authority's financial statements and whether or not we have sound arrangements in place to deliver value for money. This value for money conclusion is based on two criteria: that the organisation has proper arrangements in place for securing financial resilience and that the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

## 19. Governance and internal control issues requiring improvement and outcome of 2012/13 action plan

19.1 Areas for development that have been identified within the Annual Governance Statement are listed below together with the improvements made during the year and those planned to be delivered in 2013/14.

<u>Contract Management</u>

19.2 Under the Government funded Waste Infrastructure Development Programme (WIDP) ELWA Management have taken part in a contract management review. The review is designed to help ELWA maximise the value from the PFI contract and to identify areas for improvement in the management of this complex and high value contract.

<u>Business Continuity Planning</u>

19.3 We propose over the coming year to take steps to confirm and implement measures to embed the new business continuity arrangements. We are satisfied that these steps will continue to improve ELWA's level of performance.

Signed:

………………………………………………………………..

Mark Ash (Acting Managing Director)

………………………………………………………………..

Cllr. Mick McCarthy (Chairman)

Date:

## 20. Annual Governance Statement Action Plan 2013/14

| Number | Area to develop | Ongoing Action | Timescales | Lead Officer |
|---|---|---|---|---|
| 1 | Contract Management | A review of monitoring and inspection procedures will occur during the 2013/14 financial year so as to ensure that timely and accurate information is available at all times. | September 2013 | Acting Management Director |
| 2 | Business Continuity Planning | Test the Authority's Business Continuity Plan and review whether actions and controls effectively enable ELWA to continue functioning in the event of a significant risk or incident occurring. | November 2013 | Acting Managing Director |

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### 1. The Authority's Responsibilities

1.1 The Authority is required:

a) 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 Finance Director.

b) To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

c) To approve the Statement of Accounts.

### 2. The Managing Director's Responsibilities

2.1 The Managing Director is responsible for:

a) Maintaining effective financial controls and for securing the accuracy and integrity of financial information and systems operating within their department.

b) Complying with any procedural instructions issued by the Finance Director.

c) Preparing the Annual Governance Statement.

### 3. The Finance Director's Responsibilities

3.1 The Finance Director is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom, is required to give a true and fair view of the financial position of the Authority as at the 31 March 2013 and its income and expenditure for the year ending 31 March 2013.

3.2 In preparing this Statement of Accounts, the Finance Director has:

a) Selected suitable accounting policies and then applied them consistently;

b) Made judgements and estimates that were reasonable and prudent;

c) Complied with the Code of Practice.

3.3 The Finance Director has also:

a) Kept proper accounting records which were up to date;

b) Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### 4. Statement of The Finance Director

I certify that the Statement of Accounts presents a true and fair view of the Authority's income and expenditure for the year ending 31 March 2013 and the Authority's financial position as at 31 March 2013.

G Pearce, BA, CPFA

Finance Director

25th September 2013

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EAST LONDON WASTE AUTHORITY

## Report on Statement of Accounts

We have audited the statement of accounts of East London Waste Authority for the year ended 31 March 2013 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet as at the end of the period, the Cash Flow Statement, the accounting policies and the related notes. The financial reporting framework that has been applied in its preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 supported by the CIPFA Service Reporting Code of Practice 2012/13.

## Respective responsibilities of the Finance Director and auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 13, the Finance Director is responsible for the preparation of the statement of accounts and for being satisfied that it gives a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13. Our responsibility is to audit and express an opinion on the statement of accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Scope of the audit of the statement of accounts

An audit involves obtaining evidence about the amounts and disclosures in the statement of accounts sufficient to give reasonable assurance that the statement of accounts is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the statement of accounts. In addition, we read all the financial and non-financial information in the explanatory foreword and the Finance Director's Statement to identify material inconsistencies with the audited statement of accounts. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on statement of accounts**

In our opinion the statement of accounts:

- gives a true and fair view of the state of the Authority's affairs as at 31 March 2013 and of the Authority's income and expenditure and cash flows for the year then ended; and

- has been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the CIPFA Service Reporting Code of Practice 2012/13.

**Opinion on other matter prescribed by the Code of Audit Practice**

In our opinion, the information given in the explanatory foreword and the content of the Finance Director's Statement for the financial year for which the statement of accounts is prepared is consistent with the statement of accounts.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matter where the Code of Audit Practice issued by the Audit Commission requires us to report to you if; in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit.

**Conclusion on East London Waste Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report any matters that prevent us from being satisfied that the Authority has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in November 2012, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent that the results of this work have an impact on our responsibilities; and
- our locally determined risk-based work

As a result, we have concluded that there are no matters to report.

## Certificate

We certify that we have completed the audit of the statement of accounts of East London Waste Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Ciaran McLaughlin

For and on behalf of PricewaterhouseCoopers LLP

Appointed auditors

London

September 2013

The maintenance and integrity of the East London Waste Authority website is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the statement of accounts since it was initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the statement of accounts may differ from legislation in other jurisdictions.

# MOVEMENT IN RESERVES STATEMENT

## 1. 2012/13 Movement

1.1 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 the levy) and other reserves. The Surplus or Deficit on the Provision of Service line shows the true economic cost of providing the Authority's service, more details of which are shown in the Comprehensive Income and Expenditure Statement.

| | Earmarked Capital Reserve £000 | Earmarked PFI Contract Reserve £000 | Earmarked Revenue Reserve £000 | **Total Earmarked Reserves £000** | Revenue Reserve Balance £000 | **Total Usable Reserves £000** | Capital Adjustment Account £000 | Revaluation Reserve £000 | Pension Reserve £000 | Accumulated Absences Reserve £000 | **Unusable Reserves £000** | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2012** | **-400** | **-5,668** | **-2** | **-6,070** | **-13,050** | **-19,120** | **15,466** | **-3,153** | **782** | **5** | **13,100** | **-6,020** |
| **Movement in Reserves during 2012/2013** | | | | | | | | | | | | |
| Deficit on the provision of service | 0 | 0 | 0 | **0** | 2,942 | **2,942** | 0 | 0 | 0 | 0 | **0** | **2,942** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | **0** | 0 | **0** | 0 | 473 | 22 | 0 | **495** | **495** |
| **Total Comprehensive Income and Expenditure** | **0** | **0** | **0** | **0** | **2,942** | **2,942** | **0** | **473** | **22** | **0** | **495** | **3,437** |
| Adjustment between accounting basis and funding basis under regulations (Note 5) | 0 | 0 | 0 | **0** | 4,341 | **4,341** | -4,355 | 0 | 17 | -3 | **-4,341** | **0** |
| **Net Increase / Decrease before Transfers to Earmarked Reserves** | **0** | **0** | **0** | **0** | **7,283** | **7,283** | **-4,355** | **473** | **39** | **-3** | **-3,846** | **3,437** |
| Transfers to / from Earmarked Reserves (Note 6) | 0 | 2,715 | 0 | **2,715** | -2,715 | **0** | 0 | 0 | 0 | 0 | **0** | **0** |
| **Increase / Decrease in 2012/13** | **0** | **2,715** | **0** | **2,715** | **4,568** | **7,283** | **-4,355** | **473** | **39** | **-3** | **-3,846** | **3,437** |
| **Balance at 31 March 2013 c/f** | **-400** | **-2,953** | **-2** | **-3,355** | **-8,482** | **-11,837** | **11,111** | **-2,680** | **821** | **2** | **9,254** | **-2,583** |

## 2. 2011/12 Movement

| | Earmarked Capital Reserve £000 | Earmarked PFI Contract Reserve £000 | Earmarked Revenue Reserve £000 | **Total Earmarked Reserves £000** | Revenue Reserve Balance £000 | **Total Usable Reserves £000** | Capital Adjustment Account £000 | Revaluation Reserve £000 | Pension Reserve £000 | Accumulated Absences Reserve £000 | **Unusable Reserves £000** | **Total Authority Reserves £000** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2011 carried forward** | **-400** | **-7,664** | **-30** | **-8,094** | **-6,607** | **-14,701** | **13,828** | **-2,278** | **391** | **3** | **11,944** | **-2,757** |
| **Movement in Reserves during 2011/12** | | | | | | | | | | | | |
| (Surplus) or Deficit on the provision of service | 0 | 0 | 0 | **0** | -2,813 | **-2,813** | 0 | 0 | 0 | 0 | **0** | **-2,813** |
| Other Comprehensive Income and Expenditure | 0 | 0 | 0 | **0** | 0 | **0** | 0 | -875 | 397 | 0 | **-478** | **-478** |
| **Total Comprehensive Income and Expenditure** | **0** | **0** | **0** | **0** | **-2,813** | **-2,813** | **0** | **-875** | **397** | **0** | **-478** | **-3291** |
| Adjustment between accounting basis and funding basis under regulations (Note 5) | 0 | 0 | 0 | **0** | -1,634 | **-1,634** | 1,638 | 0 | -6 | 2 | **1,634** | **0** |
| **Net Increase / Decrease before Transfers to Earmarked Reserves** | **0** | **0** | **0** | **0** | **-4,447** | **-4,447** | **1,638** | **-875** | **391** | **2** | **1,156** | **-3,291** |
| Transfers to / From Earmarked Reserves (Note 6) | 0 | 1,996 | 28 | **2,024** | -1,996 | **28** | 0 | 0 | 0 | 0 | **0** | **28** |
| **Increase / Decrease in 2011/12** | **0** | **1,996** | **28** | **2,024** | **-6,443** | **-4,419** | **1,638** | **-875** | **391** | **2** | **1,156** | **-3,263** |
| **Balance at 31 March 2012 carried forward** | **-400** | **-5,668** | **-2** | **-6,070** | **-13,050** | **-19,120** | **15,466** | **-3,153** | **782** | **5** | **13,100** | **-6,020** |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement summarises the resources that have been generated and consumed in providing services and managing the Authority during the year. It includes all day-to-day expenses and related income on an accruals basis.

| | | 2011/12 | | | | 2012/13 |
|---|---|---|---|---|---|---|
| Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 233 | | 233 | Supplies and Services | 141 | | 141 |
| 36,826 | | 36,826 | Service Charges (Note 26) | 40,039 | | 40,039 |
| 750 | | 750 | Employee and Support Services | 888 | | 888 |
| 103 | | 103 | Premises Related Expenditure | 135 | | 135 |
| 2 | | 2 | Transport Related Expenditure | 2 | | 2 |
| 5,443 | | 5,443 | Depreciation and Impairment of Fixed Assets (Note 8) | 5,397 | | 5,397 |
| 1,072 | | 1,072 | Third Party Payments | 1,076 | | 1,076 |
| 1,322 | 1,322 | 0 | Optibag Savings passed onto Boroughs | 1,331 | 1,331 | 0 |
| | 2,647 | -2,647 | Commercial Waste Charges | | 3,264 | -3,264 |
| | 3,991 | -3,991 | PFI and other Grants (Note 22) | | 4,036 | -4,036 |
| | 1,541 | -1,541 | Other Income | | 814 | -814 |
| 45,751 | 9,501 | 36,250 | **Cost of Services** | **49,009** | **9,445** | **39,564** |
| 5,956 | 270 | 5,686 | Financing and investment income and Expenditure (Note 7) | 8,347 | 220 | 8,127 |
| **51,707** | **9,771** | **41,936** | **Net Operating Expenditure** | **57,356** | **9,665** | **47,691** |
| | 44,749 | -44,749 | Income from Levy | | 44,749 | -44,749 |
| **51,707** | **54,520** | **-2,813** | **(Surplus) or Deficit on provision of services** | **57,356** | **54,414** | **2,942** |
| | | -875 | Surplus or deficit on revaluation of Property, plant and equipment assets (Note 8) | | | 473 |
| | | 397 | Actuarial gains/losses on pension assets/Liabilities (Note 27) | | | 22 |
| | | -478 | **Other Comprehensive Income and Expenditure** | | | **495** |
| | | -3,291 | **Total Comprehensive Income and Expenditure** | | | **3,437** |

