EAST LONDON WASTE AUTHORITY
STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2016

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Contents

NARRATIVE REPORT

1. Preface

1.1 The narrative report is a statement of an authority's financial performance and demonstration of value for money of the use of its resources over the financial year. All public authorities in England are required to provide a narrative report with the Statement of Accounts under the Accounts and Audit Regulations 2015.

1.2 This publication presents the Authority's Accounts for the year ended 31 March 2016. 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.

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

2. Key Financial Statements

2.1 The Statement of Accounts for 2015-16 sets out the Authority's income and expenditure for the financial year ending 31 March 2016 along with a number of supplementary statements and disclosure notes. The financial statements have been prepared adhering to the CIPFA'S code of practice and the International Financial Reporting Standards. The key financial statements and disclosure notes contained in the Statement of Accounts for 2015-16 are as follow:

a) The Movement in Reserves Statement (MiRS) – This Statement sets out the movement on the different reserves held by the Authority. It analyses the increase or decrease in net worth of the Authority as a result of incurring expenses, gathering income and from movements in the fair value of the assets. It also analyses the movement between reserves in accordance with statutory provisions.

b) The Comprehensive Income and Expenditure Statement (CIES) – This Statement summarises the costs of the services provided by the Authority and how they are met from resources such as service income, government grants and the levy income.

c) The Balance Sheet – This records the Authority's year-end financial position. It shows the Authority's reserves, and its long and short term assets and liabilities.

d) The Cash Flow Statement – This summarises the flows of cash that have taken place into and out of the Authority's bank accounts over the financial year. It shows cash flow movement as a result of the Authority's operations, investing activities and financing decisions.

e) Notes to the Financial Statements – The notes provide more detail about the items contained in the key financial statements, the Authority's Accounting Policies and other information to aid the understanding of the financial statements.

AN INTRODUCTION TO EAST LONDON WASTE AUTHORITY (ELWA)

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 2016. Further information on the nature and purposes of the Authority's expenditure is contained in the annual Revenue and Capital Budgets which can be accessed on the ELWA website, http://www.recycleforyourcommunity.com

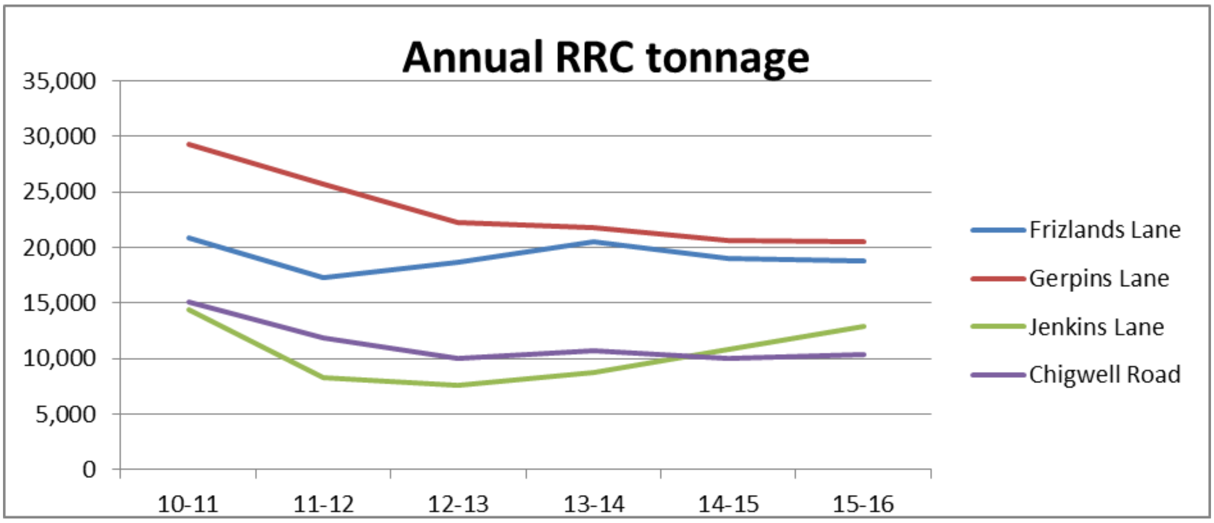
2. Performance

2.1 The principal activity driver on ELWA's budget is the level of waste tonnage delivered from the Constituent Councils. The 2015/16 Budget assumed annual waste tonnages of 442,500. Earlier in the year it was projected and reported to Members that tonnages could be slightly below this at 437,000 tonnes but due partly to the mild winter tonnages in recent months these have been above profiled levels and the provisional outturn shows tonnages broadly in line with budget (441,200 tonnes).

2.2 The following table (2.4) shows the breakdown of tonnages compared to previous years. It should be noted that the controls introduced at the Reuse & Recycling Centres (RRC) continue to abate tonnages brought into the sites and when compared with the tonnages delivered prior to the introduction of the revised controls at the sites, tonnages remain significantly lower. The slight increase in tonnages experienced can partly be explained by the increase in usage at the sites, Jenkins Lane in particular, during the period of LBBD collection crew's industrial actions.

2.3 Further enhancements to monitoring at the RRC sites are in place, which includes the installation of an Automatic Number Plate Recognition (ANPR) monitoring system which came into operation in February 2016. Officers will monitor this during 2016/17 to determine any impact on tonnages.

2.4



3. Income and Expenditure Account

3.1 In June 2015 a new agreement was made with the operator relating to the provision for revised diversion supplements. The new agreement has been designed to incentivise the operator to divert from landfill as much waste as possible and therefore passes the risk of diversion performance on to the operator. This means that diversion performance is no longer a variable affecting the cost of the contract to ELWA and therefore cost pressures in respect of the contract will only relate to tonnage levels. 2016/17 budgets reflect the new financial arrangement; however there has been an adverse effect on the 2015/16 outturn.

3.2 The Authority's budget for 2015/16 projected that there would be a net deficit of £300,000 which would require the use of Revenue reserves in order to ensure that a balanced budget was achieved. Actual waste tonnage was broadly on target, however the additional cost of the new diversion agreement has had a negative impact on the final net revenue expenditure position. This is summarised in the table below.

3.3

Authority Budget Monitoring Statement to 31 March 2016	**Budget**	**Actual**
	£000	**£000**
Net Expenditure on Services	57,692	58,158
PFI Grant	(3,991)	(3,991)
Levy Raised	(53,401)	(53,401)
Net revenue outturn before accountancy adjustments & contribution from reserves	**300**	**766**
Contribution from Reserves	(300)	(300)
Revenue overspend for the period	**-**	**466**

3.4 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 surplus of £246,000. The table on page 7 provides a reconciliation between this net surplus figure and the final outturn position shown above of a £766,000 deficit before contributions from reserves. Further detailed analysis can be seen in Note 19.

4. Reserves Strategy

4.1 The Authority's reserves are a vital part of its financial management arrangements that cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and cushion the impact of unexpected events or emergencies.

4.2 The approach to reserves is a continuation of ELWA's long-term strategy. The Authority has agreed to set aside a minimum level of normal operational revenue balances based on an analysis of risk. Both reserve balances and risk are constantly reviewed as part of this Budget Strategy process.

4.3 Further details can be found in the 2015/16 Levy report (09.02.15) and the 2016/17 Levy Report (08.02.16). Both reports are available at: http://www.recycleforyourcommunity.com/waste_authority/meetings/default.aspx

4.4 In the 2015/16 Levy report the strategy proposed a build-up of the revenue reserve balance to total £3,000,000 for the year ended 31 March 2016 and £3,750,000 by 31 March 2017.

4.5 The actual balance for the revenue reserve as at 31 March 2016 is £1,793,000 (See table at 4.10) a shortfall from the 2015/16 target of £1,207,000.

4.6 The revenue reserve forms part of the usable reserves. The total actual balance for usable reserves as at 31 March 2016 is £2,308,000 (see MIRs page 14). This includes other usable reserves amounting to £515,000 (earmarked capital reserve £400,000, and earmarked capital receipts reserve £115,000).

4.7 In February 2016, the 2016/17 Levy Report proposed that the revenue budget included contributions to the revenue reserve of £1,207,000 along with a transfer of £300,000 from the earmarked capital reserve, totalling £1,507,000. However these contributions will now not achieve the 2016/17 target leaving a projected shortfall of £450,000.

