

EAST LONDON WASTE AUTHORITY
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2008

**East London Waste Authority
Financial Statements
For The Year Ended 31 March 2008**

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The Draft Audit Report is included in the Annual Governance Report

PREFACE

This publication presents the Authority's Accounts for the year ended 31st March 2008. 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.

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

EXPLANATORY FOREWORD

The accounts for 2007/08 are set out on the following pages and consist of:

- The Income and Expenditure Account on page 15 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.
- The Statement of Movement on the General Fund Balance on page 16 brings together all the movements in 2007/08 on this Balance.
- The Statement of Total Recognised Gains and Losses on page 16 brings together all the gains and losses in 2007/08 separating the movements between revenue and capital reserves.
- The Balance Sheet on page 17 is a summary of the Authority's financial position at 31st March 2008.
- The Cash Flow Statement on page 18 shows the total cash received by the Authority and how it was used.

The Authority's Accounts are accompanied by explanatory notes.

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Statement of Recommended Practice 2007 has introduced significant changes in 2007/08 in respect of the presentation of key information within the accounts. The aim is to improve the standards of financial accounting and reporting for the benefit of users especially in relation to Financial Instruments.

With effect from 1st April 2007 the Authority become an employer. On 1st June 2007 five staff were transferred from the Constituent Councils to the Authority. Three staff elected to join the statutory pension fund provider for the Authority, the London Pensions Fund Authority (LPFA) - the current membership is four out of a total of six staff. Consequently, there are significant new pension accounting and disclosure requirements on this Authority in respect of the year ended 31st March 2008.

The Finance Director's Statement on pages 2 and 3 identifies the more significant matters included within the Authority's Accounts and provides a summary of the Authority's overall financial position.

**East London Waste Authority
Financial Statements For The Year Ended 31 March 2008
Finance Director's Statement**

Introduction

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.

The financial statements on the following pages set out the Authority's financial position for the year to 31 March 2008. Further information on the nature and purposes of the Authority's expenditure is contained in the annual Revenue and Capital Budgets.

Income and Expenditure Account

The table below shows the Authority's budget for 2007/08 and how it compared with the outturn position:

	<u>Original Budget (£'000)</u>	<u>Revised Budget (£'000)</u>	<u>Actual (£'000)</u>
Net Revenue Expenditure (inc. Contingency)	35,853	34,428	33,790
Levy Raised	32,990	32,990	32,990
(Deficit)/Surplus for the Year	(2,863)	(1,438)	(800)
Net Transfer from PFI Contract Reserve	963	963	963
Transfer to LATS Reserve	-	-	(355)
Transfer from Capital Adjustment Account	-	-	253
Transfer from Pensions Reserve	-	-	29
Net Effect on Revenue Reserves	(1,900)	(475)	90
Revenue Reserves Brought Forward	9,847	9,847	9,847
Revenue Reserves Carried Forward	7,947	9,372	9,937

The Original Budget was set in February 2007 and revised in February 2008.

The variances from the Original Budget were primarily due to lower IWMS Contract payments to Shanks, lower tonne mileage and disposal credit claims by Boroughs, additional bank interest income, additional grant income from the Hazardous Waste Electrical and Electronic Equipment (WEE) Grant, partly offset by lower commercial waste income. In addition, in accordance with current accounting practice to account for surplus landfill allowances under the Landfill Allowances Trading Scheme (LATS), an amount of £355,000 has been credited to the Income and Expenditure Account and then subsequently transferred to the LATS Reserve.

The levels of the year end Cash balances are relatively high due principally to the previous building-up of the earmarked PFI Contract Reserve for utilisation over the remaining 19 years of the IWMS Contract.

Capital Programme/Borrowing Facilities

Since the introduction of the Prudential Code in 2004, the Authority can set its 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.

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 and financing was incurred during 2007/08.

ELWA Operations

ELWA transferred its principal operations and contracts to Shanks Waste Services Limited as part of the 25-year 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.

Pension Scheme

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.

The results of the 2007 triennial actuarial valuation for the LPFA Fund showed that the LPFA Fund had assets sufficient to meet 82% of its accrued liabilities, an increase of 8% from its actuarial valuation undertaken in 2004. The next valuation is due as at 31 March 2010.

The accounts fully comply with Financial Reporting Standard (FRS) 17, and include a Pension Reserve and Liability on the Balance Sheet. As at 31 March 2008, the Authority's estimated liability for retirement benefits exceeded the value of assets by £331,000 when valued in accordance with the accounting standards.

Conclusion

I would like to thank all the ELWA staff and the staff and colleagues in the four Constituent Councils for their continued support in the production of these financial statements.

Signed G Pearce, BA, CPFA
 Finance Director

Dated 29 September 2008

**East London Waste Authority
Statement of Responsibilities for the Statement of Accounts
For The Year Ended 31 March 2008**

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Finance Director;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the Statement of Accounts.

The Finance Director's Responsibilities

The Finance Director is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee (CIPFA/LASAAC) Code of Practice on Local Authority Accounting in the United Kingdom ('the SORP'), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2008.

In preparing this Statement of Accounts, the Finance Director confirms that he has: -

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the Code,
- kept proper accounting records which were up to date,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts, the Income and Expenditure Account and the Balance Sheet present fairly the Authority's income and expenditure for the year ended 31 March 2008 and the Authority's financial position as at 31 March 2008.