## BALANCE SHEET

The Balance Sheet shows the value as at the 31 March 2013 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 (for example the Capital Reserve that may only be used to fund capital and repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves include 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 'Adjustments between accounting basis and funding basis under regulations'.

| 31 March 2012 £000 | | Notes | 31 March 2013 £000 |
|---|---|---|---|
| 87,950 | Property, Plant & Equipment | **8** | 83,762 |
| **87,950** | **Long Term Assets** | | **83,762** |
| 600 | Assets Held for Sale | **12** | 0 |
| 17,158 | Short Term Investments | **28** | 15,894 |
| 3,550 | Short term Debtors | **10** | 2,890 |
| 63 | Cash and Cash Equivalents | **11** | 4,372 |
| **21,371** | **Current Assets** | | **23,156** |
| -28 | Short Term Borrowing | **28** | -266 |
| -5,464 | Short Term Creditors | **13** | -10,395 |
| **-5,492** | **Current Liabilities** | | **-10,661** |
| -1,488 | Long Term Borrowing | **28** | -1,251 |
| -95,539 | PFI Finance Lease Liability | **26** | -91,602 |
| | Other Long Term Liabilities: | | |
| -782 | Pension Liability | **27** | -821 |
| **-97,809** | **Long Term Liabilities** | | **-93,674** |
| **6,020** | **Net Assets** | | **2,583** |
| 19,120 | Usable Reserves | **14** | 11,837 |
| -13,100 | Unusable Reserves | **15** | -9,254 |
| **6,020** | **Total Reserves** | | **2,583** |

G Pearce, BA, CPFA
Finance Director
25th September 2013

## CASH FLOW STATEMENT

The Cash Flow 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. 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.

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 2,813 | Net surplus or (deficit) on the provisions of services | -2,942 |
| 5,305 | Adjustments to net surplus or deficit on the provision of services for non- cash movements | 11,005 |
| **8,118** | **Net cash flows from Operating Activities (Note 16)** | **8,063** |
| -4,210 | Investing Activities **(Note 17)** | 183 |
| -3,856 | Financing activities **(Note 18)** | -3,937 |
| **52** | **Net increase and decrease in cash and cash equivalents** | **4,309** |
| 11 | Cash and cash equivalents at the beginning of the reporting period | 63 |
| **63** | **Cash and cash equivalents at the end of the reporting period (Note 11)** | **4,372** |

## STATEMENT OF ACCOUNTING POLICIES

### 1. General Principles

1.1 The Statement of Accounts summarises the Authority's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, 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 2012/13* and the *Service Reporting Code of Practice 2012/13*, 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. Accounting policies have been applied consistently.

### 2. Accruals of Income and Expenditure

2.1 The Accounts have been prepared on the normal accruals basis whereby activity is accounted for in the year that it takes place, not when cash payments are made or received. Debtors and creditors are included in the balance sheet in respect of goods supplied and services rendered but not paid for at 31 March 2013.

2.2 When debts may not be settled, the balance of the debtor is written down and a charge made to revenue for the income that might not be recovered.

### 3. Cash and Cash Equivalents

3.1 Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

3.2 Cash equivalents are investments that having originally been invested for no longer than three months are repayable on demand or readily convertible to known amounts of cash with insignificant risk of change in value. Fixed term deposits, excluding overnight deposits, are not considered to be readily convertible since they only become repayable at the point of maturity and cannot be traded or redeemed without penalty. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

### 4. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

4.1 Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

4.2 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 period adjustment.

4.3 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.

4.4 Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 5. Employee benefits

Benefits Payable during Employment

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

Termination Benefits

5.2 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. The benefits 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 group of officers or making an offer to encourage voluntary redundancy.

5.3 Where termination benefits involve the enhancement of pensions, statutory provisions require the Comprehensive Income and Expenditure Statement 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.

## 6. Pension Provision

6.1 As part of the terms and conditions of employment of its officers, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

6.2 The Authority participates in the Local Government Pension Scheme (LGPS) administered by the London Pension Funds Authority (LPFA). This is a funded defined benefit scheme.

6.3 Employees' and employers' contributions are paid into the LGPS. Employers' contribution rates are advised by the LPFA Fund's Actuary, Barnett Waddingham LLP, with the intention of balancing the pension liabilities with investment assets over time. Additional pension liabilities resulting from early retirements are met by the Authority's Comprehensive Income and Expenditure Statement and not by the Pension Fund. The Authority is required to account for pension costs in accordance with IAS 19 and to recognise in the accounts accrued benefits payments at the time that the employees earn their future benefit entitlements.

6.4 This has the following effect on the results of the current and prior period:

a) The overall amount to be met from the levy has remained unchanged, but the costs disclosed for services after the replacement of actual employer's contributions by current service costs are £6,000 higher (£6,000 lower in 2011/12).

b) Pension costs have increased by £11,000. This is the result of pension interest costs being higher than expected returns on assets.

c) The liability in the balance sheet has increased and reported net worth of the Authority is now £821,000. (£782,000 in 2011/12).

d) An actuarial loss of £22,000 (£397,000 loss in 2011/12) is recorded on the Comprehensive Income and Expenditure Statement and reflected in the Balance Sheet liability. Actuarial gains and losses arise from changes to assumptions and the differences between expected and actual returns. Further details are shown in Note 27.

6.5 The International Accounting Standards Board has published a final version of the revised IAS 19 standard which will apply for the accounting period beginning 1 April 2013.

6.6 In summary, the main changes that affect the pension profit and loss charge are:

a) Removal of the expected return on assets, to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate;

b) Some labelling changes, i.e. Current and past service costs , curtailments and settlements will be listed under the heading 'Service Cost';

c) Administration expenses, previously deducted from actual and expected returns on assets, will now be accounted for within the profit and loss charge.

**7. Discretionary Benefits**

7.1 The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

**8. Financial Instruments**

8.1 Financial Instruments represent transactions, with a contract, which result in a financial asset for one entity and a financial liability for another. Financial Instruments cover both financial liabilities and assets.

Financial Liabilities

8.2 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.

8.3 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.

8.4 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.

8.5 Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the Revenue Reserve 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 Revenue Reserve Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

8.6 Financial assets are classified into two types:

a) Loans and receivables - assets that have a fixed or determinable payment, but are not quoted in an active market.

b) Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

**9. Loans and Receivables**

9.1 Loans and receivables 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 for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

**10. Government Grants and Contributions**

10.1 Government Grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

**11. Interests in Companies and Other Entities**

11.1 The Authority annually reviews the extent to which other entities (over which the Authority has a material interest) need to be consolidated into Group Accounts. In consolidating the accounts, all transactions and balances between the Authority and the subsidiary would be eliminated in full.

**12. Leases**

12.1 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

Finance Leases

12.2 Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

12.3 Lease payments are apportioned between:

a) A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and

b) A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

12.4 Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

12.5 A prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the Revenue Reserve Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

12.6 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, unless another systematic basis is more representative of the benefits received by the Authority.

The Authority as Lessor

Finance Leases

12.7 Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

12.8 Lease rentals receivable are apportioned between:

a) A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

b) Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

12.9 The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the Revenue Reserve Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the Revenue Reserve Balance to the Capital Receipts Reserve in the Movement in

Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the Revenue Reserve Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

12.10 The written-off value of disposals is not a charge against the Levy, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the Revenue Reserve Balance in the Movement in Reserves Statement.

Operating Leases

12.11 Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to Net Operating Expenditure 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.

## 13. Property, Plant and Equipment

13.1 All expenditure on the acquisition, creation or enhancement of non-current assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised provided that the fixed asset yields benefits to the Authority and the service it provides for a period of more than one year. This excludes expenditure on routine repairs and maintenance of non-current assets which is charged direct to the Comprehensive Income and Expenditure Statement.

13.2 Under the adaptation to International Financial Reporting Interpretations Committee (IFRIC) 12, a PFI asset should initially be recorded as both an asset and liability at the present value of the minimum lease payments, which is equal to the cost of the assets constructed in a PFI scheme.

13.3 Fixed assets related to the PFI Scheme have been valued by the waste management contractor, who has current and expert knowledge of the assets in question. The last revaluation was carried out on a replacement cost basis in 2009/10. Fixed assets are classified into the groupings required by the 2012-13 Code of Practice on Local Authority Accounting. Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.

13.4 Fixed assets are revalued sufficiently regularly to ensure that their carrying value is not materially different from fair value but as a minimum every five years. Properties regarded by the Authority as operational were valued on the basis of open market value for their existing use, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost (DRC).

13.5 Properties regarded by the Authority as non-operational have been valued on the basis of open market value.

13.6 Any surpluses arising from movements in the general level of prices will be credited to the Revaluation Reserve. Any deficit will be debited to the Revaluation Reserve where a credit balance exists for that specific asset, otherwise the debit will be reflected in the Comprehensive Income and Expenditure Statement and reversed out in the Statement of the Movement on the Revenue Reserve Balance. A review, including an assessment for impairment, is carried out each year to assess material changes to the value or useful life of fixed assets. Where the impairment is due to a clear loss of economic benefit, IFRS requires that the loss is charged to the Comprehensive Income and Expenditure Statement and reversed out in the Movement in Reserves Statement.

## 14. Depreciation

14.1 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 and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

a) Operational assets are depreciated on a straight-line basis over a maximum period of 25 years.

b) Newly acquired assets are not depreciated until the following year.

c) Depreciation is provided on assets in the year of disposal.

14.2 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.

14.3 Revaluation gains are also depreciated, with an amount equal to the difference between current depreciation charged and the depreciation that would have been chargeable based on the historic cost of the assets. The difference is transferred from the Revaluation Reserve to the Capital Adjustment Account.

## 15. Component Accounting

15.1 IAS 16 – Property, Plant and Equipment (PPE) sets out the requirements for separate component depreciation of PPE assets that are significant in relation to the total asset cost.

15.2 The Authority will allocate the amount recognised in respect of an item of property, plant and equipment to its significant parts and depreciate separately each such part. For example, a property will be separated into its land and building component and depreciated separately.

15.3 A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of the same item. Such parts may be grouped in determining the depreciation charge.

15.4 The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires all local authorities to establish an accounting policy for the componentisation of their assets and to apply that policy as assets are acquired, enhanced and revalued.