4.8

Total Revenue Reserve	2015/16 Levy Report Proposed Balance	2015/16 Actual & 2016/17 Budgeted Balance	Shortfall
	£000	**£000**	**£000**
Balance at 31 March 2016	3,000	1,793	1,207
Addition to Revenue Reserve	750	1,507	(757)
Estimated Working Balance at 31 March 2017	**3,750**	**3,300**	**450**

4.9 This difference along with any other changes will be considered and dealt with as part of the 2017/18 to 2019/20 Financial Projection and Budget Strategy report due in November 2016 and the subsequent Levy setting process.

4.10 Reconciliation of the Accounting Adjustments required under IFRS.

	Actual £000	Actual £000
Balance before accountancy adjustments (see Note 19)		**766**
Accountancy adjustments		393
Balance of net expenditure to be financed by reserves		1,159
PFI contract accountancy adjustments (see Note 26):		
Service Charge	(7,646)	
Lifecycle Asset Addition	(1,795)	
Contingent Rent	(2,464)	
Depreciation and Impairment of PFI assets	5,646	
Interest Payable on Finance Leases	4,854	(1,405)
Surplus for the year after PFI adjustments		**(246)**
Movement between Revenue Reserve and Other Reserves		
Capital Receipts Reserve	115	
Transfer from Capital Adjustment Account	1,356	
Accumulated Absences Account	(4)	
Transfer to Pensions Reserve	(47)	1,420
Net Effect on Revenue Reserve		**1,174**
Revenue Reserve Brought Forward		(2,967)
Revenue Reserve Carried Forward		**(1,793)**

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

5. Capital Programme/Borrowing Facilities

5.1 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.

5.2 During 2015/16 the Authority disposed of the Hall Farm, North Ockendon, landfill site and received a capital receipt for £115,000. This has been placed within the Capital Receipts Reserve.

5.3 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 2015/16.

6. ELWA Operations

6.1 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 direct operational responsibilities have been in relation to its closed landfill sites. Following the sale of Hall Farm, the authority is now responsible for three sites.

7. Local Government Pension Scheme (LGPS)

7.1 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.

7.2 The results of the 2013 triennial actuarial valuation were used as part of the calculations for these accounts. The next valuation is due as at 31 March 2016 and this information will be used in the 2016/17 accounts.

7.3 As at 31 March 2016 the Authority's estimated liability for retirement benefits exceeded the value of assets by £1,494,000 (as at 31 March 2015 £1,539,000) when valued in accordance with the accounting standards. The decrease in liability was due to the decrease in the present value of the scheme's obligation being greater than the decrease in the fair value of the fund's assets.

7.4 Following the Public Pensions Services Act 2013 from 1 April 2014 the LGPS scheme became a career average revalued earnings' (CARE) scheme with new contribution bands and rates.

8. Fire at Frog Island

8.1 On 4 August 2014 there was a fire at the Authority's Mechanical Biological Treatment (MBT) facility on Frog Island. The main damage was to the refinement section with a loss of all conveyors and most of the attached machines.

8.2 The loss of operations and royalty income for this period along with the replacement of the asset led to a significant claim to the insurers. The claim was accounted for within the 2014/15 Statement of Accounts and was received during 2015/16.

8.3 The claim resulted in a large increase in the renewal premium. ELWA's contribution for the year beginning 1 January 2015 increased from £175,000 to £1,000,000. A quarter of this increase was charged to the 2014/15 accounts but the full impact was felt in the 2015/16 accounts.

8.4 ELWA's contribution for the 1 January 2016 renewal premium was £1,300,000. This increase maintained the uplift but also takes account of general market increases.

9. Future Outlook

9.1 The future outlook for the Authority depends heavily on the pattern of waste tonnage growth across the four constituent councils. In previous years the levy has been mitigated by the use of reserves. This approach however is not sustainable and the three year Financial Strategy starting in 2016/17 assumes no further use of reserves. It also assumes that funds are put aside into a strategy reserve to cover costs arising out of the post 2027 waste disposal arrangements. The 2016/17 levy increased by 5.9% of which 1.8% reflected the reduction in the use of reserves to support the levy and the establishment of the Strategy Reserve.

9.2 The constituent councils covered by the East London Waste Authority over the next few years will face major demographic changes leading to the need for significant additional housing. This will result in an upward pressure on costs even if tonnages per household can be limited or reduced.

9.3 Because of the underlying level of waste growth and with inflation built into the contract, the levy will continue to increase each year. Officers of ELWA and the constituent councils continue to seek efficiency savings but unless these are substantial then constituent councils will face levy increases at the same time as central government funding to local authorities is significantly reduced.

10. Conclusion

10.1 The Statement of Accounts provides a detailed and comprehensive picture of the Authority's performance for 2015/16, as required by statute.

10.2 I should like to thank the ELWA staff and the relevant staff and colleagues in the four Constituent Councils who have helped to prepare this document.

10.3 A thorough understanding of the Authority’s financial position is essential in the light of the financial challenges that it faces. I hope that Members of the Authority, residents of the constituent boroughs and other readers find this document useful.

M G Christofi, BA (Hons), FCCA, CPFA
Finance Director
30 September 2016

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 ensure 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 2016 and its income and expenditure for the year ending 31 March 2016.

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 2016 and the Authority's financial position as at 31 March 2016.

M G Christofi, BA (Hons), FCCA, CPFA
Finance Director
30 September 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EAST LONDON WASTE AUTHORITY

1. We have audited the financial statements of East London Waste Authority for the year ended 31 March 2016 on pages 14 to 60. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Finance Director and auditor

3. As explained more fully in the Statement of the Finance Director's Responsibilities, the Finance Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that the financial statements give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

4. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are 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 Finance Director; and the overall presentation of the financial statements.
5. In addition, we read all the financial and non-financial information in the Narrative Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

6. In our opinion the financial statements:
    - give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority's expenditure and income for the year then ended;
    - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Matters on which we are required to report by exception

7. The Code of Audit Practice requires us to report to you if:

- the Annual Governance Statement set out on pages 61 to 67 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Narrative Statement for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014; or
- any other special powers of the auditor have been exercised under the Local Audit and Accountability Act 2014.

8. We have nothing to report in respect of these matters.

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

Authority's responsibilities

9. 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

10. We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 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 Comptroller and Auditor General (C&AG) requires us to report to you our conclusion relating to proper arrangements.
11. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

12. We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the C&AG in November 2015, as to whether East London Waste Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether East London Waste Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

13. We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, East London Waste Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

14. On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, East London Waste Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

15. We certify that we have completed the audit of the financial statements of East London Waste Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Philip Johnstone
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

30 September 2016

MOVEMENT IN RESERVES STATEMENT

1. 2015/16 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 on page 16 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 (Revenue Contributions)	Earmarked Capital Receipts Reserve	**Total Earmarked Reserves**	Revenue Reserve Balance	**Total Usable Reserves**	Capital Adjustment Account	Revaluation Reserve	Pension Reserve	Accumulated Absences Account	**Unusable Reserves**	**Total Authority Reserves**
	£000	£000	**£000**	£000	**£000**	£000	£000	£000	£000	**£000**	**£000**
Balance at 31 March 2015	**(400)**	**-**	**(400)**	**(2,967)**	**(3,367)**	**11,542**	**(33,614)**	**1,539**	**1**	**(20,532)**	**(23,899)**
Movement in Reserves during 2015/2016											
(Surplus) on the provision of service	-	-	**-**	(246)	**(246)**	-	-	-	-	**-**	**(246)**
Other Comprehensive Income and Expenditure	-	-	**-**	-	**-**	-	-	(92)	-	**(92)**	**(92)**
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	(246)	**(246)**	**-**	**-**	**(92)**	**-**	**(92)**	**(338)**
Adjustment between accounting basis and funding basis under regulations (Note 6)	-	(115)	**(115)**	1,420	**1,305**	(1,909)	553	47	4	**(1,305)**	**-**
Net Decrease / (Increase) before Transfers to Earmarked Reserves	**-**	**(115)**	**(115)**	**1,174**	**1,059**	**(1,909)**	**553**	**(45)**	**4**	**(1,397)**	**(338)**
Transfers to / from Earmarked Reserves (Note 7)	-	-	**-**	-	**-**	-	-	-	-	**-**	**-**
Decrease / (Increase) in 2015/16	**-**	**(115)**	**(115)**	**1,174**	**1,059**	**(1,909)**	**553**	**(45)**	**4**	**(1,397)**	**(338)**
Balance at 31 March 2016 carried forward	**(400)**	**(115)**	**(515)**	**(1,793)**	**(2,308)**	**9,633**	**(33,061)**	**1,494**	**5**	**(21,929)**	**(24,237)**