Signed -----
G Pearce
Finance Director

Dated 29 September 2008

Signed -----
Councillor Milton McKenzie
Chairman

Dated 29 September 2008

1 General Principles

The general principles adopted in compiling the accounts are consistent with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice 2007 (2007 SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). All relevant Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs), so far as they apply to Local Authorities, have been observed.

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of assets and liabilities in accordance with the 2007 SORP.

2 Accruals Basis Of Accounting

The Accounts have been prepared on the normal accruals basis whereby activity is accounted for in the year that it takes places not when cash payments are made or received. Debtors and creditors are included in the balance sheet in respect goods supplied and services rendered but not paid for at 31 March 2008.

3 Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed 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 fixed assets which is charged direct to the Income and Expenditure Account.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the 2006 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.

Re-valuations of fixed assets are planned at five yearly intervals, although material changes to assets valuations will be adjusted in the interim period, as they occur.

Two of the Authority's four closed landfill sites have been allocated for new uses (i.e. green belt to employment) by Thurrock TGDC in their non-statutory Master Plan for the area. At the present time, these sites have not been granted planning permission for anything other than their current agricultural use. Consequently, in the opinion of Directors these do not need to be revalued and continue to be shown at £nil.

**East London Waste Authority
Statement of Accounting Policies (continued)
For The Year Ended 31 March 2008**

3 Fixed Assets (continued)

In 2002/03, under the terms of the IWMS/PFI Contract, ELWA transferred its operational land, buildings and fixed plant (via a 25 year lease) and its mobile plant for nil consideration to ELWA Limited. The leased assets will revert to the Authority at nil cost at the end of the Contract. On the grounds of prudence, Directors assumed no residual value for these assets at the end of the 25-year Contract term. Consequently, the full net book value of these fixed assets was written-off against Capital Reserves. As a result, the fixed assets are shown at £nil as at 31st March 2007 and 2008.

4 Charges to Revenue

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

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 Income and Expenditure Account and disclosed separately on the Movement on the General Fund Balance.

5 Value Added Tax

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

6 Reserves

- a) A Capital Reserve exists primarily to enable expenditure to be financed without the need to borrow or use capital receipts.
- b) The Pension Reserve has been set up as part of the requirement to comply with FRS 17 accounting for pension costs. It represents the actuarially calculated deficit between the value of all pension liabilities and the assets held by the LGPS as at the 31 March 2008. The deficit also includes the difference between the cost of statutorily required payments to the LGPS and the FRS 17 accounting cost charged to the Net Cost of Services in the Income and Expenditure Account. Further information relating to the Net Pension Liability is shown in the Notes to the Accounts.
- c) 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.

**East London Waste Authority
Statement of Accounting Policies (continued)
For The Year Ended 31 March 2008**

6 Reserves (continued)

- d) The LATS Reserve is a non-cash backed reserve which represents any surpluses or deficits arising from the Landfill Allowances Trading Scheme.
- d) 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.
- e) Other Reserves have been established to finance future expenditure.

7 Disposal of Assets

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserves and can be wholly used to finance capital expenditure. The balance on this Reserve was £Nil as at 31st March 2007 and 2008.

8 Stocks

The Authority holds no stocks or work in progress. The cost of all materials is charged to the Income and Expenditure Account when they are purchased.

9 Redemption Of Debt

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 General Fund and set aside for the repayment of debt.

10 Financial Relationship Between The Authority And Constituent Councils

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.

11 Deferred Consideration

This represents the notional deferred consideration originally valued at £8.4 million from the transfer of fixed assets to ELWA Limited as part of the IWMS/PFI Contract. This will be written-off to the Capital Adjustment Account via the Income and Expenditure Account over the 25 year Contract period on a straight-line basis.

12 Government Grants and Contributions

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.

13 Landfill Allowances

In accordance with CIPFA's Code of Practice on Local Authority Accounting Bulletin 64, there is a requirement with effect from 1st 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.

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 Income and Expenditure Account and Balance Sheet at the rate of £5.00 per tonne as at 31st March 2008 (2007: £17.98).

14 Long Term Contracts/Private Finance Initiative

For long-term contracts such as those under the Private Finance Initiative (PFI) the Authority follows advice and guidance issued by the appropriate Government department and CIPFA. In accordance with such guidance, expenditure incurred by contractors relating to such contracts is accounted for as revenue expenditure.

PFI contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the Authority under the contracts are generally charged to revenue to reflect the value of services in each financial year.

15 Financial Instruments

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 assets and liabilities.

a) Financial Assets

Financial assets are classified into two types:

- (i) Loans and receivables - assets that have a fixed or determinable payment, but are not quoted in an active market.
- (ii) Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

15 Financial Instruments (continued)

Loans and receivables are initially measured at fair value and carried in the Balance Sheet at amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For loans that the Authority has made, the amount in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

Where financial 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 Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

The Authority has made no concessionary loans in the years ended 31st March 2007 and 2008.

(b) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate of interest for the instrument.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. Costs associated with the arrangement of borrowing have been identified and assessed as immaterial.

For the years ending 31st March 2007 and 2008, the Authority has undertaken no repurchase or early settlement of borrowing, incurred no premiums and discounts, entered into no financial guarantees, not defaulted on any loans and not held or pledged any collateral in respect of the repayment of any loans.