15.5 Authorities are required to implement component requirement prospectively with effect from 1 April 2010 and are applicable to:

a) Enhancement expenditure incurred,

b) Acquisition expenditure incurred, and

c) Revaluation carried out

15.6 The Authority will consider assets for componentisation upon revaluation. The principal asset that the Authority holds on its balance sheet relates to is PFI asset. The next planned revaluation of this asset is in 2014/15.

## 16. Disposals and Non-current Assets Held for Sale

16.1 When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to Net Operating Expenditure in the Comprehensive Income and Expenditure

Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services.

16.2 Depreciation is not charged on Assets Held for Sale. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

16.3 Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale. When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

16.4 Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Authority’s underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Revenue Reserve Balance in the Movement in Reserves Statement.

16.5 The written-off value of disposals is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Revenue Reserve Balance in the Movement in Reserves Statement.

### 17. Private Finance Initiative (PFI) and Similar Contracts

17.1 PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Authority is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Authority at the end of the contracts for no additional charge, the Authority carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

17.2 In December 2002, the Authority entered into a PFI contract.

17.3 In accordance with IFRIC 12, all PFI arrangements have been reflected on the Authority’s balance sheet. The financial liability has been recognised as per the finance lease principles under International Accounting Standards (IAS) 17.

17.4 The fixed assets associated with the contract have been recognised in the Authority’s balance sheet at fair value, and the assets will be revalued and depreciated in line with the Authority’s policies for the accounting of Property, Plant and Equipment.

17.5 The annual amounts payable to the PFI operator are analysed into four elements:

a) The value of services received during the year, which is charged to the Comprehensive Income and Expenditure Statement.

b) An interest charge of 5.99% reflecting the implicit rate of interest on the finance lease on the outstanding balance sheet liability, which is charged to the Comprehensive Income and Expenditure Statement.

c) The payment towards the liability, which writes down the liability in the Balance Sheet.

d) Lifecycle replacement costs, a proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

## 18. Landfill Allowances

18.1 In accordance with CIPFA's Code of Practice on Local Authority Accounting Bulletin 64, there is a requirement with effect from 1 April 2005 to account for Landfill Allowances at the lower of cost and net realisable value. Any surpluses or deficits arising from the Landfill Allowances Trading Scheme (LATS) are taken to the specific, earmarked LATS Reserve.

18.2 Under the scheme, the Authority receives annual allowances from DEFRA for landfilling Biodegradable Municipal Waste (BMW). Each allowance received represents grant income, while each tonne of BMW landfilled incurs a liability to DEFRA. Any unused allowances are carried forward as an Authority asset. These transactions are reflected in the Comprehensive Income and Expenditure Statement and Balance Sheet at the rate of £nil per tonne as at 31 March 2013. This is in line with the position as at 31 March 2012.

18.3 ELWA has no arrangement to trade the surplus allowances by the target year and therefore has written down the value of the surplus allowances to zero because they have no value.

## 19. Reserves

19.1 The Authority sets aside specific amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Revenue Reserve Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate category 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 Revenue Reserve Balance in the Movement in Reserves Statement so that there is no net charge against the Levy for the expenditure.

19.2 The Revenue Reserve is the statutory fund into which all the receipts of an 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.

19.3 A Capital Reserve exists primarily to enable expenditure to be financed without the need to borrow or use capital receipts.

19.4 The Pension Reserve has been set up as part of the requirement to comply with IAS 19, Accounting for Pension Costs. It represents the actuarially calculated deficit between the value of all pension liabilities and the assets held by the London Pensions Fund Authority (LPFA) as at the 31 March 2013. The deficit also includes the difference between the cost of statutorily required payments to the LPFA and the IAS 19 accounting cost charged to the Net Cost of Services in the Comprehensive Income and Expenditure Statement. Further information relating to the Net Pension Liability is shown in Note 27 to the Accounts.

19.5 The PFI Contract Reserve has been set up in pursuance of the Authority's agreed policy to match income and expenditure in respect of the IWMS/PFI Contract over its 25 year duration from December 2002. The reserve will ensure a smoother levy profile by avoiding exceptional levy increases especially in years when, under the terms of the IWMS/PFI Contract, the cost is expected to be subject to significant stepped increases to meet higher recycling and recovery targets.

19.6 The Capital Adjustment Account is a non-cash backed reserve, which represents amounts set aside from revenue resources and capital receipts to finance expenditure on fixed assets and also for the repayment of external loans and certain other capital financing transactions.

19.7 From the 1 April 2007, the Authority is required to record unrealised revaluation gains and losses arising from holding fixed assets in a designated Revaluation Reserve. The reserve is matched by fixed assets within the Balance Sheet and therefore not available to finance expenditure.

19.8 The Accumulated Absences Reserve reflects untaken leave balances outstanding as at the 31 March 2013.

## 20. Charges to Revenue

20.1 External interest payable (charged on an accruals basis) is charged to the Comprehensive Income and Expenditure Statement.

20.2 Amounts set aside from revenue for the repayment of external loans to finance capital expenditure or as transfers to other reserves are excluded from the Comprehensive Income and Expenditure Statement and disclosed separately on the Movement in Reserves Statement.

## 21. Value Added Tax

21.1 All expenditure and income figures in the Accounts are stated exclusive of Value Added Tax.

## 22. Redemption of Debt

22.1 ELWA's Treasury Management function is administered by the London Borough of Redbridge on behalf of ELWA. The Local Government and Housing Act 1989 requires that a Minimum Revenue Provision be charged to the Revenue Reserve and set aside for the repayment of debt.

## 23. Financial Relationship Between The Authority And Constituent Councils

23.1 Many of the Authority's day to day administrative and support functions during the year were run on an agency basis utilising resources from the London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge.

## 24. Financial Relationships with Companies and other Organisations

24.1 In accordance with IAS 24 local authorities are required to prepare a full set of group Statement of Accounts where they have material interests in subsidiaries, associates and joint ventures. This also includes consideration of interests in other statutory bodies. The Authority does have a financial relationship with some bodies and this is explained in Note 23 to the Accounts.

## NOTES TO THE STATEMENT OF ACCOUNTS

### 1. Adoption of New Accounting Standards

Accounting Standards that have been issued but have not yet been adopted

1.1 The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 has introduced a number of changes to accounting policies which will be required from 1 April 2013 as follows:

1.2 **IAS 1 Presentation of Financial Statements:** The changes relate to the grouping of items presented in the other comprehensive income line within the Comprehensive Income and Expenditure Statement (CI&E) into those items that can be reclassified into the surplus or deficit on the provision of services and those which cannot. The gains and losses are already disclosed within the Authority's CI&E and therefore no further disclosure will be required.

1.3 Service Concession Arrangements, classification for the recognition criteria for assets under construction or intangible assets. During 2012/13 there was no construction within the Authority's PFI Asset and therefore no impact on the Authority's financial statements.

1.4 **IAS 7 Financial Instruments:** The change in this accounting policy relates to the disclosure that covers offsetting of financial assets and liabilities. Within the cash and cash equivalent line on the balance sheet there is a bank overdraft. Note 11 on page 38 provides a breakdown.

1.5 **IAS 19 Employee Benefits:** The most significant effect of the revised standard will be to the CI&E. The expected return on assets will be removed, to be replaced by a net interest cost comprising interest income on assets and interest expense on liabilities. This net interest will be charged to the CI&E, and will be calculated by applying the AA corporate bond yield discount rate. Therefore no allowance will be made for anticipated equity performance above that of AA corporate bonds. The scheme actuary has estimated that this will result in an increased cost to the 2012/13 CI&E of £27,000. Other amendments relating to past service cost and administration expenses are considered unlikely to have material impact on the financial statements of the Authority.

### 2. Critical Judgements in applying Accounting Policies

2.1 In applying the accounting policies set out in the Statement of Accounting Policies section of the Statement of Accounts, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The only critical judgement made in the Statement of Accounts is as follows.

2.2 There is a degree of uncertainty about future levels of Government funding for Local Government. The Authority is funded by a levy on the four Constituent Boroughs. The agreements in place with the Constituent Boroughs stipulate payment of the levy. However, the Constituent Boroughs are subject to pressures that will impose constraints on future levy increases. This in turn limits the Authority's capacity to increase the Levy to fund its commitments.

### 3. Assumptions made about the future and other major sources of estimation uncertainty

3.1 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.

3.2 The items in the Authority's Balance Sheet at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Private Finance Initiative | The PFI contract costs are based on estimation over a period of 25 years. The assumptions made at the beginning of the contract will differ from the original estimate. | The value of the service for each year is charged to Income and Expenditure thus writing down the liability. An increase or decrease in cost will therefore affect the liability. |
| Pensions | 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 consulting actuary is engaged to provide the Authority with expert advice about the assumptions to be applied. | The effects on the present value of the pension's total obligation can be measured. For instance a 0.1% decrease in the discount rate assumption would result in the total obligation increasing by £58,000.<br>However, the assumptions interact in complex ways. The Authority's actuary uses their experience to make the necessary adjustments accordingly. |
| Property, Plant and Equipment | Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. For example, 1 year's reduction in useful life would currently result in an increase of £441,000 per year. |

## 4. Events after the Balance Sheet date

4.1 The Statement of Accounts was authorised for issue by the Finance Director on 28 June 2013. Events taking place after this date are not reflected in the Statement of Accounts or notes. Where events taking place before this date provide information about conditions existing at 31 March 2013, the figures in the Statement of Accounts and notes have been adjusted in all material respects to reflect the impact of this information.

4.2 There are no events after the balance sheet date that require an adjustment to be made to the Statement of Accounts.

## 5. Adjustment between accounting basis and funding basis under regulations

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

## 2012/13

| | Usable Reserves | | | | |
|---|---|---|---|---|---|
| | Revenue Reserve Balance £000 | Capital Reserve £000 | PFI Contract Reserve £000 | Revenue Reserve Resource £000 | Movement in Unusable Reserves £000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | |
| Reversal of Charges for depreciation and impairment of non-current assets | -5,397 | | | | 5,397 |
| Statutory provision for the financing of capital investment | 9,683 | | | | -9,683 |
| Other Capital financing charges | 69 | | | | -69 |
| **Total Adjustments primarily involving the Capital Adjustment Account** | **4,355** | | | | **-4,355** |
| **Adjustment primarily involving the Pension Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement ( see note 27) | -17 | | | | 17 |
| **Adjustments primarily involving the Accumulated Absences Account:** | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements | 3 | | | | -3 |
| **Total Adjustments** | **4,341** | **0** | **0** | **0** | **-4,341** |

## 2011/12 Comparative Figures

| | Usable Reserves | | | | |
|---|---|---|---|---|---|
| | Revenue Reserve Balance £000 | Capital Reserve £000 | PFI Contract Reserve £000 | Revenue Reserve Resource £000 | Movement in Unusable Reserves £000 |
| **Adjustments primarily involving the Capital Adjustment Account:** | | | | | |
| Reversal of Charges for depreciation and impairment of non-current assets | -5,443 | | | | 5,443 |
| Statutory provision for the financing of capital investment | 3,734 | | | | -3,734 |
| Other Capital financing charges | 71 | | | | -71 |
| **Total Adjustments primarily involving the Capital Adjustment Account** | **-1,638** | | | | **1,638** |
| **Adjustment primarily involving the Pension Reserve:** | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement ( see note 27) | 6 | | | | -6 |
| **Adjustments primarily involving the Accumulated Absences Account:** | | | | | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements | -2 | | | | 2 |
| **Total Adjustments** | **-1,634** | **0** | **0** | **0** | **1,634** |