2. 2014/15 Movement

	Earmarked Capital Reserve (Revenue Contributions)	Earmarked PFI Contract Reserve	**Total Earmarked Reserves**	Revenue Reserve Balance	**Total Usable Reserves**	Capital Adjustment Account	Revaluation Reserve	Pension Reserve	Accumulated Absences Account	**Unusable Reserves**	**Total Authority Reserves**
	£000	£000	**£000**	£000	**£000**	£000	£000	£000	£000	**£000**	**£000**
Balance at 31 March 2014	**(400)**	**(1,945)**	**(2,345)**	**(5,567)**	**(7,912)**	**10,166**	**(2,680)**	**1,111**	**4**	**8,601**	**689**
Movement in Reserves during 2014/2015											
Deficit on the provision of service	-	-	**-**	5,969	**5,969**	-	-	-	-	**-**	**5,969**
Other Comprehensive Income and Expenditure	-	-	**-**	-	**-**	-	(30,949)	392	-	**(30,557)**	**(30,557)**
Total Comprehensive Income and Expenditure	**-**	**-**	**-**	5,969	**5,969**	**-**	**(30,949)**	**392**	**-**	**(30,557)**	**(24,588)**
Adjustment between accounting basis and funding basis under regulations (Note 6)	-	-	**-**	(1,424)	**(1,424)**	1,376	15	36	(3)	**1,424**	**-**
Net Decrease / (Increase) before Transfers to Earmarked Reserves	**-**	**-**	**-**	**4,545**	**4,545**	**1,376**	**(30,934)**	**428**	**(3)**	**(29,133)**	**(24,588)**
Transfers to / from Earmarked Reserves (Note 7)	-	1,945	**1,945**	(1,945)	**-**	-	-	-	-	**-**	**-**
Decrease / (Increase) in 2014/15	**-**	**1,945**	**1,945**	**2,600**	**4,545**	**1,376**	**(30,934)**	**428**	**(3)**	**(29,133)**	**(24,588)**
Balance at 31 March 2015 carried forward	**(400)**	**-**	**(400)**	**(2,967)**	**(3,367)**	**11,542**	**(33,614)**	**1,539**	**1**	**(20,532)**	**(23,899)**

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.

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure /Income £000		2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure /Income £000
328		328	Supplies and Services	1,205		1,205
44,703		44,703	Service Charges (Note 26)	43,094		43,094
671		671	Employee and Support Services	680		680
124		124	Premises Related Expenditure	121		121
2		2	Transport Related Expenditure	2		2
6,129		6,129	Depreciation and Impairment of Fixed Assets (Note 9)	5,646		5,646
2,958		2,958	Third Party Payments	2,683		2,683
	2,836	(2,836)	Commercial Waste Charges		2,486	(2,486)
	4,065	(4,065)	PFI and other Grants (Note 22)		4,008	(4,008)
	3,367	(3,367)	Other Income		1,158	(1,158)
54,915	**10,268**	**44,647**	**Cost of Services**	**53,431**	**7,652**	**45,779**
9,491	109	9,382	Financing and investment income and Expenditure (Note 8)	7,493	117	7,376
64,406	**10,377**	**54,029**	**Net Operating Expenditure**	**60,924**	**7,769**	**53,155**
	48,060	(48,060)	Income from Levy		53,401	(53,401)
64,406	**58,437**	**5,969**	**Deficit/(Surplus) on provision of services**	**60,924**	**61,170**	**(246)**
		(30,949)	Surplus on revaluation of Property, plant and equipment assets (Note 9)			-
		392	Actuarial (gains)/losses on pension assets/Liabilities (Note 27)			(92)
		(30,557)	**Other Comprehensive Income and Expenditure**			**(92)**
		(24,588)	**Total Comprehensive Income and Expenditure**			**(338)**

BALANCE SHEET

The Balance Sheet shows the value as at the 31 March 2016 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 2015 £000		Notes	31 March 2016 £000
106,570	Property, Plant & Equipment	**9**	102,608
106,570	**Long Term Assets**		**102,608**
11,540	Short Term Investments	**30**	7,838
2,468	Short term Debtors	**11**	1,627
14,008	**Current Assets**		**9,465**
(26)	Short Term Borrowing	**30**	(26)
(5,796)	Short Term Creditors	**13**	(6,495)
(250)	Provisions	**28**	(250)
(4,284)	Cash and Cash Equivalents	**12**	(44)
(10,356)	**Current Liabilities**		**(6,815)**
(1,250)	Long Term Borrowing	**30**	(1,250)
(83,534)	PFI Finance Lease Liability	**26**	(78,277)
(1,539)	Pension Liability	**27**	(1,494)
(86,323)	**Long Term Liabilities**		**(81,021)**
23,899	**Net Assets / Liabilities**		**24,237**
(3,367)	Usable Reserves	**14**	(2,308)
(20,532)	Unusable Reserves	**15**	(21,929)
(23,899)	**Total Reserves**		**(24,237)**

M G Christofi, BA (Hons), FCCA, CPFA
Finance Director
30 September 2016

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. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of levy and grant income or from the recipients of services provided by the authority. 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.

2014/15 £000		**2015/16 £000**
(5,969)	Deficit/(Surplus) on the provision of services	246
5,096	Adjustments to net deficit on the provision of services for non- cash movements	7,234
(873)	**Net cash flows from Operating Activities (Note 16)**	**7,480**
5,863	Investing Activities **(Note 17)**	2,017
(4,386)	Financing Activities **(Note 18)**	(5,257)
604	**Net (decrease)/increase in cash and cash equivalents**	**4,240**
(4,888)	Cash and cash equivalents at the beginning of the reporting period	(4,284)
(4,284)	**Cash and cash equivalents at the end of the reporting period (Note 12)**	**(44)**

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

1.1 The Statement of Accounts summarises the Authority's transactions for the 2015/16 financial year and its position at the year-end on 31 March 2016. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* and the *Service Reporting Code of Practice 2015/16*, 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 and financial instruments.

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 yet paid for at 31 March 2016.

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.

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

5. Charges to Revenue for Non-current Assets

5.1 The Authority's accounts are charged with the following amounts to record the cost of holding non-current assets during the year:

a) depreciation attributable to the assets used by the service;

b) revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;

c) amortisation of intangible assets attributable to the service.

5.2 The Authority is not required to raise a levy to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance.

5.3 Depreciation, revaluation and impairment losses and amortisation are therefore replaced by a contribution in the Revenue Reserve called the Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement.

6. Employee benefits

Benefits Payable during Employment

6.1 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

6.2 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 and can no longer withdraw the offer or when the authority recognises costs for restructuring.

6.3 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.

7. Pension Provision

7.1 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.

7.2 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.

7.3 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.

7.4 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 £5,000 lower (£14,000 lower in 2014/15).

b) Pension costs have increased to £52,000. This is the result of pension interest costs being higher than expected returns on assets.

c) The liability in the balance sheet has decreased and is now £1,494,000 (£1,539,000 in 2014/15).

d) An actuarial gain of £92,000 (£392,000 loss in 2014/15) 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.

8. Discretionary Benefits

8.1 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.

9. Financial Instruments

9.1 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

9.2 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.

9.3 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.

9.4 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.

9.5 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

9.6 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.

10. Loans and Receivables

10.1 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.

10.2 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.

10.3 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.

11. Government Grants and Contributions

11.1 Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as due to the Authority when there is reasonable assurance that:

a) The Authority will comply with the conditions attached to the payments, and

b) The grants or contributions will be received.

11.2 Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

11.3 Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the Comprehensive Income and Expenditure Statement.

12. Interests in Companies and Other Entities

12.1 The Authority annually reviews the extent to which other entities (in 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.

13. Leases

13.1 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.

<u>The Authority as Lessee</u>

<u>Finance Leases</u>

13.2 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.

13.3 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).

13.4 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).

13.5 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

13.6 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

13.7 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.

13.8 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).

13.9 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.

13.10 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

13.11 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.