No prior year adjustments are necessary in respect of Financial Instruments.

Borrowings and investments are undertaken and accounted for in accordance with the Authority's Treasury Management Policy and Treasury Management Strategy.

16 Pension Provision

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.

Employees' and employers' contributions are paid into the LGPS. Employers' contribution rates are advised by the LPFA Fund's Actuary, Hymans Robertson LLP.

At the last triennial actuarial valuation undertaken for the LPFA Fund as at 31st March 2007 the assets of the LPFA Fund were assessed to be sufficient to meet 82% of accrued liabilities (74% for the triennial actuarial valuation undertaken as at 31st March 2004).

The Authority is required to account for pension costs in accordance with FRS 17 and to recognise in the accounts accrued benefits payments at the time that the employees earn their future benefit entitlements.

This has the following effect on the results of the current year:

- the overall amount to be met from the levy has remained unchanged, but the costs disclosed for services are £29,000 higher after the replacement of actual employer's contributions by current service costs, and net operating expenditure is 0.1% higher than it would otherwise have been;
- the requirement to recognise the net pension liability in the balance sheet has reduced the reported net worth of the Authority by £331,000 (1.0%).

17 Interest on Balances

Cash balances, not required for immediate use, are invested in accordance with the Authority's Annual Investment Strategy. Interest earned on the Authority's balances is credited to the Income and Expenditure Account.

18 Financial Relationships with Companies and other Organisations

The 2007 SORP requires local authorities to prepare a full set of group financial statements where they have material interests in subsidiaries, associates and joint ventures. This also includes consideration of interests in other statutory bodies. The Authority has undertaken a review of its interests in other bodies in accordance with the accounting tests contained in the SORP and has concluded that it has no group relationships. However, the Authority does have a financial relationship with some bodies and this is explained in Notes to the Accounts.

Independent auditor's report to the Members of East London Waste Authority

Opinion on the financial statements

I have audited the Authority accounting statements and related notes of East London Waste Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East London Waste Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Finance Director and auditor

The Finance Director's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the Authority accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 the financial position of the Authority and its income and expenditure for the year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Authority accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the Authority accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the Authority accounting statements and related notes.

Opinion

In my opinion, the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, East London Waste Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

I have issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on 3 December 2007. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor
Audit Commission
1st Floor
Millbank Tower
Millbank
London, SW1P 4HQ

30 September 2008

**East London Waste Authority
Income and Expenditure Account
For The Year Ended 31 March 2008**

The Income and Expenditure Account 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.

	<u>Note</u>	<u>2007/08</u> <u>£'000</u>	<u>2006/07</u> <u>£'000</u>
Expenditure			
Employee and Support Services	5	797	698
Premises Related Expenditure		83	89
Transport Related Expenditure		2	9
Supplies and Services	1	42,027	33,034
Third Party Payments		979	1,026
Landfill Allowances - Expenditure		971	3,567
		44,859	38,423
Less: Income			
Commercial Waste Charges		3,430	3,252
PFI Grant	6	4,537	4,726
Other Income		134	364
Landfill Allowances – Income		1,326	4,452
		9,427	12,794
Net Cost of Services		35,432	25,629
Interest Payable and Similar Charges		199	212
Interest and Investment Income		(1,853)	(1,284)
Pension Interest Cost and Expected Return on Pension Assets		12	-
Net Operating Expenditure		33,790	24,557
Income from the Levy		32,990	30,460
(Deficit)/Surplus for the year		(800)	5,903

Statements of Movement in General Fund Balance and Total Recognised Gains and Losses
For The Year Ended 31 March 2008

Statement of Movement in General Fund Balance

The Income and Expenditure Account shows the Authority's actual financial performance for the year. The General Fund Balance compares the Authority's spending against the levy income that is raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure. This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

	<u>Note</u>	<u>2007/08</u> <u>£'000</u>	<u>2006/07</u> <u>£'000</u>
(Deficit)/Surplus for the year on the Income and Expenditure Account		(800)	5,903
Net additional amount required by statute and non-statutory proper practices to be credited/(debited) to the General Fund Balance for the year	16	890	(5,910)
Increase/(Decrease) in General Fund Balance for the year		90	(7)
General Fund Balance brought forward		9,847	9,854
General Fund Balance carried forward		9,937	9,847

Statement of Total Recognised Gains and Losses

This Statement brings together all the recognised gains and losses of the Authority for the financial year and shows the aggregate increase in net worth. In addition to the surplus generated on the Income and Expenditure Account it includes other gains and losses.

	<u>Note</u>	<u>2007/08</u> <u>£'000</u>	<u>2006/07</u> <u>£'000</u>
(Deficit)/Surplus for the year on the Income and Expenditure Account		(800)	5,903
Revaluation of LATS allowances as at 1.4.2007		(1,035)	-
Balance on Pension Reserve as at 1.6.2007		(378)	-
Actuarial Gain on Pension Fund Assets and Liabilities	24	76	-
Total recognised (losses)/gains for the year		(2,137)	5,903

Balance Sheet
As At 31 March 2008

The Balance Sheet reflects the Authority's position at the end of the year for all activities and services.