## 6. Transfers to/from Earmarked Reserves

6.1 This note sets out the amounts set aside from the Revenue Reserve balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Revenue Reserve expenditure in 2012/13.

| | Balance at 1 April 2011 £000 | Transfers Out 2011/12 £000 | Transfers in 2011/12 £000 | Balance at 31 March 2012 £000 | Transfers Out 2012/13 £000 | Transfers in 2012/13 £000 | Balance at 31 March 2013 £000 |
|---|---|---|---|---|---|---|---|
| **Revenue Reserve:** | | | | | | | |
| PFI Contract Reserve | -7,664 | 5,987 | -3,991 | -5,668 | 6,706 | -3,991 | -2,953 |
| Revenue Reserve Resource | -30 | 28 | 0 | -2 | 0 | 0 | -2 |
| Capital Reserve | -400 | 0 | 0 | -400 | 0 | 0 | -400 |
| **Total** | **-8,094** | **6,015** | **-3,991** | **-6,070** | **6,706** | **-3,991** | **-3,355** |

## 7. Financing and Investment Income and Expenditure

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 5,956 | Interest payable and similar charges | 5,722 |
| 0 | Pensions interest cost and expected return on pensions assets | 11 |
| -27 | Impairment of Investment (recovered)/charged | 24 |
| 0 | Contingent Rent | 2,590 |
| -243 | Interest receivables and similar income | -220 |
| **5,686** | **Total** | **8,127** |

## 8. Property, Plant and Equipment

**<u>Movements on Balances</u>**

<u>Movements in 2012/13:</u>

| | Land and Buildings £000 | Vehicles, Plant, Furniture and Equipment £000 | Total Property, Plant and Equipment £000 | PFI Assets included in Property, Plant and Equipment £000 |
|---|---|---|---|---|
| **Cost or Valuation** | | | | |
| At 1 April 2012 | 94,073 | 15,845 | 109,918 | 109,643 |
| Additions – Life Cycle costs | 0 | 1,082 | 1,082 | 1,082 |
| Revaluation decreases recognised in the Revaluation Reserve – Landfill Sites | -473 | 0 | -473 | 0 |
| Assets reclassified from Held for Sale | 600 | 0 | 600 | 0 |
| At 31 March 2013 | 94,200 | 16,927 | 111,127 | 110,725 |
| **Accumulated Depreciation and Impairment** | | | | |
| At 1 April 2012 | 19,280 | 2,688 | 21,968 | 21,968 |
| Depreciation charge | 4,662 | 735 | 5,397 | 5,397 |
| At 31 March 2013 | 23,942 | 3,423 | 27,365 | 27,365 |
| **Net Book Value** | | | | |
| At 31 March 2012 | 74,793 | 13,157 | 87,950 | 87,675 |
| At 31 March 2013 | 70,258 | 13,504 | 83,762 | 83,360 |

## Comparative Movements in 2011/2012

| | Land and Buildings | Vehicles, Plant, Furniture and Equipment | Total Property, Plant and Equipment | PFI Assets included in Property, Plant and Equipment |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Cost or Valuation** | | | | |
| At 1 April 2011 | 93,550 | 11,930 | 105,480 | 105,480 |
| Additions – Life Cycle costs | 0 | 4,163 | 4,163 | 4,163 |
| Revaluation increases recognised in the Revaluation Reserve – Landfill Sites | 875 | 0 | 875 | 0 |
| Assets reclassified to Held for Sale | -600 | 0 | -600 | 0 |
| Other movements in cost or valuation | 248 | -248 | 0 | 0 |
| At 31 March 2012 | 94,073 | 15,845 | 109,918 | 109,643 |
| **Accumulated Depreciation and Impairment** | | | | |
| At 1 April 2011 | 14,623 | 1,902 | 16,525 | 16,525 |
| Depreciation charge | 4,657 | 786 | 5,443 | 5,443 |
| At 31 March 2012 | 19,280 | 2,688 | 21,968 | 21,968 |
| **Net Book Value** | | | | |
| At 31 March 2012 | 74,793 | 13,157 | 87,950 | 87,675 |

## Revaluations and Additions

8.1 The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by specialists for waste management in the market. In estimating fair value, regard has been had to the nature of the asset and its use, location and size and depreciated replacement cost of the asset.

8.2 The Authority's four closed landfill sites were previously valued in March 2012. One of the sites was revalued during 2012/13 and its decrease in value was debited to the Revaluation reserve.

8.3 Owing to the sale not proceeding, the Aveley Site has been moved back from the 'Held for Sale' account. See Note 12.

8.4 Additions relate to PFI Life Cycle Costs. See Note 25.

## Fixed Assets Fair Value Annual Comparison

| | Land and Buildings | Vehicles, Plant, Furniture and Equipment | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Carried at historical cost** | 86,584 | 10,976 | 97,560 |
| **Valued at fair value as at:** | | | |
| 31 March 2009 | 86,584 | 10,976 | 97,560 |
| 31 March 2010 | 83,545 | 10,613 | 94,158 |
| 31 March 2011 | 78,927 | 10,028 | 88,955 |
| 31 March 2012 | 74,793 | 13,157 | 87,950 |
| 31 March 2013 | 70,258 | 13,504 | 83,762 |
| **Current Fair Value** | 70,258 | 13,504 | 83,762 |

## 9. Investments

9.1 The Authority owns 1,500,000 £1 shares partly paid (0.1p per share) in Aveley Methane Limited, whose principal activity is the utilisation of landfill gas including electricity generation under the Government's Non Fossil Fuel Obligation. Aveley Methane Limited is regarded by the Authority as an authorised company for the purposes of the Local Authority (Companies) Order 1995. The investment was transferred at nil value to the Authority as successor to the Greater London Council. This shareholding represents a holding of almost 50% of the total share capital of Aveley Methane Limited and the Authority would be required to meet any request for uncalled share capital that Aveley Methane Limited might make. The Authority's interest in Aveley Methane Limited is an important part of the management of its closed landfill site at Aveley 1.

9.2 The estimated net liabilities of Aveley Methane Limited as at 31 March 2013 were £193,000 (2011/12, £141,356). The estimated loss before taxation for the period ended 31 March 2013 was £53,000 (2011/12 £60,835 loss). The figures are based on unaudited Statement of Accounts.

9.3 Copies of the Statement of Accounts of Aveley Methane Limited can be obtained from Infinis, 1st Floor, 500 Pavillion Drive, Northampton Business Park, Northampton NN4 7YJ.

9.4 Until 23rd December 2002, the Authority owned 100% of the share capital of ELWA Limited, its Local Authority Waste Disposal Company (LAWDC). As part of the IWMS/PFI Contract, the Authority transferred all its equity shareholding to Shanks Waste Management Limited through their holding company ELWA Holdings Ltd on 23rd December 2002.

9.5 Following the transfer, the Authority owns 19 Class 'A' non-equity, voting shares in ELWA Limited with a nominal value of £0.01p each. ELWA Limited commenced trading on 24th December 2002 and its principal activity is the operation of waste disposal services for ELWA. The net liabilities of ELWA Limited as at 31 March 2013 were £10,716,000 (2011/12: Net liabilities £8,945,000). The loss after taxation for the year ended 31 March 2013 was £836,000 (2011/12: Loss after taxation £436,000). The 2012/13 figures are based on unaudited Statement of Accounts.

9.6 During 2010/11, Shanks Waste Management Limited sold 80% of its equity shareholding in ELWA Holdings Limited to the John Laing Group.

9.7 Copies of the Statement of Accounts of ELWA Limited can be obtained from Shanks Waste Management Limited, Dunedin House, Auckland Park, Mount Farm, Milton Keynes MK1 1BU.

9.8 In the opinion of the Directors, the investments in Aveley Methane Limited and ELWA Limited are not material interests for the purposes of Group Accounts as defined in the Code of Practice on Local Authority Accounting (2012/13) and therefore, there is no requirement to produce Group Accounts.

9.9 Cash investments are managed by the London Borough of Redbridge and held in cash deposits on behalf of the Authority in accordance with the Authority's Treasury Management Strategy. Note 29 shows further details.

9.10 In 2008, following the collapse of some banks, Heritable Bank went into administration and the Authority had to recognise an impairment based on it recovering 80p in the pound; the total amount to be received was estimated at that time to be between 70% and 80% of the claim including interest.

9.11 The reassessment of the value of the amount recoverable complies with the latest CIPFA - Local Authority Accounting Panel (LAAP) guidance, bulletin 82. As recommended, the CIPFA repayment schedule is used to estimate the recoverable amount as at 31 March 2013. As per 9.13, the schedule is based on expected total dividends of 88% of the claim.

9.12 Post balance sheet information has been received and it is understood that Heritable's residential mortgage book, which constituted the largest asset remaining in the Administration, was sold to a third party on 15th May 2013. This is likely to impact the amount and profile of future recoveries and the Authority may need to make further adjustments to the profile of repayments after the administrators have been able to provide a more detailed update.

9.13 In view of the above information, LAAP currently recommend the estimate of the recoverable amount is based on a total repayment of 88% based on the midpoint of the base case return.

## 10. Debtors

| | 31 March 2012 £000 | 31 March 2013 £000 |
|---|---|---|
| Central Government Bodies | 1,709 | 650 |
| Other Local Authorities | 746 | 1,440 |
| Other entities and individuals | 1,095 | 800 |
| Total | 3,550 | 2,890 |

## 11. Cash and Cash Equivalent

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

| | 31 March 2012 £000 | 31 March 2013 £000 |
|---|---|---|
| Bank current accounts | 0 | 0 |
| Short term deposits | 63 | 4,372 |
| Total Cash and Cash Equivalents | 63 | 4,372 |

## 12. Assets Held for Sale

| | Non Current 2011/12 £000 | Non Current 2012/13 £000 |
|---|---|---|
| **Balance outstanding at start of year** | 0 | 600 |
| **Assets newly classified as held for sale:** | | |
| • Property, Plant and Equipment | 600 | 0 |
| **Assets declassified as held for sale:** | | |
| • Property, Plant and Equipment | 0 | -600 |
| **Balance outstanding at year end** | 600 | 0 |

## 13. Creditors

| | 31 March 2012 £000 | 31 March 2013 £000 |
|---|---|---|
| Central Government Bodies | 4 | 5 |
| Other Local Authorities | 702 | 946 |
| Other entities and individuals | 4,758 | 9,444 |
| Total | 5,464 | 10,395 |

## 14. Usable Reserves

14.1 Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement, with further analysis in note 5 and 6.

## 15. Unusable Reserves

| 31 March 2012 £000 | | 31 March 2013 £000 |
|---|---|---|
| -3,153 | Revaluation Reserve | -2,680 |
| 15,466 | Capital Adjustment Account | 11,111 |
| 782 | Pensions Reserve | 821 |
| 5 | Accumulated Absences Account | 2 |
| 13,100 | Total Unusable Reserves | 9,254 |

Revaluation Reserve

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

a) Revalued downwards or impaired and the gains are lost;

b) Used in the provision of services and the gains are consumed through depreciation, or

c) Disposed of and the gains are realised.