14. Property, Plant and Equipment

Recognition

14.1 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.

14.2 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.

Measurement

14.3 Fixed assets related to the PFI Scheme were revalued on 31st March 2015 by Wilks Head & Eve LLP, Chartered Surveyors, who are independent external RICS registered valuers. The Valuation was prepared in accordance with the Red Book UK Appendix 5, Valuation of Local Authority Assets. Due to the specialised nature of the asset, the revaluation was carried out using both the Depreciated Replacement Cost and Existing Use Value methodologies in order to determine the fair value. Fixed assets are classified into the groupings required by the 2015-16 Code of Practice on Local Authority Accounting and are included in the balance sheet at fair value.

14.4 Fixed assets are revalued sufficiently regularly to ensure that their carrying value is not materially different from fair value but as a minimum are revalued every five years.

14.5 Properties regarded by the Authority as non-operational have been valued on the basis of surplus assets – which is fair value estimated at highest and best use from a market participant's perspective i.e. open market value.

14.6 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.

Impairment

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

14.8 Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

14.9 Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

15. Depreciation

15.1 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 the useful life of the asset as estimated by the valuer.

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

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

15.2 Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

16. Component Accounting

16.1 The Code requires that each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total asset cost is depreciated separately. A significant part of an item of Property, Plant and Equipment 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 that same item. Such parts may be grouped in determining the depreciation charge.

16.2 The following asset classes will not be considered for componentisation:

a) Equipment – as considered immaterial;

b) Infrastructure – the adoption of the Code of Practice on Transport Infrastructure Assets in 2016/17 will require the separate valuation and depreciation of the components of the newly created Highways Network Asset;

c) Asset classes that are not depreciated – such as land, investment property, surplus assets, community assets and assets held for sale.

16.3 The principal asset that the Authority holds on its balance sheet relates to its PFI asset. This was revalued 31 March 2015 and can be broken down into six individual sites.

16.4 For component depreciation the Authority will only consider sites:

a) with a cost or fair value above 3.5% of the total pfi asset;

b) and then will only separate components with a cost or fair value of more than 20% of the individual asset;

16.5 It has been estimated that the remaining useful life of the PFI asset is 17 years, ending on 31st March 2033.

16.6 The six sites that make up the PFI are:

a) Jenkins Lane Bio Mrf, Mrf and RRC Site (Beckton)

b) Frog Island Bio Mrf and Mrf (Rainham)

c) Frizlands Lane RRC Site (Dagenham)

d) Gerpins Lane RRC Site (Havering)

e) Chigwell Road RRC Site (Woodford)

f) Ilford Recycling Centre (Ilford)

17. Disposals and Non-current Assets Held for Sale

17.1 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.

17.2 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.

17.3 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.

17.4 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.

17.5 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.

18. Private Finance Initiative (PFI) and Similar Contracts

18.1 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.

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

18.3 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 Standard (IAS) 17.

18.4 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.

18.5 The annual amounts payable to the PFI operator are analysed into five elements:

a) The fair 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) Contingent rent, which relates to any increase in the amount to be paid for property arising during the contract. This is then debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

d) The payment towards the liability, which writes down the liability towards the PFI operator in the Balance Sheet. (Calculated using the same principles as for a finance lease).

e) Lifecycle replacement costs. When appropriate, 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.

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 (Revenue Contribution) exists primarily to enable expenditure to be financed without the need to borrow or use capital receipts.

19.4 The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

19.5 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 2016. 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.

19.6 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 Account reflects untaken leave balances outstanding as at the 31 March 2016.

20. Value Added Tax

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

21. Financial Relationship between the Authority and Constituent Councils

21.1 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.

22. Financial Relationships with Companies and other Organisations

22.1 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.

23. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

NOTES TO THE STATEMENT OF ACCOUNTS

1. Adoption of Accounting Standards that have been issued but not yet been Adopted

1.1 Under the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the code) the Authority is required to disclose information relating to the expected impact of an accounting change that will be required by a new accounting standard that has been issued but not yet adopted by the code.

1.2 The following standards have been issued that will be adopted by the Code in 2016/17 and will be applicable to the Authority from 1 April 2016:

1.3 IAS 1 Presentation of Financial Statements; This standard provides guidance on the form of the financial Statements. The format of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement will change and introduce a new Expenditure and Funding Analysis.

1.4 Other changes due to the annual improvements to IFRSs, IFRS 11 Joint Arrangements, IAS 16 Property Plant and Equipment, IAS 38 Intangible Assets, and a change to IAS 19 Employee Benefits are minor and not expected to have a material effect on the Authority's Statement of Accounts.

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 2016 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 be subject to unknown future change.	The write down of the PFI liability in the balance sheet is based upon a capital model calculated at the start of the contract and is not affected by annual fluctuation. Therefore any increase or decrease in the actual cost of the service for each year will impact on the comprehensive income and expenditure account and revenue reserve.
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 £62,000. 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, based upon current depreciation a one year's reduction in useful life would result in an increased depreciation of £380,000 per year.

4. Material Items of Income And Expense

Landfill Site Disposal

4.1 The landfill site at Hall Farm, North Ockenden, Essex was sold on 17 March 2016 for £115,000. The non-operational asset was held in the accounts with a carrying value of £110,000. The £5000 surplus from the sale was credited to the Comprehensive Income and Expenditure Statement to offset the cost of sale of £4,600. The cash receipt of £115,000 is being held within the Balance Sheet - Capital Receipts Reserve.

5. Events after the Balance Sheet date

5.1 The Statement of Accounts was authorised for issue by the Finance Director on 30 June 2016. 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 2016, the figures in the Statement of Accounts and notes have been adjusted in all material respects to reflect the impact of this information.

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

6. Adjustment between accounting basis and funding basis under regulations

6.1 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.

6.2 For descriptions of the reserves refer to item 19 on page 28.

2015/16

	Usable Reserves			
	Revenue Reserve Balance	Capital Reserve (Revenue Contributions to Capital Outlay)	Capital Receipts Reserve	Movement in Unusable Reserves
Adjustments to the Revenue Resources:	**£000**	**£000**	**£000**	**£000**
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Pensions costs transferred to (or from) the Pensions Reserve (see note 27.3)	(47)	-	-	47
Holiday pay - transferred to the Accumulated Absences	(4)	-	-	4
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(110)	-	-	110
Total adjustments to the Revenue Resources	**(161)**	**-**	**-**	**161**
Adjustments between Revenue and Capital Resources:				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	115	-	(115)	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	61	-	-	(61)
Reversal of Charges for depreciation and impairment of PFI non-current assets (transfer to/from the Capital Adjustment Account)	(5,646)	-	-	5,646
Statutory provision for the financing of PFI capital investment (transfer to/from the Capital Adjustment Account)	7,051	-	-	(7,051)
Total adjustments between Revenue and Capital Resources	**1,581**	**-**	**(115)**	**(1,466)**
Total Adjustments as shown in Movement in Reserves Statement	**1,420**	**-**	**(115)**	**(1,305)**

2014/15 Comparative Figures

	Usable Reserves			
	Revenue Reserve Balance	Capital Reserve (Revenue Contributions to Capital Outlay)	Capital Receipts Reserve	Movement in Unusable Reserves
Adjustments to the Revenue Resources:	**£000**	**£000**	**£000**	**£000**
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Pensions costs transferred to (or from) the Pensions Reserve (see note 27.3)	(36)	-	-	36
Holiday pay - transferred to the Accumulated Absences	3	-	-	(3)
Total adjustments to the Revenue Resources	**(33)**	**-**	**-**	**33**
Adjustments between Revenue and Capital Resources:				
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	62	-	-	(62)
Reversal of Charges for depreciation and impairment of PFI non-current assets (transfer to/from the Capital Adjustment Account)	(6,129)	-	-	6,129
Statutory provision for the financing of PFI capital investment (transfer to/from the Capital Adjustment Account)	4,676	-	-	(4,676)
Total adjustments between Revenue and Capital Resources	**(1,391)**	**-**	**-**	**1,391**
Total Adjustments as shown in Movement in Reserves Statement	**(1,424)**	**-**	**-**	**1,424**

7. Transfers to/from Earmarked Reserves

7.1 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 2015/16.