	<u>Note</u>	<u>31.3. 2008</u>		<u>31.3. 2007</u>	
		<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Fixed Assets					
Operational Assets	8,9		-		-
Deferred Consideration	11		6,655		6,992
Long Term Investments	10,15		1,022		2,018
Total Long Term Assets			7,677		9,010
Current Assets					
Debtors	12	8,515		13,849	
Investments	10,15	28,039		26,531	
		36,554		40,380	
Current Liabilities					
Short Term Borrowing		(432)		(113)	
Cash Overdrawn	20	(1,385)		(2)	
Creditors	13	(7,914)		(12,537)	
		(9,731)		(12,652)	
Net Current Assets			26,823		27,728
Total Assets less Current Liabilities			34,500		36,738
Long Term Borrowing	14,25		(1,639)		(2,071)
Pension Liability	24		(331)		-
Total Assets less Liabilities			32,530		34,667
Capital Adjustment Account	17		5,190		5,443
Capital Reserve	17		400		400
Revaluation Reserve			-		-
Pension Reserve	17		(331)		-
PFI Contract Reserve	17		16,580		17,543
Available-for-Sale Financial Instruments	17		754		1,434
LATS Reserve					
General Fund	17		9,937		9,847
Total Equity			32,530		34,667

**East London Waste Authority
Cash Flow Statement
For The Year Ended 31 March 2008**

The Cash Flow Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

	<u>Note</u>	<u>2007/08</u> <u>£'000</u>	<u>2006/07</u> <u>£'000</u>
Revenue Activities			
<i>Cash Outflows</i>			
Cash Paid to and on behalf of Employees	5	570	978
Other Operating Costs		41,392	34,467
		41,962	35,445
<i>Cash Inflows</i>			
Levy Receipts		32,990	30,460
Other Government Grants	6	4,537	4,726
Cash Received for Goods & Services		2,359	2,424
		39,886	37,610
Revenue Activities Net Cash (Outflow)/Inflow	18	(2,076)	2,165
Returns on Investment and Servicing of Finance			
<i>Cash Outflows</i>			
Loan Interest Paid		(201)	(213)
<i>Cash Inflows</i>			
Interest Received		1,519	1,312
Capital Activities			
<i>Cash Inflows</i>			
Long Term Investments	15	996	1,018
<i>Cash Outflows</i>			
Long Term Investments	15	-	-
Net Cash (Outflow)/Inflow before Financing		238	4,282
Management of Liquid Resources			
Net increase in Short Term Investments	19	(1,508)	(4,159)
Financing			
Repayment of amounts borrowed	21	(113)	(125)
Decrease in Cash	20	(1,383)	(2)

**East London Waste Authority
Notes To The Financial Statements
For The Year Ended 31 March 2008**

1 Revenue Account

The Supplies and Services expenditure includes the following:

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
External Audit Services (under the Code of Practice in accordance with section 5 of the Audit Commission Act 1998)	36	35

2 Minimum Revenue Provision

The Local Government and Housing Act 1989 requires the Authority to set aside a minimum revenue provision (MRP) for the repayment of external loans. The details of the MRP for 2007/08 are shown below:

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Non-housing (4% of Capital Financing Requirement)	84	87
Amount charged as depreciation	-	-
Adjustment to General Fund Balance	84	87
	84	87

3 Leasing

No new finance or operating leases were entered into during 2007/08 (2006/07: None).

**East London Waste Authority
Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008**

4 Publicity Account

Under Section 5(1) of the Local Government Act 1986, Authorities are required to account separately for publicity. The details of relevant expenditure included in the Income and Expenditure Account are as follows:

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Promotions, Publications and Advertising	10	10

5 Officers' Emoluments

Up to 31st May 2007, the Authority itself did not have any employees. The four Constituent Boroughs, as agents of the Authority, employed all staff working on the Authority's activities. With effect from 1st April 2007 the Authority became an employer. On 1st June 2007 five staff were transferred from the Constituent Boroughs to the Authority. As at 31st March 2008 the Authority had a total of six staff. The number of such employees whose remuneration, excluding pension contributions, was £50,000 or more, in bands of £10,000 were:

	<u>2008</u> <u>Number</u>	<u>2007</u> <u>Number</u>
£50,000 to £59,999	1	1
£60,000 to £69,999	1	-
£70,000 to £79,999	-	1
£80,000 to £89,999	1	-

6 Analysis of Other Government Grants

The Cash Flow Statement and Income and Expenditure includes the following Other Government Grants:

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
PFI Grant	4,537	4,726
	4,537	4,726

7 Pension Costs

As part of the terms and conditions of employment of its employees, the Authority offers retirement benefits. Although these benefits will not become 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.

The Authority is an administrative authority operating its pension scheme in accordance with the Local Government Pension Scheme Regulations. The statutory pension fund provider for the Authority is the London Pensions Fund Authority (LPFA). This is a funded scheme, meaning that the Authority and employees pay contributions into the LPFA Fund, calculated at a level intended to balance the pension liabilities with the investment assets over time.