15.2 The Reserve was created in 2009/10 and contains revaluation gains accumulated since 1 April 2007. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| -2,278 | Balance at 1 April | -3,153 |
| | Non-current assets not posted to the Provision of Services: | |
| -875 | Upward revaluation of assets | 0 |
| 0 | Downward revaluation of assets and impairment losses | 473 |
| -3,153 | Balance at 31 March | -2,680 |

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisitions, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. In the early years of the PFI, the capital element of the Unitary Charge, which dictates the MRP charge, is less than the depreciation on the assets. This will even out over the life of the PFI. However, the Capital Adjustment Account shows a debit balance at this point in the PFI contract term.

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 13,828 | Balance at 1 April | 15,466 |
| | Capital financing applied in the year: | |
| 5,443 | Reversal of Charges for depreciation and impairment of non-current assets | 5,397 |
| -3,734 | Statutory provision for the financing of capital investment | -9,683 |
| -71 | Other capital financing charges | -69 |
| 15,466 | Balance at 31 March | 11,111 |

Pension Reserve

15.3 The Pension 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.

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 391 | Balance at 1 April | 782 |
| 397 | Actuarial (gains) or losses on pensions assets and liabilities | 22 |
| -6 | Employer's pensions contributions and direct payments to pensionable payable in the year | 17 |
| 782 | Balance at 31 March | 821 |

Accumulated Absences Account

15.4 The Accumulated Absences Account absorbs the differences that would otherwise arise in the Revenue Reserve Balance from accruing for compensated absence 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 Revenue Reserve Balance is neutralised by transfers to or from the Account.

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 3 | Balance at 1 April | 5 |
| 2 | Amounts accrued at the end of the current year by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements | -3 |
| 5 | Balance at 31 March | 2 |

## 16. Cash Flow Statement – Operating Activities

16.1 The cash flows for operating activities include the following items:

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| | **The cash flows for operating activities include the following items** | |
| 236 | Interest Received | 167 |
| -5,957 | Interest Paid | -5,722 |
| -5,721 | Net Interest | -5,555 |

16.2 Cash Flow for Operating Activities:

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| 2,813 | Net Surplus or (Deficit) on the Provision of Services | -2,942 |
| | **Adjustments to net surplus or deficit on the provision of services for the following non cash movements** | |
| 5,443 | Depreciation | 5,397 |
| 221 | Increase/(Decrease) in Creditors | 4,931 |
| -324 | (Increase)/Decrease in Debtors | 660 |
| -6 | Actuarial adjustments on pension assets/liabilities | 17 |
| -29 | Other non cash transactions | 0 |
| 5,305 | | 11,005 |
| 8,118 | Net cash flows from operating activities | 8,063 |

## 17. Cash Flow Statement – Investing Activities

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| -4,163 | Purchase of property, plant and equipment | -1,082 |
| -47 | Net movement in short-term investments | 1,265 |
| -4,210 | Net cash flows from financing activities | 183 |

## 18. Cash Flow Statement – Financing Activities

| 2011/12 £000 | | 2012/13 £000 |
|---|---|---|
| -123 | Repayments of short and long term borrowing | 0 |
| -3,733 | Cash payments for the reduction of the outstanding liabilities relating to the finance leases on balance sheet PFI contracts | -3,937 |
| -3,856 | Net cash flows from financing activities | -3,937 |

## 19. Amounts reported for resource allocation decisions

19.1 The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Authority on the basis of budget reports prepared on a different basis from the accounting policies used in the Statement of Accounts. In particular:

a) No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation

Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)

b) The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

19.2 The income and expenditure of the Authority recorded in the budget reports for the year is as follows:

| Income and Expenditure | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Fees, charges & other service income | -3,412 | -4,174 |
| **Total Income** | **-3,412** | **-4,174** |
| Employee expenses | 421 | 544 |
| Other services expenses | 52,810 | 55,143 |
| **Total Expenditure** | **53,231** | **55,687** |
| **Net Expenditure** | **49,819** | **51,513** |
| PFI Grant Received | -3,991 | -3,991 |
| Levy Received | -44,749 | -44,749 |
| **Net expenditure in the Authority Analysis** | **1,079** | **2,773** |

Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statements

19.3 This reconciliation shows how the figures in the analysis of income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| **Expenditure shown in the Authority Outturn Report** | **49,819** | **51,513** |
| **Grant and Levy Received** | **-48,740** | **-48,740** |
| Net expenditure in the Authority Analysis | 1,079 | 2,773 |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis | 41,220 | 47,988 |
| | 42,299 | 50,761 |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement | -6,049 | -11,197 |
| **Cost of Services in Comprehensive Income and Expenditure Statement** | **36,250** | **39,564** |

Reconciliation to Subjective Analysis

19.4 This reconciliation shows how the figures in the analysis of Authority income and expenditure relate to a subjective analysis of the Surplus or Deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

## 2012/13

| | Authority Analysis | Amounts not reported to Management for decision making | Amounts not included in comprehensive income & expenditure statement | Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other service income | -3,954 | -1,500 | 0 | **-5,454** | 0 | **-5,454** |
| Interest and investment income | -220 | 0 | 220 | **0** | -220 | **-220** |
| Income from Levy | -44,749 | 0 | 44,749 | **0** | -44,749 | **-44,749** |
| Government grants and contribution | -3,991 | 0 | 0 | **-3,991** | 0 | **-3,991** |
| **Total Income** | **-52,914** | **-1,500** | **44,969** | **-9,445** | **-44,969** | **-54,414** |
| Employee and Support Services expenses | 880 | 8 | 0 | **888** | 0 | **888** |
| Other service expenses | 54,663 | 44,083 | -56,022 | **42,724** | 0 | **42,724** |
| Fixed Assets depreciation and impairment | 0 | 5,397 | 0 | **5,397** | 0 | **5,397** |
| Interest payments, pension costs & impairment of financial assets | 144 | 0 | -144 | **0** | 8,347 | **8,347** |
| **Total Expenditure** | **55,687** | **49,488** | **-56,166** | **49,009** | **8,347** | **57,356** |
| **Surplus or deficit in the provision of services** | **2,773** | **47,988** | **-11,197** | **39,564** | **-36,622** | **2,942** |

## 2011/12 Comparative Figures

| | Authority Analysis | Amounts not reported to Management for decision making | Amounts not included in comprehensive income & expenditure statement | Cost of Services | Corporate Amounts | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Fees, charges & other service income | -3,169 | -2,341 | 0 | **-5,510** | 0 | **-5,510** |
| Interest and investment income | -243 | -27 | 270 | **0** | -270 | **-270** |
| Income from Levy | -44,749 | 0 | 44,749 | **0** | -44,749 | **-44,749** |
| Government grants and contribution | -3,991 | 0 | 0 | **-3,991** | 0 | **-3,991** |
| **Total Income** | **-52,152** | **-2,368** | **45,019** | **-9,501** | **-45,019** | **-54,520** |
| Employee and Support Services expenses | 754 | -4 | 0 | **750** | 0 | **750** |
| Other service expenses | 52,322 | 38,149 | -50,913 | **39,558** | 0 | **39,558** |
| Fixed Assets depreciation and impairment | 0 | 5,443 | 0 | **5,443** | 0 | **5,443** |
| Interest payments, pension costs & impairment of financial assets | 155 | 0 | -155 | **0** | 5,956 | **5,956** |
| **Total Expenditure** | **53,231** | **43,588** | **-51,068** | **45,751** | **5,956** | **51,707** |
| **Surplus or deficit in the provision of services** | **1,079** | **41,220** | **-6,049** | **36,250** | **-39,063** | **-2,813** |

## 20. Officers' Remuneration

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

| | Remuneration £ | Pension Contribution £ | Total £ |
|---|---|---|---|
| Managing Director | 186,246 | 14,940 | 201,186 |
| Head of Operations | 76,449 | 12,485 | 88,934 |
| Contract Manager | 54,444 | 8,749 | 63,193 |
| | 317,139 | 36,174 | 353,313 |

20.2 The above remuneration includes exit costs of £94,996. (2011/12 £nil).

<u>2011/12 Comparative Figures</u>

| | Remuneration £ | Pension Contribution £ | Total £ |
|---|---|---|---|
| Managing Director | 91,431 | 14,940 | 106,371 |
| Head of Operations | 74,696 | 12,180 | 86,876 |
| Contract Manager | 54,950 | 8,749 | 63,699 |
| | 221,077 | 35,869 | 256,946 |

20.3 In addition to the employee's and employer's pension contributions deducted in regard to each pensionable ELWA employee, the London Pensions Fund Authority (LPFA) levy a further charge on employers based on their valuation of the pension fund. This additional charge of £16,000 for 2012/13 cannot be attributed to any particular officer and is declared here for reasons of transparency.

20.4 The number of employees including Senior Officers whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

| Remuneration Band | 2011/12 Number of employees | 2012/13 Number of employees |
|---|---|---|
| £50,000 - £54,999 | 1 | 1 |
| £70,000 - £74,999 | 1 | |
| £75,000 - £79,999 | | 1 |
| £90,000- £94,999 | 1 | |
| £185,000- £189,999 | | 1 |
| | **3** | **3** |

## 21. External Audit Costs

21.1 The Authority has incurred the following costs in relation to the audit of the Statement of Accounts and statutory inspections provided by the Authority's external auditors:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Fees payable to PricewaterhouseCoopers LLP with regard to external audit services carried out by the appointed auditor for the year – accounts. | 30 | 18 |
| Total | 30 | 18 |

## 22. Grant Income

22.1 The Authority credited the following grants to the Comprehensive Income and Expenditure Statement in 2012/13:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| PFI Grant | 3,991 | 3,991 |
| WRAP Grant | 0 | 45 |
| Total | 3,991 | 4,036 |

22.2 For PFI grant details refer to notes 23.2 and 26.

22.3 The Waste and Resources Action Programme (WRAP) is a government funded not-for-profit company. Its objective is to increase recycling by providing advice, support and initiatives to businesses, local authorities and the community. The grant received in 2012/13 provided funding for the 'Love food hate waste campaign', a waste minimisation activity.

## 23. Related Party Transactions

23.1 Since the 1st April 1986, ELWA has assumed the statutory responsibility for the disposal of waste arising in the area covered by the London Boroughs of Barking & Dagenham, Havering, Newham and Redbridge and has an interest in Aveley Methane Limited and ELWA Limited. The Members of the Authority have official appointments within their respective Constituent Boroughs.

23.2 The Department for Communities and Local Government awards the PFI Grant. Further details are in Note 26.

23.3 The Code of Practice requires the disclosure of interests between the Authority and its related parties not disclosed elsewhere in the Statement of Accounts.