	Balance at 1 April 2014	Transfers Out 2014/15	Transfers in 2014/15	Balance at 31 March 2015	Transfers Out 2015/16	Transfers in 2015/16	Balance at 31 March 2016
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue Reserve:							
PFI Contract Reserve	(1,945)	5,936	(3,991)	-	-	-	-
Capital Reserve (RCCO)	(400)	-	-	(400)	-	-	(400)
Total	**(2,345)**	**5,936**	**(3,991)**	**(400)**	**-**	**-**	**(400)**

8. Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
5,244	Interest payable and similar charges	4,977
50	Pensions interest cost and expected return on pensions assets	52
-	Impairment of Investment charged / (recovered) (see note 30)	(37)
4,197	Contingent Rent	2,464
(109)	Interest receivable and similar income	(80)
9,382	**Total**	**7,376**

9. Property, Plant and Equipment

Movements on Balances

Movements in 2015/16:

	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 2015	41,532	65,038	106,570	106,168
Additions – Life Cycle costs	221	1,574	1,795	1,795
De-recognition - disposals	(110)	-	(110)	-
Rounding adjustment	(1)	-	(1)	(1)
At 31 March 2016	41,642	66,612	108,254	107,962
Accumulated Depreciation and Impairment				
At 1 April 2015	-	-	-	-
Depreciation charge	1,773	3,873	5,646	5,646
At 31 March 2016	1,773	3,873	5,646	5,646
Net Book Value				
At 31 March 2015	41,532	65,038	106,570	106,168
At 31 March 2016	39,869	62,739	102,608	102,316

Comparative Movements in 2014/15:

	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 2014	94,200	20,609	114,809	114,407
Additions – Life Cycle costs	-	290	290	290
Revaluation(decreases)/increases recognised in The Revaluation Reserve	(52,668)	44,139	(8,529)	(8,529)
At 31 March 2015	41,532	65,038	106,570	106,168
Accumulated Depreciation and Impairment				
At 1 April 2014	28,848	4,501	33,349	33,349
Depreciation charge	5,012	1,117	6,129	6,129
Depreciation (and impairment reversal) written out to the Revaluation Reserve upon revaluation	(33,860)	(5,618)	(39,478)	(39,478)
At 31 March 2015	-	-	-	-
Net Book Value				
At 31 March 2014	65,352	16,108	81,460	81,058
At 31 March 2015	41,532	65,038	106,570	106,168

Additions and Revaluations

9.1 Additions relate to PFI Life Cycle Costs. See Note 26.

9.2 The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued sufficiently regularly and at least every five years. All valuations are carried out by qualified external valuers. In estimating fair value, regard has been had to the nature of the asset and its use, location and size.

9.3 The PFI asset was revalued as at 31st March 2015. Due to the specialised nature of the asset, the revaluation was carried out using both the Depreciated Replacement Cost and Existing Use Value methodologies in order to determine the fair value.

9.4 Previous PFI asset valuations had included parts of the operational machinery along with the building structure, owing to its size. The current valuation has separated this machinery to include it within the Vehicles, Plant, Furniture and Equipment category.

Depreciation

9.5 During the revaluation, the PFI asset remaining useful life was reviewed and extended by an additional 5 years. This has impacted on the annual depreciation charge making it lower than it would have been.

9.6 Depreciation has been calculated on a straight-line basis based on a remaining 17 year useful life.

9.7 From the 1st April 2015, the Authority's assets were assessed as per the Authority's component accounting policy. (See page 26)

9.8 All material components were estimated to have the same remaining useful life of 17 years.

Non-operational Property, Plant and Equipment (Surplus Assets)

9.9 The Authority does not have material surplus assets.

9.10 During 2015/16, Hall Farm landfill site was sold. The fair value of the asset has been removed from the accounts. See Note 4.

9.11 As at the 31 March 2016 the Authority has 3 landfill sites with a total fair value of £242,000. The next valuation is due in 2017.

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 2012	74,793	13,157	**87,950**
31 March 2013	70,258	13,504	**83,762**
31 March 2014	65,352	16,108	**81,460**
31 March 2015	41,532	65,038	**106,570**
31 March 2016	39,870	62,739	**102,609**
Total Cost or Valuation	39,870	62,739	**102,609**

10. Investments

10.1 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.

10.2 The estimated net current liabilities of Aveley Methane as at 31st March 2016 were £588,000 (2014/15: £508,000 post audit) and a loss before tax for the year of £80,000 (2014/15: £67,000 loss). The figures are based on the unaudited Draft Statement of Accounts.

10.3 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.

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

10.5 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 assets of ELWA Limited as at 31 March 2016 were £11,742,126 (2014/15: Net assets £7,511,000). The profit after taxation for the year ended 31 March 2016 was £3,581,305 (2014/15: Loss after taxation £2,400,000). The 2015/16 figures are based on unaudited Statement of Accounts.

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

10.7 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.

10.8 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 (2015/16) and therefore, there is no requirement to produce Group Accounts.

10.9 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 31 shows further details.

11. Short Term Debtors

	31 March 2015 £000	31 March 2016 £000
Central Government Bodies	795	995
Other Local Authorities	946	621
Other entities and individuals	727	11
Total	2,468	1,627

12. Cash and Cash Equivalents

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

	31 March 2015 £000	31 March 2016 £000
Bank current accounts	(4,393)	(157)
Short term deposits	109	113
Total Cash and Cash Equivalents	(4,284)	(44)

13. Short Term Creditors

	31 March 2015 £000	31 March 2016 £000
Central Government Bodies	33	3
Other Local Authorities	305	176
Other entities and individuals	5,458	6,316
Total	5,796	6,495

14. Usable Reserves

14.1 Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement, with further analysis in notes 6 and 7.

15. Unusable Reserves

31 March 2015 £000		31 March 2016 £000
(33,614)	Revaluation Reserve	(33,061)
11,542	Capital Adjustment Account	9,633
1,539	Pensions Reserve	1,494
1	Accumulated Absences Account	5
(20,532)	Total Unusable Reserves	(21,929)

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. 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.

2014/15 £000		2015/16 £000
(2,680)	Balance at 1 April	(33,614)
(30,949)	Upward revaluation of non-current assets not posted to the Provision of Services	-
15	Difference between fair value depreciation and historical cost depreciation written off to Capital Adjustment Account	443
-	Accumulated gains on assets sold written off to Capital Adjustment Account	110
(33,614)	Balance at 31 March	(33,061)

Capital Adjustment Account

15.3 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 additions to those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or subsequent costs 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 subsequent costs. 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.

2014/15 £000		**2015/16 £000**
10,166	Balance at 1 April	11,542
6,129	Reversal of Charges for depreciation and impairment of non-current assets	5,646
(4,676)	Statutory provision for the financing of PFI capital investment	(7,051)
(62)	Statutory provision for the repayment of debt	(61)
(15)	Difference between fair value depreciation and historical cost depreciation written out of the Revaluation Reserve	(443)
-	Accumulated gains on sold non-current asset transferred from Revaluation Reserve to be written off	(110)
-	Non-current asset written off on sale as part of the gain on disposal to the Comprehensive Income and Expenditure Statement	110
11,542	Balance at 31 March	9,633

Pension Reserve

15.4 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.

2014/15 £000		**2015/16 £000**
1,111	Balance at 1 April	1,539
392	Actuarial losses/(gains) on pensions assets and liabilities	(92)
36	Employer's pension contributions and direct payments payable in the year	47
1,539	Balance at 31 March	1,494

Accumulated Absences Account

15.5 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.