The Authority recognises the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against the levy is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income & Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	<u>2008</u> <u>£'000</u>
Income and Expenditure Account	
Net Cost of Services	
Current Service Cost	42
Net Operating Expenditure	
Expected return on Employer Assets	(24)
Interest on Pension Scheme Liabilities	36
Net charge to Income and Expenditure Account	54
Statement of Movement in the General Fund Balance	
Reversal of net charges made for pensions in accordance with FRS 17	29
Actual Amount Charged Against Levy for Pensions in the year	
Employer Contributions to the Pension Fund	25
	54

The last triennial valuation of the LPFA Fund was undertaken as at 31 March 2007 and determined the employer contribution rates for the years 2008/09 to 2010/11. For 2007/08, the LPFA's Actuary determined an employer's contribution rate of 20.8% of pensionable pay. Further details are provided elsewhere in these Notes.

8 Fixed Assets

- a) In 2002/03, under the terms of the IWMS/PFI Contract, ELWA transferred its land, buildings and fixed plant (via a 25 year lease), and its mobile plant for nil consideration to ELWA Limited. The leased assets will revert to the Authority at nil cost at the end of the Contract. On the grounds of prudence, Directors assumed no residual value for these assets at the end of the 25-year Contract term. Consequently, the full net book value of these fixed assets was written-off against both the Fixed Asset Restatement and Capital Adjustment Accounts. As a result, the fixed assets are shown at £nil as at 31st March 2007 and 2008.
- b) All the Authority's assets, except its Landfill sites, are valued on the bases of open market value for the existing use and/or depreciated replacement cost on the assumption that the properties will continue in the occupation of the Authority for the foreseeable future, having regard to the prospect and viability of the continuance of occupation. The Directors are of the opinion that the Authority's Landfill sites, based on current permitted land use, have a £nil value in accordance with professional valuations undertaken during 2006/07.

9 Financing of New Capital Expenditure

The Authority incurred no new capital expenditure during the years ended 31 March 2007 and 2008.

Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008

10 Investments

- a) 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 Ltd 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 from 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.

In addition, the Authority has made loans to Aveley Methane Limited prior to 1.4.2006 as summarised below:

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Loan repayable in more than one year	93	93
Less: Provision against loan	(93)	(93)
	-	-

The net assets of Aveley Methane Limited as at 31 December 2007 were £37,281 (As at 31 December 2006: Net assets £59,489). The loss after taxation for the period ended 31 December 2007 was £22,200 (Period ended 31 December 2006: Loss after taxation £36,387). The figures are based on audited financial statements.

Copies of the financial statements of Aveley Methane Limited can be obtained from Novera Energy Europe Limited, Mill Lane, Wingerworth, Chesterfield Derbyshire S42 6NG.

- b) 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 Services Limited on 23rd December 2002. 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.

Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008

10 Investments (continued)

The net liabilities of ELWA Limited as at 31 March 2008 were £3,536,000 (2006/07: Net liabilities £5,728,000). The profit after taxation for the year ended 31 March 2008 was £505,000 (2006/07: Loss after taxation £1,849,000). These figures are based on audited financial statements.

Copies of the financial statements of ELWA Limited can be obtained from Shanks Waste Services Limited, Dunedin House, Auckland Park, Mount Farm, Milton Keynes MK1 1BU.

- c) 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 (2007) and therefore, there is no requirement to produce Group Accounts.
- d) 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 17 shows further details.

11 Deferred Consideration

This represents the notional deferred consideration originally valued at £8.4 million from the transfer of fixed assets to ELWA Limited as part of the IWMS/PFI Contract. This will be written-off to the Capital Adjustment Account via the Income and Expenditure Account over the 25 year Contract period on a straight-line basis.

	<u>2008</u>	<u>2007</u>
	<u>£'000</u>	<u>£'000</u>
Balance brought forward	6,992	7,329
Amount written-off in the year	(337)	(337)
Balance carried forward	6,655	6,992

East London Waste Authority
Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008

12 Debtors

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
<u>Available for Sale</u>		
Landfill Usage Allowances	4,244	10,495
<u>Loans and Receivables</u>		
VAT	1,149	825
Sundry Debtors	15	8
Grants Receivable	-	347
Amounts due from Constituent Councils for:		
Commercial Waste Charges	3,074	2,003
Payments in advance – Land Lease Rentals	17	22
Employee and Support Costs	10	-
Other	6	149
	8,515	13,849

There is no material difference between the book value of Debtors and their fair value.

No bad debt provision is required based on previous debt collection history.

13 Creditors

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
<u>Financial Liabilities Amortised at Cost</u>		
Liability to DEFRA for Landfill Usage	3,490	9,061
IWMS/PFI Contract payment	3,416	2,726
Sundry Creditors and Accruals	104	100
Amounts due to Constituent Councils for:		
Tonne Mileage payments	295	413
Disposal and Recycling Credit payments	33	51
Recycling Initiatives	99	-
Land Lease Rentals	71	-
Employee and Support Costs	383	163
Other	23	23
	7,914	12,537

There is no material difference between the book value of Creditors and their fair value.

**East London Waste Authority
Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008**

14 Long Term Borrowing

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Analysis of Long Term Loans by Maturity		
Maturing in:		
1 - 2 years	-	432
2 - 5 years	123	123
5 - 10 years	240	240
More than 10 years	1,276	1,276
	1,639	2,071

All long-term loans are with the Public Works Loans Board. The range of average interest rates payable is between 8.5% to 10.5%.

15 Cash Investments

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Cash Investments	28,500	28,322
Accrued Interest	561	227
	29,061	28,549
Short Term	28,039	26,531
Long Term	1,022	2,018
	29,061	28,549

In accordance with the SORP 2007, the accrued interest receivable on cash investments is added to the investment value as at 31st March 2007 and 2008.