23.4 The material expenditure and income transactions with these related parties are set out below.

| | 2011/12 | | 2012/13 | |
|---|---|---|---|---|
| | Expenditure £'000 | Income £'000 | Expenditure £'000 | Income £'000 |
| Barking & Dagenham | 971 | -8,510 | 1,054 | -8,788 |
| Havering | 865 | -11,804 | 883 | -11,619 |
| Newham | 630 | -14,548 | 800 | -14,412 |
| Redbridge | 565 | -12,534 | 415 | -12,596 |
| Aveley Methane Limited | 0 | 0 | 0 | 0 |
| ELWA Limited | 49,445 | -1,523 | 53,411 | -2,141 |

23.5 Income received from the boroughs relates mainly to the levy raised and charges for commercial waste disposal. Expenditure is for tonne mileage costs, recycling initiatives, rent payable for property leases and service level agreements for administrative and financial services provided. Further details can be found in the Authority's budget monitoring report which forms part of the agenda at the Authority's statutory meetings.

Members of the Authority and Chief Officers

23.6 The following Members and Officers have made declarations of their interest in the following organisations, which arise from official Authority Appointments.

Membership of Other Organisations

| | |
|---|---|
| Acting Managing Director, Mark Ash: | Director of Aveley Methane Limited |
| Councillor I Corbett (up to 15/5/12): | Director of ELWA Limited |
| Councillor S Kelly (from 10/7/12) | Director of ELWA Limited |

## 24. Operating Leases

24.1 The Authority has acquired its civic amenity and recycling sites by entering into operating leases with the four boroughs. Each lease is to the year 2027 with rent reviews taking place every 5 years. The last rent review was during 2012/13 with effect from 1 April 2013. Based upon current figures, the minimum lease payments due in future years are:

| | 2011/12<br>£000 | 2012/13<br>£000 |
|---|---|---|
| Up to one year | 255 | 317 |
| Two to Five Years | 1,266 | 1,266 |
| Six Years to end of lease | 3,481 | 3,165 |
| | 5,002 | 4,748 |

24.2 The expenditure charged to the Third Party Payment line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £254,500. (2011/12 £254,500).

## 25. Capital Expenditure and Capital Financing

25.1 Capital expenditure additions of £1,082,000 relate to PFI Lifecycle costs as referred to in note 26. This was financed by revenue through the unitary payment.

25.2 The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PP contracts), together with the resources that have been used to finance it. 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.

| | 2011/12<br>£000 | 2012/13<br>£000 |
|---|---|---|
| Opening Capital Financing Requirement | 100,628 | 96,700 |
| **Capital Investment:** | | |
| Property, Plant & Equipment | 4,163 | 1,082 |
| **Sources of Finance:** | | |
| Direct Revenue Contributions | -4,285 | -1,082 |
| Minimum Revenue Provision | -3,806 | -4,005 |
| Closing Capital Financing Requirement | 96,700 | 92,695 |
| | | |
| **Explanation of movements in year:** | | |
| Assets acquired under PFI Contract | 4,163 | 1,082 |
| Decrease in underlying need for borrowing | -8,091 | -5,087 |
| Decrease in Capital Financing Requirement | -3,928 | -4,005 |

## 26. Private Finance Initiatives and Similar Contracts

The IWMS/PFI Contract, which commenced on 24th December 2002, is for 25 years. ELWA Limited is implementing a capital investment programme of more than £100 million in new waste management facilities over the life of the contract. The design, building, alteration, financing and operation of the waste management facilities required for provision of the IWMS together with any associated risks, will be the responsibility of ELWA Limited.

26.1 The assets used to provide the service are recognised on the Authority's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 8.

26.2 The Government will provide PFI grant funding based upon a Notional Credit Approval of £47 million, equivalent to approximately £85 million over 25 years. The Government advised in 2010/11 that the annual PFI grant would now be paid on an annuity basis rather than the declining balance basis with a final payment made in 2026/27. The overall total grant in cash terms will be the same; however, the payment profile has changed.

26.3 The main impact of this is in the short term in that for the three years from 2011/12 the Authority will receive additional PFI grant of approximately £870,000 as follows:

| Year | £ |
|---|---|
| 2011/12 | 137,682 |
| 2012/13 | 291,825 |
| 2013/14 | 439,802 |

26.4 The Code of Practice 2012/13 requires that PFI schemes are accounted for in a manner that is consistent with the adaptation of IFRIC 12 'Service Concession Arrangements' contained in the government's Financial Reporting Manual (FReM). The contract complies with these criteria, and the relevant accounting guidance has been applied as outlined in the Authority's Accounting Policies, detailed on page 29.

Future Contractual Obligations

26.5 The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2013 (excluding any estimation of inflation and availability / performance deductions) are as follows:

| | Payment for Services £000 | Reimbursement of Capital Expenditure £000 | Interest £000 | Total £000 |
|---|---|---|---|---|
| Payable in 2013 /14 | 36,165 | 3,684 | 5,354 | 45,203 |
| Payable within 2 to 5 years | 147,426 | 20,154 | 18,744 | 186,324 |
| Payable within 6 to 10 years | 200,167 | 28,792 | 16,253 | 245,212 |
| Payable within 11 to 15 years | 201,266 | 38,972 | 6,338 | 246,576 |
| Payable within 16 to 20 years | 0 | 0 | 0 | 0 |
| Total | 585,024 | 91,602 | 46,689 | 723,315 |

26.6 Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows.

PFI Finance Liability

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Balance outstanding at start of the year | 99,273 | 95,539 |
| Payments during the year | -3,734 | -3,937 |
| Balance outstanding at year-end | 95,539 | 91,602 |

Unitary Charge

26.7 As per accounting requirements for PFI schemes referred to in note 26.4, the Unitary Charge payment to the contractor has to reflect all the charges relating to the PFI contract for that year. The Accounting Standard requires that the service, interest, capital, lifecycle and contingent rent elements of the Unitary Charge are separated as shown in the table below, with the service, interest, rent and lifecycle elements being charged to the Comprehensive Income and Expenditure Statement.

| | 2011/12 £'000 | 2012/13 £'000 |
|---|---|---|
| Payments to Shanks East London | 50,842 | 53,411 |
| Capital Repayment | -3,734 | -3,937 |
| Interest Payable | -5,802 | -5,579 |
| Life Cycle Costs | -4,480 | -1,266 |
| Contingent Rent | 0 | -2,590 |
| **Service Charges** | **36,826** | **40,039** |

26.8 The code of practice states, 'PFI contracts may be structured to require payments to be made as part of the unitary payment before the related infrastructure is recognised as an asset in the Balance Sheet'. The Lifecycle cost element of £1,266,000 reflects the extent to which the PFI contractor has enhanced the assets during the year. Of this, £1,082,000 has been recognised as an asset with the balance being a prepayment (included within debtors).

## 27. Defined Benefit Pension Schemes

Transaction Relating to Post Employment Benefits

27.1 The Authority recognises 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 that is required to be made against the levy is based on the cash payable in the year, so the real cost of post employment/retirement benefit is reversed out of the Revenue Reserve via the Movement in Reserves Statement.

27.2 The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Revenue Reserve Balance via the movement in Reserves Statement during the year:

| | 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Comprehensive Income and Expenditure Statement | | |
| Cost of Services, employee & support services: | | |
| Current Service Cost | 56 | 68 |
| Past Service Costs / (Gain) | 0 | 0 |
| Financing and Investment Income and Expenditure: | | |
| Interest Cost | 115 | 114 |
| Expected return on scheme assets | -115 | -103 |
| **Total Post Employment Benefit charged to the Surplus or Deficit on the provision of Services** | **56** | **79** |
| Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement: | | |
| Actuarial (gains) and losses | 397 | 22 |
| **Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement** | **453** | **101** |
| Movement in Reserve Statement: | | |
| Reversal of net charges made to the Surplus or Deficit on the provision of Services for post employment benefits in accordance with the code | 6 | -17 |
| | **459** | **84** |
| Actual amount charged against the Revenue Reserve Balance for pensions in the year: | | |
| Employer's contributions payable to scheme | 62 | 62 |
| Actuarial (gains) and losses | 397 | 22 |
| | **459** | **84** |

27.3 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2013 is a loss of £461,000 (31 March 2012 loss £439,000).

Assets and Liabilities in Relation to Post-employment Benefits

27.4 The underlying assets and liabilities attributable to the Authority with the London Pensions Fund Authority (LPFA) as at 31 March 2013 are as follows:

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

| | Funded Liabilities Local Government Pension Scheme | |
|---|---|---|
| | **2011/12 £000** | **2012/13 £000** |
| Opening Balance at 1 April | 2,086 | 2,512 |
| Current Service Cost | 56 | 68 |
| Interest Cost | 115 | 114 |
| Contributions by scheme participants | 20 | 20 |
| Actuarial gains and losses | 298 | 168 |
| Benefits paid | -63 | -74 |
| Past Service Costs / (Gains) | 0 | 0 |
| **Closing Balance at 31 March** | **2,512** | **2,808** |

Reconciliation of fair value of the scheme (plan) assets:

| | Funded Assets Local Government Pension Scheme 2011/12 £000 | 2012/13 £000 |
|---|---|---|
| Opening Balance at 1 April | 1,695 | 1,730 |
| Expected Rate of Return | 115 | 103 |
| Actuarial gains and losses | -99 | 146 |
| Employer contributions | 62 | 62 |
| Contributions by scheme participants | 20 | 20 |
| Benefits paid | -63 | -74 |
| **Closing Balance at 31 March** | **1,730** | **1,987** |

27.5 The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

27.6 Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

27.7 The actual return on scheme assets in the year was £249,000 (2011/12 £17,000).

27.8 For the 2013/14 accounting year, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the IAS 19 discount rate.

Scheme History

| | 2008/09 £000 | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | 2012/13 £000 |
|---|---|---|---|---|---|
| Present Value of Defined Benefits Obligation | -771 | -1,482 | -2,086 | -2,512 | -2,808 |
| Fair value of Employer Assets | 342 | 492 | 1,695 | 1,730 | 1,987 |
| **Total** | **-429** | **-990** | **-391** | **-782** | **-821** |

27.9 With effect from 1 April 2007 the Authority became an employer. On 1 June 2007 five staff were transferred from the Constituent Councils to the Authority with initially three staff electing to join the LPFA. Membership as at the 31 March 2013 consisted of five active members and two pensioners.

27.10 The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The net pension liability of £821,000 (£782,000 2011/12) has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit in respect of LPFA Fund liabilities will be made good by increased contributions to the LPFA Fund over the remaining working life of the employees (i.e. before payments fall due), as assessed by the scheme actuary.

27.11 The projected employer contributions for the year to 31 March 2014 are £62,000.

Basis for Estimating Assets and Liabilities

27.12 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. Liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries, who use a roll forward approach, based on the results of the last full valuation of the LPFA Fund as at 1 April 2010, and adjusting for known membership and scheme changes where applicable.