2014/15 £000		2015/16 £000
4	Balance at 1 April	1
(3)	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	4
1	Balance at 31 March	5

16. Cash Flow Statement – Operating Activities

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

2014/15 £000		2015/16 £000
	The cash flows for operating activities include the following items	
110	Interest Received	80
(5,244)	Interest Paid	(4,977)
(5,134)	Net Interest	(4,897)

16.2 Cash Flow for Operating Activities:

2014/15 £000		2015/16 £000
(5,969)	Net Surplus on the Provision of Services	246
	Adjustments to net surplus or deficit on the provision of services for the following non cash movements	
6,129	Depreciation	5,646
(1,081)	Increase/(Decrease) in Creditors	699
(238)	(Increase)/Decrease in Debtors	841
36	Actuarial adjustments on pension assets/liabilities	47
250	Increase in Provisions	-
-	Other non-cash adjustments	1
5,096		7,234
(873)	Net cash flows from operating activities	7,480

17. Cash Flow Statement – Investing Activities

2014/15 £000		2015/16 £000
(290)	Purchase of property, plant and equipment	(1,795)
-	Proceeds from sale of property, plant and equipment	110
6,153	Net movement in short-term investments	3,702
5,863	Net cash flows from investing activities	2,017

18. Cash Flow Statement – Financing Activities

2014/15 £000		2015/16 £000
(4,386)	Cash payments for the reduction of the outstanding liabilities relating to the finance leases on balance sheet PFI contracts	5,257
(4,386)	Net cash flows from financing activities	5,257

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 pension 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	2014/15 £000	2015/16 £000
Fees, charges & other service income	(5,932)	(4,164)
Total Income	**(5,932)**	**(4,164)**
Employee expenses	366	349
Other services expenses	62,600	61,973
Total Expenditure	**62,966**	**62,322**
Net Expenditure	**57,034**	**58,158**
PFI Grant Received	(3,991)	(3,991)
Levy Received	(48,060)	(53,401)
Net expenditure in the Authority Analysis	**4,983**	**766**

<u>Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statements</u>

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.

	2014/15 £000	2015/16 £000
Expenditure shown in the Authority Outturn Report	**57,034**	**58,158**
Grant and Levy Received	**(52,051)**	**(57,392)**
Net expenditure in the Authority Analysis	4,983	766
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	50,819	48,740
	55,802	49,506
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	(11,155)	(3,727)
Cost of Services in Comprehensive Income and Expenditure Statement	**44,647**	**45,779**

<u>Reconciliation to Subjective Analysis</u>

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.

2015/16

	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	(4,084)	-	440	**(3,644)**	-	**(3,644)**
Interest and investment income	(80)	-	80	**-**	(117)	**(117)**
Income from Levy	(53,401)	-	53,401	**-**	(53,401)	**(53,401)**
Government grants and contribution	(3,991)	-	(17)	**(4,008)**	-	**(4,008)**
Total Income	**(61,556)**	**-**	**53,904**	**(7,652)**	**(53,518)**	**(61,170)**
Employee and Support Services expenses	680	-	-	**680**	-	**680**
Other service expenses	61,519	43,094	(57,508)	**47,105**	-	**47,105**
Fixed Assets depreciation and impairment	-	5,646	-	**5,646**	-	**5,646**
Interest payments, pension costs and impairment of financial assets	123	-	(123)	**-**	7,493	**7,493**
Total Expenditure	**62,322**	**48,740**	**(57,631)**	**53,431**	**7,493**	**60,924**
Surplus or deficit in the provision of services	**766**	**48,740**	**(3,727)**	**45,779**	**(46,025)**	**(246)**

2014/15 Comparative Figures

	Authority Analysis £000	Amounts not reported to Management for decision making £000	Amounts not included in comprehensive income & expenditure statement £000	Cost of Services £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(5,822)	-	(381)	**(6,203)**	-	**(6,203)**
Interest and investment income	(110)	-	110	**-**	(109)	**(109)**
Income from Levy	(48,060)	-	48,060	**-**	(48,060)	**(48,060)**
Government grants and contribution	(3,991)	-	(74)	**(4,065)**	-	**(4,065)**
Total Income	**(57,983)**	**-**	**47,715**	**(10,268)**	**(48,169)**	**(58,437)**
Employee and Support Services expenses	693	(13)	(9)	**671**	-	**671**
Other service expenses	62,150	44,703	(58,738)	**48,115**	-	**48,115**
Fixed Assets depreciation and impairment	-	6,129	-	**6,129**	-	**6,129**
Interest payments, pension costs and impairment of financial assets	123	-	(123)	**-**	9,491	**9,491**
Total Expenditure	**62,966**	**50,819**	**(58,870)**	**54,915**	**9,491**	**64,406**
Surplus or deficit in the provision of services	**4,983**	**50,819**	**(11,155)**	**44,647**	**(38,678)**	**5,969**

20. Officers' Remuneration

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

2015/16

	Remuneration £	Pension Contribution £	Total £
Managing Director	91,558	15,199	106,757
	91,558	15,199	106,757

2014/15 Comparative Figures

	Remuneration £	Pension Contribution £	Total £
Acting Managing Director	90,212	14,975	105,187
	90,212	14,975	105,187

20.2 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 £29,260 for 2015/16 (2014/15 £28,000) cannot be attributed to any particular officer and is declared here for reasons of transparency.

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

Remuneration Band	**2014/15 Number of employees**	**2015/16 Number of employees**
£50,000 - £69,999	-	-
£70,000 - £74,999	-	-
£75,000 - £79,999	-	-
£80,000 - £84,999		
£85,000 - £89,999	-	-
£90,000 - £94,999	1	1
	1	1

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:

	2014/15 £000	**2015/16 £000**
Fees payable to PricewaterhouseCoopers LLP in 2014/15 and KPMG LLP in 2015/16 with regard to external audit services carried out by the appointed auditor for the year – accounts.	18	18
Total	18	18

22. Grant Income

22.1 The Authority credited the following grants to the Comprehensive Income and Expenditure Statement in 2015/16:

	2014/15 £000	**2015/16 £000**
PFI/Waste Infrastructure Capital Grant (WICG)	3,991	3,991
WRAP Grant	74	17
Total	4,065	4,008

22.2 For PFI/WICG 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 2015/16 provided funding for the Recycle for London (RfL) Launch Campaign 2015.

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 Environment, Food and Rural Affairs award the PFI Grant which has now been renamed the Waste Infrastructure Capital 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 which are not disclosed elsewhere in the Statement of Accounts.

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

	2014/15		2015/16	
	Expenditure £000	Income £000	Expenditure £000	Income £000
Barking & Dagenham	944	(9,964)	1,090	(10,800)
Havering	855	(12,821)	936	(13,460)
Newham	810	(14,041)	844	(16,120)
Redbridge	438	(14,070)	441	(15,507)
Aveley Methane Limited	-	-	-	-
ELWA Limited	55,034	(2,326)	57,945	(2,905)

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

Managing Director, Mark Ash:	Director of ELWA Limited.
Councillor Steven Kelly:	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:

	2014/15 £000	2015/16 £000
Up to one year	317	317
Two to Five Years	1,266	1,266
Six Years to end of lease	2,532	2,216
	4,115	3,799

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 £316,500 (2014/15 £316,500).

25. Capital Expenditure and Capital Financing

25.1 Capital expenditure additions of £1,795,000 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 contracts), together with the resources that have been used to finance it.

25.3 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.

25.4 The CFR is analysed in the second part of this note.

	2014/15 £000	2015/16 £000
Opening Capital Financing Requirement	88,945	84,496
Capital Investment:		
Property, Plant & Equipment	290	1,795
Sources of Finance:		
Direct Revenue Contributions	(290)	(1,795)
Minimum Revenue Provision	(4,449)	(5,317)
Closing Capital Financing Requirement	84,496	79,179
Explanation of movements in year:		
Assets acquired under PFI Contract	290	1,795
Decrease in underlying need for borrowing	(4,739)	(7,112)
Decrease in Capital Financing Requirement	(4,449)	(5,317)

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 9.

26.2 The Government provides PFI grant funding based upon a Notional Credit Approval of £47 million, equivalent to approximately £85 million over 25 years. In 2010/11 the Government changed the annual PFI grant funding from a declining balance basis to an annuity basis with a final payment made in 2026/27. This did not affect the overall total grant in cash terms which has remained the same.

26.3 The Code of Practice 2015/16 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 28.

Future Contractual Obligations

26.4 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 2016 (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 2016/17	**36,817**	**5,290**	**4,539**	**46,646**
Payable within 2 to 5 years	**155,689**	**22,107**	**14,995**	**192,791**
Payable within 6 to 10 years	**209,338**	**35,256**	**10,744**	**255,338**
Payable within 11 to 15 years	**73,828**	**15,624**	**1,082**	**90,534**
Total	**475,672**	**78,277**	**31,360**	**585,309**

26.5 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

	2014/15 £000	2015/16 £000
Balance outstanding at start of the year	**87,920**	**83,534**
Payments during the year	**(4,386)**	**(5,257)**
Balance outstanding at year-end	**83,534**	**78,277**

Unitary Charge

26.6 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.