Though the SORP 2007 does not require Prior Year Adjustment, the 2007 figures have been adjusted for the purposes of comparing similar figures with 2008.

There is no material difference between the book value and fair value of cash investments as at 31st March 2007 and 2008.

Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008

16 Reconciling Items for Statement of Movement on General Fund Balance

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	-	-
Write down of deferred charges to be financed from capital resources	(337)	(337)
Charges made for pensions in accordance with FRS 17	(54)	-
	(391)	(337)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
Minimum revenue provision for capital financing	84	87
Employers contributions payable to Pension Fund	25	-
	(282)	(250)
Transfers to and from the General Fund that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
Net transfer (from)/to earmarked reserves	(608)	6,160
Net additional amount to be (credited)/debited to the General Fund Balance for the year	(890)	5,910

Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008

17 Total Movements on Reserves

	<u>Capital Adjustment Account</u>	<u>Capital Reserve</u>	<u>Pensions Reserve</u>	<u>PFI Contract Reserve</u>	<u>LATS Reserve</u>	<u>Revenue Reserve</u>	<u>Total</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Balance as at 1.4.2007	5,443	400	-	17,543	1,434	9,847	34,667
<u>Gains/Losses</u>							
Net Deficit for the year	-	-	-	-	-	(800)	(800)
Balance as at 1.6.07	-	-	(378)	-	-	-	(378)
Revaluation as at 1.4.2007	-	-	-	-	(1,035)	-	(1,035)
Actuarial Gain	-	-	76	-	-	-	76
<u>Movements</u>							
Contributions from/(to) GF	(253)	-	(29)	(963)	355	890	-
Balance as at 31.3.2008	5,190	400	(331)	16,580	754	9,937	32,530

18 Reconciliation of Surplus for the year to Net Cash Inflow from Operating Activities

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Surplus for the year	90	542
Add: Items not involving transfer of funds		
Contributions (from)/to Reserves	(608)	5,611
Minimum Revenue Provision	84	87
LATS Reserve - Revaluation	(1,035)	-
Decrease /(Increase) in Debtors	5,334	(5,594)
(Decrease)/Increase in Creditors	(4,623)	2,618
Less: Servicing of Finance	(1,318)	(1,099)
Net Cash (Outflow)/Inflow from Operating Activities	(2,076)	2,165

19 Movements in Liquid Resources

<i>Short Term Investments</i>	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Balance brought forward	26,531	22,372
Increase in year	1,508	4,159
Balance carried forward	28,039	26,531

20 Movements in Cash

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Balance brought forward	(2)	-
Net Cash Outflow in year	(1,383)	(2)
Balance carried forward	(1,385)	(2)

21 Movement in Borrowing

	<u>2008</u> <u>£'000</u>	<u>2007</u> <u>£'000</u>
Balance brought forward	2,144	2,273
Repayments in year	(111)	(129)
Accrued Interest	38	40
Balance carried forward	2,071	2,184
Short Term Borrowing	432	113
Long Term Borrowing	1,639	2,071
	2,071	2,184

In accordance with the SORP 2007, the accrued interest payable on the PWLB loans is added to the outstanding loan as at 31st March 2007 and 2008.

The fair value of outstanding debts as at 31st March 2008 is £2,903,000 (As at 31.3.2007 £3,008,000). This is higher than the book value due to the changes in market factors since the original borrowing was made.

22 Related Party Disclosures

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.

The Code of Practice requires the disclosure of interests between the Authority and its related parties not disclosed elsewhere in the Statement of Accounts. The material expenditure and income transactions with these related parties are set out below.

	<u>2008</u>		<u>2007</u>	
	<u>Exp</u>	<u>Inc</u>	<u>Exp</u>	<u>Inc</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
London Boroughs of:				
Barking and Dagenham	580	6,800	340	6,318
Havering	408	9,338	471	8,975
Newham	245	10,686	301	9,729
Redbridge	391	9,596	552	8,690
Aveley Methane Limited	-	-	-	-
ELWA Limited	41,455	-	32,402	-

Members of the Authority and Chief Officers

The following Member has made a declaration of his Interest in the following Organisation, which arises from official Authority Appointments.

Membership of Other Organisations

Councillor A Weinberg - Director of ELWA Limited.

23 Private Finance Initiative

The IWMS/PFI Contract, which commenced on 24th December 2002, is for 25 years and had an initial annual value of approximately £25 million. 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 designing, 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.

23 Private Finance Initiative (continued)

Based on the structure of the contract, in the Authority's opinion the accounting treatment is to include no newly-created fixed assets on its balance sheet and consequently, there is no obligation on it to provide credit cover for the construction of new facilities. The Contract involves an agreed annual payment by ELWA to ELWA Limited from the commencement of the IWMS. These payments have been treated as the equivalent of revenue expenditure in the Authority's Revenue Account. Based on original estimates the total Contract payments, including annual inflation increases, would be £1,417 million over the 25 year Contract period. The Government will provide PFI grant funding based upon a National Credit Approval of £47 million, equivalent to approximately £85 million over 25 years.