27.13 The principal assumptions used by the LPFA actuary have been:

| | 2011/12 | 2012/13 |
|---|---|---|
| Long term expected rate of return on assets in the scheme | 5.9% | 5.9% |
| **Mortality assumptions** | | |
| **Longevity at 65 for current pensioners:** | | |
| Men | 23.0 | 23.1 |
| Women | 25.1 | 25.2 |
| **Longevity at 65 for future pensioners:** | | |
| Men | 24.9 | 25.0 |
| Women | 27.0 | 27.1 |
| **Financial Assumptions:** | | |
| Rate of Inflation RPI (CPI) | 3.3% (2.5%) | 3.4% (2.6%) |
| Rate of increase in salaries | 4.2% | 4.3% |
| Rate of increase in pensions | 2.5% | 2.6% |
| Rate for discounting scheme liabilities | 4.6% | 4.4% |
| Take up of option to convert annual pension into retirement lump sum | 0 | 0 |

27.14 The LPFA Fund's assets consist of the following categories, by proportion of the total assets held:

| Assets | 31 March 2012 % | 31 March 2012 £'000 | 31 March 2013 % | 31 March 2013 £'000 |
|---|---|---|---|---|
| Equities | 73 | 1,263 | 73 | 1,450 |
| Target Return Funds | 12 | 208 | 10 | 199 |
| Property | 14 | 242 | 15 | 298 |
| Cash | 1 | 17 | 2 | 40 |
| Corporate Bond | 0 | 0 | 0 | 0 |
| Total | 100 | 1,730 | 100 | 1,987 |

History of Experience Gains and Losses

27.15 The actuarial gains and losses identified as movements on the Pensions Reserve in 2012/13 can be analysed into the following categories at 31 March 2013. The table below shows the changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.

| | 2008 / 09 £'000 | 2009 / 10 £'000 | 2010 / 11 £'000 | 2011 / 12 £'000 | 2012 / 13 £'000 |
|---|---|---|---|---|---|
| Difference between the expected and actual return on assets | -114 | 84 | 825 | -99 | 146 |
| Experience gains and losses on liabilities | 0 | 0 | -421 | 0 | 0 |
| Changes in assumptions underlying the present value of scheme liabilities | 61 | -612 | 59 | -298 | -168 |
| Actuarial gains / (losses) in pension scheme | -53 | -528 | 463 | -397 | -22 |
| | **2008 / 09 %** | **2009 / 10 %** | **2010 / 11 %** | **2011 / 12 %** | **2012 / 13 %** |
| Experience adjustment as a percentage of plan liabilities | 0.0 | 0.0 | -20.2 | 0.0 | 6.0 |
| Experience adjustment as a percentage of assets | -33.3 | 17.1 | 48.7 | -5.7 | 7.3 |

27.16 This is the impact of the liabilities of actual experience differing from the assumptions, such as pension increases and salary increases differing from those assumed, and unexpected membership movements. Between valuations, when the roll forward method is used, this item will be small as it is assumed that most experience items are in line with the assumptions. Every three years the Actuary undertakes a formal actuarial valuation, which will take into account experience over the previous three years. IAS 19 figures will be updated to reflect the most recent actuarial valuation and, as a consequence, most experience gains and losses appear in the accounting year following completion of the formal valuation.

## 28. Financial Instruments

28.1 The following categories of financial instruments are carried in the Balance Sheet.

| | Long-Term | | Current | |
|---|---|---|---|---|
| | 31 March 2012 £000 | 31 March 2013 £000 | 31 March 2012 £000 | 31 March 2013 £000 |
| **Cash at Bank** | | | | |
| Loans and Receivables (note 11) | 0 | 0 | 63 | 4,372 |
| Total Cash at Bank | 0 | 0 | 63 | 4,372 |
| **Investments** | | | | |
| Loans and receivables | 0 | 0 | 17,158 | 15,894 |
| Total Investments | 0 | 0 | 17,158 | 15,894 |
| **Debtors** | | | | |
| Loans and receivables | 0 | 0 | 3,550 | 2,890 |
| Total Debtors (note 10) | 0 | 0 | 3,550 | 2,890 |
| **Borrowings** | | | | |
| Financial liabilities at amortised cost | -1,488 | -1,251 | -28 | -266 |
| Total Borrowings | -1,488 | -1,251 | -28 | -266 |
| PFI and finance lease liabilities | -95,539 | -91,602 | 0 | 0 |
| Total other long term liabilities | -95,539 | -91,602 | 0 | 0 |
| **Creditors** | | | | |
| Financial Liabilities at amortised cost | 0 | 0 | -5,464 | -10,395 |
| Total Creditors (note 13) | 0 | 0 | -5,464 | -10,395 |

Income, Expense, Gains and Losses

| | 2011/12 | | | | | 2012/13 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Financial Liabilities measured at amortised Cost £000 | Financial Assets: Loans and Receivables £000 | Financial Assets: Available for sale £000 | Assets and Liabilities at Fair Value through profit and loss £000 | Total £000 | Financial Liabilities measured at amortised Cost £000 | Financial Assets: Loans and Receivables £000 | Financial Assets: Available for sale £000 | Assets and Liabilities at Fair Value through profit and loss £000 | Total £000 |
| Interest expense (note 7) | 5,956 | 0 | 0 | 0 | 5,956 | 5,722 | 0 | 0 | 0 | 5,722 |
| Impairment losses (note 7) | 0 | -27 | 0 | 0 | -27 | 0 | 24 | 0 | 0 | 24 |
| Pension Interest & expected return on pension assets (note 7) | 0 | 0 | 0 | 0 | 0 | 11 | 0 | 0 | 0 | 11 |
| **Total expense in Surplus or Deficit on the Provision of Services** | **5,956** | **-27** | **0** | **0** | **5,929** | **5,733** | **24** | **0** | **0** | **5,757** |
| Interest Income (note 7) | 0 | -243 | 0 | 0 | -243 | 0 | -220 | 0 | 0 | -220 |
| **Total income in Surplus or Deficit on the Provision of Services** | **0** | **-243** | **0** | **0** | **-243** | **0** | **-220** | **0** | **0** | **-220** |
| **Net loss / (gain) for the year** | **5,956** | **-270** | **0** | **0** | **5,686** | **5,733** | **-196** | **0** | **0** | **5,537** |

Fair Values of Assets and Liabilities

28.2 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, making the following assumptions:

a) Estimated ranges of interest rates at 31 March 2013 are 1.84% to 4.24% for loans from the PWLB.

b) No early repayment or impairment is recognised.

c) Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

28.3 The fair values calculated are as follows:

| | 31 March 2012 | | 31 March 2013 | |
|---|---|---|---|---|
| | Carrying amount £000 | Fair Value £000 | Carrying amount £000 | Fair Value £000 |
| **Financial Liabilities** | | | | |
| Long-term creditors | | | | |
| PFI Liabilities | 95,539 | 95,539 | 91,602 | 91,602 |
| Public Works Loan Board | 1,488 | 2,615 | 1,251 | 2,390 |
| Short-term creditors | | | | |
| Public Works Loan Board | 28 | 28 | 266 | 266 |
| Creditors (note 13) | 5,464 | 5,464 | 10,395 | 10,395 |
| **Loans and Receivables** | | | | |
| Long-term debtors | | | | |
| Cash Investments | 0 | 0 | 0 | 0 |
| Short-term debtors | | | | |
| Debtors (note 10) | 3,550 | 3,550 | 2,890 | 2,890 |
| Cash at bank | 63 | 63 | 4,372 | 4,372 |
| Cash Investments | 17,158 | 17,158 | 15,894 | 15,894 |
| Total Short –term debtors | 20,771 | 20,771 | 23,156 | 23,156 |

28.4 The fair value of outstanding long term debts as at 31 March 2013 is £2.4million. (31 March 2012 £2.6 million). This is higher than the book value due to changes in market factors since the original borrowing was made. The Authority has pledged no collateral in respect of repayment of any loan to another entity.

28.5 The carrying value of Financial Instruments reported on the Balance Sheet includes interest on loans and investments.

28.6 As at 31st March 2013 the Authority had not entered into any financial guarantees.

## 29. Nature and Extent of Risks arising from Financial Instruments

Overall Procedures for Managing Risk

29.1 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:

a) By formally adopting the requirements of the Code of Practice.

b) By approving annually in advance Prudential Indicators for the following three years limiting:

(1) The Authority's overall borrowing.
(2) Maximum and minimum exposure to fixed and variable interest rates.
(3) Maximum and minimum debt repayment profile.
(4) Maximum annual exposure to investments maturing beyond a year.

29.2 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.

29.3 In accordance with Standing Orders, the Finance Director is responsible for all of the Authority's banking, borrowing and investment activities. Under the Authority's existing service level arrangements, the London Borough of Redbridge administers the treasury management function on behalf of ELWA. The policies and detailed guidance in the form of Treasury Management Practices (TMPs) are managed on a day to day basis by the London Borough of Redbridge. The TMPs are reviewed at regular intervals. ELWA receives reports and monitors the treasury management performance of the London Borough of Redbridge on a regular basis

29.4 The Authority's activities expose it to a variety of financial risks:

a) Credit risk - the possibility that other parties might fail to pay amounts due to the Authority.

b) Liquidity Risk – the possibility that the Authority might not have funds available to meet its commitments to make payments.

c) Refinancing and Maturity Risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.

d) Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

<u>Credit Risk</u>

29.5 Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to debtors

<u>Credit risk arising from deposits with Banks and Financial Institutions</u>

29.6 Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria, which are restricted to the upper end of the independent credit rating criteria. In addition, investment values are set taking into account the institutions' credit rating and the duration of lending. The Authority has also set limits as to the maximum percentage of the investment portfolio that can be placed with any one class of institution and this is monitored on a daily basis. All transactions in relation to deposits were in line with the Authority's approved credit ratings.

29.7 The Annual Investment Strategy requires the Authority to maintain a counterparty list that follows the criteria set out in the Treasury Management Practices. Creditworthiness is assessed by the use of credit ratings provided by Fitch, Moody's and Standard & Poor's to assess an institution's long and short-term financial strength along with its individual and support ratings. Other information provided by Brokers, Advisers and financial and economic reports are also collated and assessed and then used to produce a matrix to monitor each individual institution against the Authority's criteria.

29.8 Any counterparty whose ratings fall to the extent that they no longer meet the credit criteria are immediately removed from the lending list. Only highly rated counterparties may be included on the lending list such as:

a) UK Part Nationalised Banks

b) Building Societies with assets in excess of £3 billion.

c) AAA rated Money Market Funds.

d) UK Government (Debt Management Office).

e) Other Local Authorities.

29.9 The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £15.894 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. A risk of irrecoverability applies to all of the Authority's deposits; there was no evidence at the 31 March 2013 that this was likely to crystallise.

29.10 In addition, the diversification of investments also provides additional security. The maximum percentages of the investment portfolio, which may be invested in each class of assets, are detailed below:

| Asset Class Percentages | | |
|---|---|---|
| **Type of Asset** | **% Of Total Investment as set by 2012/13 Treasury Management Strategy**<br>**%** | **% Of Total Investment as at 31st March 2013.**<br>**%** |
| UK Government and Local Authorities | 100 | 0 |
| UK Banks- Specified | 100 | 38 |
| Money Market Funds | 75 | 44 |
| Building Societies - Specified | 50 | 17 |
| Total Unspecified Investments | 50 | 1 |
| Non UK Banks - Specified | 25 | 0 |

29.11 The asset class percentages are well within the Upper limits prescribed in the Authority's Treasury Management Strategy for 2012/13.