	2014/15 £000	2015/16 £000
Payments to Shanks East London	58,698	57,464
Capital Repayment	(4,386)	(5,257)
Interest Payable	(5,122)	(4,854)
Life Cycle Costs	(290)	(1,795)
Contingent Rent	(4,197)	(2,464)
Service Charges	**44,703**	**43,094**

26.7 During 2015/16 Lifecycle costs of £1,795,000 were incurred by the PFI contractor of which the full amount was charged to the Unitary Payment.

27. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

Transaction Relating to Post Employment Benefits

27.2 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.

27.3 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:

	2014/15 £000	2015/16 £000
Comprehensive Income and Expenditure Statement		
Cost of Services, employee & support services:		
Current Service Cost	49	60
Financing and Investment Income and Expenditure:		
Net Interest Expense	47	49
Administration Expenses	3	3
Total Post Employment Benefit charged to the Surplus or Deficit on the provision of Services	**99**	**112**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement		
Re-measurement of the net defined benefit liability comprising:		
Return on plan assets	(47)	88
Other actuarial (gains)/losses	-	-
Change in financial assumptions	439	(180)
Change in demographic assumptions	-	-
Experience (gain)/loss on defined benefit obligation	-	-
Total Re-measurements	**392**	**(92)**
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	**491**	**20**
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	(392)	92
Actual amount charged against the Revenue Reserve Balance for pensions in the year	(36)	(47)
Employer's contributions payable to scheme	**63**	**65**

27.4 The underlying assets and liabilities attributable to the Authority with the London Pensions Fund Authority (LPFA) as at 31 March 2016 are as follows:

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

	Funded Liabilities Local Government Pension Scheme	
	2014/15	**2015/16**
	£000	**£000**
Opening Balance at 1 April	3,080	3,742
Current Service Cost	49	60
Interest Cost	136	119
Contributions by scheme participants	34	34
Actuarial gains and losses from changes in demographic assumptions	-	-
Actuarial gains and losses from changes in financial assumptions	439	(180)
Experience (gains)/losses	-	-
Benefits paid	4	(101)
Closing Balance at 31 March	**3,742**	**3,674**

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

	Funded Assets Local Government Pension Scheme	
	2014/15	**2015/16**
	£000	**£000**
Opening fair value of scheme assets	1,969	2,203
Interest Income	89	70
Return on plan assets less interest	47	(88)
Other actuarial gains and (losses)	-	-
Administration Expenses	(3)	(3)
Employer contributions	63	65
Contributions by scheme participants	34	34
Benefits paid	4	(101)
Closing fair value of scheme assets	**2,203**	**2,180**

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

Assets	**2014/15 %**	**2014/15 £000**	**2015/16 %**	**2015/16 £000**
Equities	43	956	46	1,012
LDI/Cash-flow matching	8	165	10	221
Target Return Portfolio	29	637	21	464
Infrastructure	5	109	6	119
Commodities	1	21	-	10
Property	3	62	4	78
Cash	11	253	13	276
Total	**100**	**2,203**	**100**	**2,180**

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

27.8 The actual return on scheme assets in the year was a loss of £18,000 (2014/15 £136,000 gain).

27.9 The asset share as at 31 January 2016 is as follows:

Employer Asset Share – Bid Value		**31 January 2016**	
		% Quoted	**% Unquoted**
Equities			
Segregated	Basic Materials	1.2	-
	Communications	3.9	-
	Consumer, Cyclical	3.3	-
	Consumer, Non-cyclical	14.6	-
	Energy	0.4	-
	Financial	5.7	-
	Industrial	5.9	-
	Technology	2.7	-
	Utilities	0.0	-
Diversified Fund	Equities	1.2	-
	Bonds	0.0	2.5
	Pooled Funds	0.7	1.7
	Cash	0.7	-
	Alternative Assets	-	0.2
Private Equity		-	8.7
LDI		-	10.1
Alternative Debt		-	3.4
Total Return	Fixed Income	5.6	-
	Hedge Funds	-	5.3
Infrastructure		0.3	5.1
Real Estate		-	3.6
Commodity Funds		-	0.4
Cash		13.0	0.5
Derivatives (Currency Hedge)		-	(0.7)
Total		**59.2%**	**40.8%**

<u>Pension Assets and Liabilities Recognised in the Balance Sheet</u>

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

	Funded Liabilities Local Government Pension Scheme	
	2014/15 £000	**2015/16 £000**
Present value of the defined benefit obligation	3,742	3,674
Fair value of plan assets	(2,203)	(2,180)
Net liability arising from defined benefit obligation	**1,539**	**1,494**

27.11 With effect from 1 April 2007 the Authority became an employer. On 1 June 2007 five staff was transferred from the Constituent Councils to the Authority with initially three staff electing to join the LPFA. Membership as at the 31 March 2016 consisted of four active members, one deferred pensioner and two pensioners.

27.12 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 £1,494,000 (£1,539,000 2014/15) 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 there is no material direct impact on the financial position of the Authority. 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.

27.13 The projected employer contributions for the year to 31 March 2017 are £65,000.

Basis for Estimating Assets and Liabilities

27.14 Liabilities have been assessed on an actuarial basis using the projected unit 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 2013, and adjusting for known membership and scheme changes where applicable.

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

	2014/15	2015/16
Mortality assumptions		
Longevity at 65 for current pensioners:		
Men	23.4	23.5
Women	26.2	26.2
Longevity at 65 for future pensioners:		
Men	25.7	25.8
Women	28.4	28.5
Financial Assumptions:		
Rate of Inflation RPI (CPI)	3.1% (2.3%)	3.2% (2.3%)
Rate of increase in salaries	4.1%	4.1%
Rate of increase in pensions	2.3%	2.3%
Rate for discounting scheme liabilities	3.2%	3.5%
Take up of option to convert annual pension into retirement lump sum	-	-

27.16 The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the previous table.

27.17 The sensitivity analyses in the following table have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. For example, the sensitivity analysis impact figure for longevity is based solely on the assumption of life expectancy increasing or decreasing for men and women. Whereas in practice, this is unlikely to occur; as a change in one assumption may affect the other assumptions due to their being interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity Analysis

	Impact on the Defined Benefit Obligation in the Scheme – based on £3,674 (2015/16)	
	Increase in Assumption by 0.1%	**Decrease in Assumption by 0.1%**
Adjustment to:		
- discount rate	3,614	3,736
- long term salary increase	3,677	3,671
- pension increases and deferred revaluation	3,733	3,616
- mortality age rating assumption	3,794	3,558

28. Provisions

28.1 The Authority has a provision for the cost of settling business losses incurred by Aveley Methane Limited.

	2015/16 £000
Balance at 1 April	250
Provision made in 2015/16	-
Balance at 31 March	**250**

28.2 As a result of a reduction in landfill gas levels and the company being unable to recoup losses incurred in recent years, the joint venture partners have agreed in principle that Aveley Methane Limited (see note 10) will be wound up.

28.3 The Authority has a shareholding of 50% of the total issued share capital and as the outcome has not been finalised as yet there is currently a risk that the Authority will have to cover a proportion of the company's net debt when it ceases trading. The net liabilities of Aveley Methane Limited as at 31 March 2015 were £508,000.

28.4 Further funding can be found within the Authority's 2016/17 revenue contingent budget and capital reserve for any additional revenue/capital costs required.

29. Contingent Liabilities

29.1 As at the 31st March 2016 the Authority had one material contingent liability:

Wennington Fly Tipping Clearance

29.2 There is an ongoing possibility that the Authority will have to remove and dispose of waste which was illegally fly tipped at one of the Authority's closed landfill sites. The Managing Director is in receipt of a technical report and is continuing discussions with Thurrock enforcement officers to establish what further action might be required.

29.3 It is difficult to determine the final cost of dealing with the waste. The Authority has no information on the land levels before the fly-tipping, therefore it is difficult to estimate how much waste there is.

29.4 Remedying the illegal waste activity would include surveys, equipment and manpower as well as landfill tax and clean-up/environment costs.

29.5 Removal of the waste and disposal to landfill is seen as a last resort. If the waste has to be removed then other options will be explored to utilise this material elsewhere as the majority of the material is inert. Depending on the action taken the cost could be anything between £10,000 (to tidy the site, remove roads, and re profile the land which will involve cleaning the soil and planting) and in excess of £1,000,000 if 100% of the material is disposed of to landfill.