24 Disclosure of Net Pension Liability

The underlying assets and liabilities attributable to the Authority with the LPFA Fund as at 31 March 2008 are as follows:

	<u>2008</u>	<u>At</u>
	<u>£'000</u>	<u>1.6.07</u>
		<u>£'000</u>
Present Value of Scheme Liabilities	711	740
Present Value of Unfunded Liabilities	-	-
Total Value of Liabilities	711	740
Estimated Value of Scheme Assets	(380)	(376)
Net Pension Liability	331	364

The liabilities show the underlying commitment that the Authority has in the long run to pay retirement benefits. The net pension liability of £331,000 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 as assessed by the LPFA's Actuary.

24 Disclosure of Net Pension Liability (continued)

Liabilities have been assessed on an actuarial basis using the “projected unit method”, an estimate of pensions that will be payable in future years dependent on actuarial and financial assumptions. Liabilities have been assessed by Hymans Robertson 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 in 2007, and adjusting for known membership and scheme changes where applicable. The main assumptions used in these calculations have been:

	<u>2008</u>	<u>At 1.6.07</u>
Price Increases	3.6%	3.3%
Salary Increases	5.1%	4.8%
Pension Increases	3.6%	3.3%
Discount Rate	6.9%	5.6%

The assets in the LPFA Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of the total assets held by the Fund:

<u>Assets</u>	<u>Long Term Annual Return 2008</u>	<u>2008 £'000</u>	<u>Long Term Annual Return At 1.6.07</u>	<u>At 1.6.07 £'000</u>
Equities	7.5%	228	7.7%	234
Bonds	6.3%	73	6.4%	84
Property	6.7%	68	6.8%	48
Cash	4.8%	11	4.9%	10
Total	7.0%	380	7.3%	376

Analysis of Amount Recognised in the Statement of Total Recognised Gains and Losses (STRGL):

Actual returns less expected return on Pension Scheme Assets	(49)
Experience losses arising on scheme liabilities	(3)
Changes in Financial Assumptions underlying the present value of liabilities	128
Actuarial gain in pension scheme	76
Increase/(decrease) in irrecoverable surplus from membership fall and other factors	-
Actuarial gain recognised in STRGL	76

<u>2008 £'000</u>
(49)
(3)
128
76
-
76

24 Disclosure of Net Pension Liability (continued)

The movement in the net pension liability for the year to 31 March 2008 is as follows:

	<u>2008</u> <u>£'000</u>
Surplus/(Deficit) at Beginning of the Year	-
Balance on transfer as at 1.6.2007 – Deficit	(378)
Current Service Cost	(42)
Employer Contributions	25
Contributions in respect of Unfunded Benefits	-
Other Income	-
Other Outgoings (e.g. expenses)	-
Past Service Costs	-
Impact of Settlements and Curtailments	-
Net return on Assets	(12)
Actuarial Gains/ (Losses)	76
Deficit at End of Year	(331)

Pension Reserve – History of Actuarial Experience Gains and Losses

The actuarial gains and losses identified as movements on the Pension Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31st March 2008.

Experience gains and losses:

Differences between the expected and actual return on assets

Value of assets

Percentage of assets

Experience losses on liabilities

Total present value of liabilities

Percentage of total present value of liabilities

Actuarial gains recognised in the STRGL

Total present value of liabilities

Percentage of the total present value of liabilities

<u>2008</u> <u>£'000</u>
(49)
(380)
(12.9%)
(3)
711
(0.4%)
76
711
10.7%

Up to 31st May 2007, the Authority itself did not have any employees. The four Constituent Boroughs, as agents of the Authority, employed all staff working on the Authority's activities and participated in the Local Government Pension Scheme. With effect from 1st April 2007 the Authority became an employer. On 1st June 2007 five staff were transferred from the Constituent Boroughs to the Authority. Three staff elected to join the statutory pension fund provider for the Authority, the London Pensions Fund Authority - the current membership is four out of a total of six staff. Consequently, there are significant new FRS 17 pension accounting and disclosure requirements on this Authority in respect of the year ended 31st March 2008. Comparative figures are provided as at 1st June 2007 where available.

25 Financial Instruments - (a) Fair Value Disclosure

The borrowing and Investments shown in the balance Sheet are made up of the following categories of Financial Instruments:

LONG TERM				
	2007	2007	2008	2008
	Book Value	Market Value	Book Value	Market Value
	(Carrying Value)	(Fair Value)	(Carrying Value)	(Fair value)
	£000	£000	£000	£000
Financial Liabilities at Amortised Cost				
Public Works Loans Board	2,071	2,899	1,639	2,483
Total	2,071	2,899	1,639	2,483
Loans and Receivables				
Cash Investments	2,018	2,004	1,022	1,001
Total	2,018	2,004	1,022	1,001
SHORT TERM				
	2007	2007	2008	2008
	Book Value	Market Value	Book Value	Market Value
	(Carrying Value)	(Fair Value)	(Carrying Value)	(Fair value)
	£000	£000	£000	£000
Financial Liabilities at Amortised Cost				
Public Works Loans Board	113	109	432	419
Total	113	109	432	419
Loans and Receivables				
Cash Investments	26,531	25,672	28,039	27,494
Total	26,531	25,672	28,039	27,494

25(a) Financial Instruments (Fair Value Disclosure continued)

Financial Liabilities and Financial Assets represented by loans, investments and receivables are accounted for in the Balance Sheet at amortised cost.