29.12 The boundary is set at £2 million for long-term investments as specified in the Authority's Treasury Management Strategy. The Authority currently has no investments for longer than one year.

29.13 The above breakdown includes the remaining recoverable deposit of £89,468 in Heritable Bank which was placed into administration in 2008/09 (see Note 9).

29.14 The original deposit was £1 million. The impairment loss for 2012/13 was £24,189 (see Notes 7 & 26), with the total impairment of the investment from 2008/09 to 2012/13 totalling £268,263. Principal recovered totals £642,268 and £172,837 interest has been received. Based upon current information, the Local Authority Accounting Panel (LAAP) recommend the estimate of the recoverable amount is based on a total repayment of 88% based on the midpoint of the base case return. Therefore the current estimated amount of repayment due on the principal is £89,468. The recoverable interest receivable in 2013/14 is estimated to be £4,636.

29.15 No breaches of the Authority's counter-party criteria occurred during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Credit risk arising from Authority's exposure from other debtors

29.16 There has been no provision for bad debtors as 31 March 2013 (£nil provision 31 March 2012), as all outstanding debtors are expected to pay.

29.17 No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

29.18 Invoiced payments for services are either required in advance or due at the time the service is provided. As at 31 March 2013, approximately £698,000 (£609,000 as at 31 March 2012) is due to the Authority from its trade debtors, who are mainly other Local Authorities, the total being past its due date. The past due but not impaired amount can be analysed by age as follows:

| Invoiced Payments for Services | 31 March 2012 £000 | 31 March 2013 £000 |
|---|---|---|
| Three months or less | 91 | 582 |
| Four to six months | 0 | 116 |
| Seven months to one year | 518 | 0 |
| One year and over | 0 | 0 |
| | 609 | 698 |

Liquidity Risk

29.19 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.

29.20 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 2013, all of the Authority's outstanding loans were with PWLB.

29.21 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.

29.22 The Authority manages its day-to-day liquidity position through:

a) The setting of Prudential Indicators, associated strategies and practices;

b) The cash flow management procedures;

c) The use of deposits and call funds

Refinancing and Maturity Risk

29.23 The Authority's approved Treasury and Investment strategies are set to avoid the risk of refinancing on unfavourable terms. London Borough of Redbridge's Treasury team, on behalf of ELWA, address the operational risks within approved parameters. These include:

a) Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling existing debt.

b) Monitoring the maturity of investments to ensure that there is sufficient liquidity available for the Authority's day-to-day cash flow needs, and the spread of long term investments provides stability of maturities and returns in relation to long term cash flow needs.

c) On a short-term basis internal balances are available to finance should market interest rates be unfavourable at the time of refinancing.

29.24 The maturity analysis for borrowing is as follows:

| Renewal Period | Market Loans Outstanding as at 31st March 2013 £000's | Limit of projected Fixed rate Borrowing % | % of Total Borrowing 31st March 2013 % | % of Total Borrowing 31st March 2012 % |
|---|---|---|---|---|
| Less than one Year | 266 | 35 | 17 | 2 |
| Between one and two years | 0 | 45 | 0 | 15 |
| Between two and five years | 0 | 60 | 0 | 0 |
| Between five and ten years | 451 | 80 | 30 | 30 |
| More than 10 Years | 800 | 100 | 53 | 53 |
| Total | 1,517 | | 100 | 100 |

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

Market Risk

29.26 The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

a) Borrowings at fixed rates – the fair value of the liabilities will fall.

b) Investments at fixed rates – the fair value of the assets will fall.

c) Borrowing at variable rates – the interest expense charged to the Surplus and Deficit on the provision of services will rise.

d) Investments at variable rates – the interest income credited to the Surplus and Deficit on the Provision of Services will rise.

29.27 Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus and Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivables on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the Revenue Reserve Balance.

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

a) Setting a maximum for Authority's borrowings at variable rates. For 2012/13 all the Authority's borrowings were at fixed rates.

b) Prudent borrowing and repayments arrangements, by limiting the net annual repayment of debt to the outstanding debt.

29.29 The Authority, through the L B Redbridge Treasury Management team, has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to monitor performance throughout the year. This allows any adverse changes to be responded to and accommodated quickly.

29.30 According to this assessment strategy, at 31 March 2013, if discount rates had been 1% higher with all other variables held constant, the financial effect would be:

| | £000 |
|---|---|
| Decrease in fair value of long term fixed rate investments assets – No impact on Other Comprehensive Income and Expenditure | 0 |
| Decrease in fair value of fixed rate borrowings liabilities - No impact on Other Comprehensive Income and Expenditure | 212 |

29.31 As at 31 March 2013 the Authority holds no variable interest rate investments or borrowings as they are all fixed rates. Therefore there is no predicted impact for this on the Comprehensive Income and Expenditure Statement.

29.32 The impact of a 1% fall in discount rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note 26 – Fair Values of Assets and Liabilities.

## GLOSSARY

Actuary

An independent consultant who advises on the financial position of the Pension Fund.

Actuarial Valuation

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Authority on the fund's financial position and recommended employers' contribution rates.

Appropriation

The transfer of ownership of an asset from one Service to another at an agreed (usually market or outstanding debt) value.

Accruals

The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

Amortisation

The writing off of a charge or loan balance over a period of time.

Balance Sheet (Statement of Financial Position)

A statement of all the assets, liabilities and other balances of the Authority at the end of an accounting period.

Budget

A forecast of future expenditure plans for the Authority. Detailed revenue budgets are prepared each year and it is on the basis of these figures that the Levy is set. Budgets are revised towards the year-end to take account of inflation, changes in patterns of services, and other factors.

Capital Charge

A depreciation charge to Service Revenue Accounts to reflect the cost of fixed assets used in the provision of the service.

Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure that adds to the value of an existing fixed asset.

Capital Adjustment Account

Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

Capital Receipt

Income received from the sale of a capital asset such as land or buildings.

Carrying Value (Book Value)

For Financial Instruments, this value is the amount to be recognised on the Balance Sheet. Financial Assets and Liabilities need to be recognised in the Balance Sheet at fair value or at amortised cost.

Cash

Comprises cash on hand and demand deposits.

Cash equivalents

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Are inflows and outflows of cash and cash equivalents.

Collateral

Assets pledged by a borrower to secure a loan.

Comprehensive Income and Expenditure Statement

A Statement showing the Income and Expenditure of the Authority's services during the year. It demonstrates how costs have been financed from the Levy and shows income from services provided.

Contingent Liability

A possible liability to future expenditure at the Balance Sheet date dependant upon the outcome of uncertain events.

Credit Ratings for Investments

A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poor's to indicate the credit worthiness and other factors of Governments, Banks, Building Society's, and other financial Institutions.

Creditors

Amount of money owed by the Authority for goods and services received.

Debtors

Amount of money owed to the Authority by individuals and organisations.

Deferred Liabilities

These are creditor balances repayable after one year.

Defined Benefit Scheme

A pension scheme that defines the benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation

A Provision made in the accounts to reflect the value of assets used during the year. Deprecation forms part of the capital charge made to Service Revenue Accounts.

Earmarked Reserves

Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

Fair Value

The amount that an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction.

Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Financial Instruments Adjustment Account (FIAA)

Provides a balancing mechanism between the different rates at which gains and losses are recognised under the CIPFA Code of Practice and are required by Statute to be met from the Revenue Reserve.

Financing activities

Are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

Historic Cost

The actual cost of an asset in terms of past consideration as opposed to its current value.

Impairment

A reduction in the valuation of a fixed asset caused by consumption of economic benefits or by a general fall in prices.

Intangible Fixed Assets

Non-financial fixed assets that do not have physical substance but are identifiable and controlled by the Authority, for example purchased software licences.

Investing activities

Are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Minimum Revenue Provision (MRP)

The amount that has to be charged to revenue to provide for the redemption of debt.

Net Book Value

The amount at which fixed assets are included in the Balance Sheet after depreciation has been provided for.

Net Current Replacement Cost

The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value

The open market value of the asset less the expenses to be incurred in realising the asset.

Non Current Assets (Tangible Fixed Assets)

Tangible Assets that yield benefits to the Local Authority and the services it provides for a period of more than one year.

Non-Operational Assets

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples are investments and surplus properties.

Operating activities

Are the activities of the entity that are not investing or financing activities.

Operating Lease

A lease other than a finance lease, i.e. a lease that permits the use of the asset without substantially transferring the risks and rewards of ownership.

Operational Assets

Fixed assets held, occupied, used or consumed by the Authority in the direct delivery of its service.

Other Comprehensive Income and Expenditure

Comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.

Other Comprehensive Income

A Statement bringing together all the gains and losses of the Authority.

Outturn

The actual level of expenditure and income for the year.

Post Balance Sheet Events

Those events that relate to the accounting year, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Director of Finance and Resources.

<u>Private Finance Initiative</u>

A Central Government initiative whereby contracts are let to private sector suppliers for both services and capital investment in return for a unitary payment, which may be reduced if performance targets are not met.

<u>Projected Unit Method</u>

Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date. This method is considered appropriate for a Pension Fund open to new members.

<u>Provisions</u>

Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

<u>Public Works Loans Board (PWLB)</u>

Central Government Agency, which funds much of Local Government borrowing.

<u>Reclassification adjustments</u>

Are amounts reclassified to Surplus or Deficit on the Provision of Services in the current period that were recognised in Other Comprehensive Income and Expenditure in the current or previous periods.

<u>Reserves</u>

Amounts set aside that do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances, which every Authority must maintain as a matter of prudence.

<u>Revaluation Reserve</u>

Represents the increase value of the Authority's land and building assets from 1 April 2007.

<u>Revenue Expenditure</u>

The day-to-day expenditure of the Authority, e.g. pay, goods and services and capital financing charges.

<u>Revenue Reserve</u>

ELWA's main Revenue Account from which is met the cost of providing most of the Authority's services.

<u>Surplus or Deficit on the Provision of Services</u>

Is the total of income less expenses, excluding the components of Other Comprehensive Income and Expenditure.

<u>Support Services</u>

Activities of a professional, technical and administrative nature which are not local authority services in their own right, but support main front line services.

<u>Total Comprehensive Income and Expenditure</u>

Comprises all components of Surplus or Deficit on the Provision of Services and of Other Comprehensive Income and Expenditure.

## ABBREVIATIONS USED IN ACCOUNTS

| | |
|---|---|
| ABSDP | Annual Budget and Service Delivery Plan |
| AGS | Annual Governance Statement |
| CFR | Capital Financing Requirement |
| CIPFA | Chartered Institute of Public Finance and Accountancy |
| CLG | Communities and Local Government Department |
| ELWA | East London Waste Authority |
| FIAA | Financial Instruments Adjustments Account |
| IAS | International Accounting Standards |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IWMS | Integrated Waste Management Strategy |
| LAAP | Local Authority Accounting Panel |
| LGPS | Local Government Pension Scheme |
| LPFA | London Pensions Fund Authority |
| MRP | Minimum Revenue Provision |
| OSDP | Overall Service Delivery Plan |
| PFI | Private Finance Initiative |
| PWLB | Public Works Loans Board |
| SDP | Service Delivery Plan |
| SeRCOP | Service Reporting Code of Practice |