The Fair Value (Market Value) has been based on the comparable new borrowing/deposit rates for the same financial instrument from a comparable lender; a consistent approach has been applied to assets and liabilities.

Calculating the present value of the cash flow can assess fair values.

- For PWLB debt the discount rate reflects the new borrowing rates for PWLB loans at maturity.
- For investments the discount rate is calculated using the prevailing market rates at balance Sheet date for instruments with similar structures and terms.
- The Fair Value of Trade debtors and other debtors are taken to be invoiced or billed amount.

As at 31st March 2008 the financial Assets and Liabilities Fair Value did not vary materially from the carrying value (Book Value).

25(b) Disclosure of nature and extent of risks arising from Financial Instruments.

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

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

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 is set out through the legal framework detailed within the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance. Overall, the Authority is required to manage risk in the following ways: -

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

East London Waste Authority Notes To The Financial Statements (continued) For The Year Ended 31 March 2008

25 (b) Disclosure of nature and extent of risks arising from Financial Instruments (continued)

- rates, its maximum and minimum exposure to the maturity structure of its debt, and its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the following year, which sets out its criteria for both investing and selecting investment counterparties in compliance with government guidance.

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.

By ELWA's 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 monitors the treasury management performance of the London Borough of Redbridge on a regular basis.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

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, which is 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.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the past five financial years, adjusted for market conditions:

	Amount as at 31 March 2008 £000's	Historical experience of default %	Historical experience adjusted for market conditions at 31 March 2008 %	Estimated maximum exposure to default and uncollectability £000's
Deposits with banks and financial institutions	28,500 (Note 1)	0	0	28,500

Note 1 - Excludes accrued interest.

The Authority allows credit to its main customers i.e. the four Constituent Councils in respect of commercial waste charges. The amount for this included in Debtors as at 31st March 2008 can be analysed as follows:

	£'000
Not yet due – to be invoiced	858
Overdue: 1 to 2 years	194
Overdue: 4 to 6 months	1,147
Overdue: Less than 1 month	875
	3,074

Liquidity Risk

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 2008, all of the Authority's outstanding loans were with PWLB.

The Authority manages its day to day liquidity position through the setting of prudential indicators, associated strategies and practices and cash flow management procedures.

**East London Waste Authority
Notes To The Financial Statements (continued)
For The Year Ended 31 March 2008**

**25(b) Disclosure of nature and extent of risks arising from Financial Instruments
(continued)**

Refinancing and Maturity Risk

The key risk is that the Authority will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The risk relates to both maturing financial liabilities and assets. The Authority approved Treasury Management and Investment Strategies address the main risks and the L B of Redbridge treasury team address the operational risks within approved parameters. This includes: -

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling existing debt; and
- Monitoring the 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 provide stability of maturities and returns in relation to long term cash flow needs.

The maturity structure for borrowing as at 31st March 2008 is set out below and is within the Authority's Prudential Code limits for 2007-08 as set out in its Treasury Management Strategy:

Renewal Period	Market Loans Outstanding as at 31st March 2008. £000's	% Of Total borrowing
Less than One Year	423	20.8
Between One and Two Years	-	-
Between Two and Five Years	122	6.0
Between Five and Ten Years	238	11.7
More than Ten Years	1,250	61.5

In terms of the maturity of long-term investments (over 364 days), as at 31st March 2008, the Authority had £1 million in long-term investments, which is within the upper limit for long-term investments set out in the Authority's Treasury Management Strategy.

Market Risk

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:

East London Waste Authority Notes To The Financial Statements (continued) For The Year Ended 31 March 2008

25(b) Disclosure of nature and extent of risks arising from Financial Instruments (continued)

- Borrowings at fixed rates – the fair value of the liabilities will fall.
- Investments at fixed rates – the fair value of the assets will fall.

Since the Authority's borrowings are not carried at fair value in the Accounts under FRS 26, nominal gains and losses on fixed rate borrowings will not impact on the Income and Expenditure Account or the STRGL. Movement in the fair value of fixed rate investments will be reflected in the STRGL.

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

- Setting a maximum for Authority's borrowings at variable rates. For 2007-08 all the Authority's borrowings were at fixed rates.
- prudent borrowing and repayments arrangements, by limiting the net annual repayment of debt to the outstanding debt.

The L B of Redbridge has a track record of performing favourably in terms of investment returns and borrowing costs compared to other Inner London Boroughs in its benchmark group.

The L B of 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.

According to this assessment strategy, at 31.3.08, if interest rates had been 1% higher with all other variations held constant, the financial effect would be:

- In view that the Authority has no variable rate investments or borrowings, there is no financial impact on the Authority's financial performance for 2007-08 as reported in the key financial statements.
- Decrease in fair value of fixed rate investment assets - £86,000 approximately, no impact on the Income and Expenditure and STRGL; and
- Decrease in fair value of fixed rate borrowings - £227,000, no impact on Income and expenditure account or STRGL.

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Authority does not invest in equity shares and therefore is not exposed to losses arising from movements in the price of the shares.

Foreign Exchange Risk

The Authority has no financial assets or a liability denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

26 Post Balance Sheet Events

There have been no events since 31st March 2008 that require adjustments of, or disclosure in, the accounts.

27 Contingent Assets and Liabilities

There are no material contingent assets or liabilities as at 31st March 2008.