29.6 The illegal deposit of waste at this site is currently under investigation by the Environment Agency.

30. Financial Instruments

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

	Long-Term		Current	
	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000
Cash at Bank				
Loans and Receivables (note 12)	-	-	(4,284)	(44)
Total Cash at Bank	-	-	(4,284)	(44)
Investments				
Loans and receivables	-	-	11,540	7,838
Total Investments	-	-	11,540	7,838
Debtors				
Loans and receivables	-	-	2,468	1,627
Total Debtors (note 11)	-	-	2,468	1,627
Borrowings				
Financial liabilities at amortised cost	(1,250)	(1,250)	(26)	(26)
Total Borrowings	(1,250)	(1,250)	(26)	(26)
Other long term liabilities				
PFI and finance lease liabilities	(83,534)	(78,277)	-	-
Total other long term liabilities	(83,534)	(78,277)	-	-
Creditors & Provisions				
Financial Liabilities at amortised cost	-	-	(6,046)	(6,745)
Total Creditors & Provisions (notes 13 & 28)	-	-	(6,046)	(6,745)

30.2 Financial Instrument impact on the Comprehensive Income and Expenditure Statement is as follows:

Income, Expense, Gains and Losses

	2014/15					2015/16				
	Financial Liabilities measured at amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through profit and loss	Total	Financial Liabilities measured at amortised Cost	Financial Assets: Loans and Receivables	Financial Assets: Available for sale	Assets and Liabilities at Fair Value through profit and loss	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Interest expense (note 8)	5,244	-	-	-	5,244	4,977	-	-	-	4,977
Contingent Rent	4,197	-	-	-	4,197	2,464	-	-	-	2,464
Pension Interest & expected return on pension assets (note 8)	50	-	-	-	50	52	-	-	-	52
Total expense in Surplus or Deficit on the Provision of Services	**9,491**	**-**	**-**	**-**	**9,491**	**7,493**	**-**	**-**	**-**	**7,493**
Impairment reversal (note 8)	-	-	-	-	-	-	(37)	-	-	(37)
Interest Income (note 8)	-	(109)	-	-	(109)	-	(80)	-	-	(80)
Total income in Surplus or Deficit on the Provision of Services	**-**	**(109)**	**-**	**-**	**(109)**		**(117)**	**-**	**-**	**(117)**
Net loss /(gain) for the year	**9,491**	**(109)**	**-**	**-**	**9,382**	**7,493**	**(117)**	**-**	**-**	**7,376**

Fair Values of Assets and Liabilities

30.3 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.

30.4 The fair value of Public Works loan Board (PWLB) loans is calculated using the premature repayment rate published by the PWLB on the 31 march 2016, making the following assumptions:

a) Estimated ranges of interest rates at 31 March 2016 are 0.21% to 2.20% 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.

30.5 The fair values calculated are as follows:

	31 March 2015		31 March 2016	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial Liabilities				
Long-term creditors				
PFI Liabilities	83,534	83,534	78,277	78,277
Public Works Loan Board	1,250	2,370	1,250	2,313
Short-term creditors				
Public Works Loan Board	26	26	26	26
Creditors (note 13)	5,796	5,796	6,495	6,495
Provisions	250	250	250	250
Cash at bank	4,284	4,284	44	44
Loans and Receivables				
Short-term debtors				
Debtors (note 11)	2,468	2,468	1,627	1,627
Cash Investments	11,540	11,540	7,838	7,838
Total Short –term debtors	14,008	14,008	9,465	9,465

30.6 The fair value of outstanding long term debts as at 31 March 2016 is £2.3 million. (31 March 2015 £2.4 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.

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

30.8 As at 31st March 2016 the Authority had not entered into any financial guarantees.

31. Nature and Extent of Risks arising from Financial Instruments

Overall Procedures for Managing Risk

31.1 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) 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.

31.2 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. Risk management is carried out by the London Borough of Redbridge’s central treasury team, under policies approved by the Authority in the annual Treasury Management Strategy. The Authority provides written principles for overall risk management as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

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

31.4 This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Mitch and Foody's Ratings Services. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

31.5 The credit criteria in respect of financial assets held by the Authority are as detailed below:

Credit risk arising from deposits with Banks and Financial Institutions

31.6 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.

31.7 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.

31.8 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) The UK Government (Debt Management Office and Gilts).

e) Other Local Authorities.

f) Enhanced Cash Funds.

g) Non UK Government and Supranational Institutions.

31.9 Customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the Authority.

31.10 The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £7.838 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. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2016 that this was likely to crystallise.

31.11 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 2015/16 Treasury Management Strategy** **%**	**% Of Total Investment as at 31 March 2016** **%**
UK Government	100	-
Local Authorities	100	-
UK Banks- Specified	100	40
Money Market Funds	75	35
Building Societies - Specified	50	25
Total Unspecified Investments	50	-
Non UK Banks – Specified (subject to group limit)	35	-
Non UK Government and Supranational Bonds (subject to group limit)	35	-
Total Group Non UK Investments	35	-
Corporate Bonds	15	-

31.12 The asset class percentages are well within the Upper limits prescribed in the Authority's Treasury Management Strategy for 2015/16.

31.13 The boundary is set at £1 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.

31.14 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.

<u>Credit risk arising from Authority's exposure from other debtors</u>

31.15 There has been no provision for bad debtors as 31 March 2016 (£nil provision 31 March 2015), as all outstanding debtors are expected to pay.

31.16 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.

31.17 Invoiced payments for services are either required in advance or due at the time the service is provided. As at 31 March 2016, nil amount (£275,000 as at 31 March 2015) 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 2015 £000**	**31 March 2016 £000**
Three months or less	275	-
Four to six months	-	-
Seven months to one year	-	-
One year and over	-	-
	275	-

<u>Liquidity Risk</u>

31.18 The authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that no more than 35% of loans are due to mature within any one year through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments.

31.19 As at 31 March 2016, all of the Authority's outstanding loans were with PWLB.

<u>Refinancing and Maturity Risk</u>

31.20 The maturity analysis for borrowing is as follows:

Renewal Period	**Market Loans Outstanding as at 31st March 2016 £000's**	**Limit of projected Fixed rate Borrowing for each period %**	**% of Total Borrowing 31st March 2016 %**	**% of Total Borrowing 31st March 2015 %**
Less than one Year	-	35	-	2
Between one and two years	-	45	-	-
Between two and five years	-	60	-	-
Between five and ten years	450	80	35	35
More than 10 Years	826	100	65	63
Total	1,276		100	100

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

Market Risk

31.22 The Authority is exposed to 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.

31.23 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.

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

a) Setting a maximum for Authority's borrowings at variable rates. For 2015/16 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.

31.25 The Authority, through the London Borough 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.

31.26 According to this assessment strategy, at 31 March 2015, 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	-
Decrease in fair value of fixed rate borrowings liabilities - No impact on Other Comprehensive Income and Expenditure	174

31.27 As at 31 March 2016 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.

31.28 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 30 – Fair Values of Assets and Liabilities.

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 substantial 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 2015.

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 substantial 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 considered prior to the commencement of the relevant financial year to which it relates. This ensures that the levy report in February takes the ABSDP into account and can fully reflect the likely expenditure commitments arising from the Contract. The ABSDP process also affords opportunity for the constituent councils to provide input into the proposed plans to take into account any planned service changes or requirements in the coming financial year.

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.

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 and discussed throughout all levels of the organisation and those of its partners, in particular to Members and Officers in Authority meetings, Management Board, Operational Management Team and Contract Monitoring Group. Such performance reporting includes not only regular financial monitoring and contract monitoring but also on progress on the contract review and achievement of efficiencies.

5.4 A performance management system is 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 contractual and tendering matters and land acquisition and disposals are outlined within the Constitution. Alongside these are financial regulations relating to income and expenditure and financial authority limits.

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. The Corporate Risk Register 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.

8.3 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. The Authority has the following statutory officers; Head of Paid Service – Managing Director, Section 73 officer (Local Government Act 1985) – 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.

9.2 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 and Whistleblowing procedure embedded in the Constitution. Two key components that support the Strategy are:

a) Whistle blowing arrangements that are available to the general public, employees, and contractors. Our Constituent Councils have their own whistleblowing procedures.

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 The current website for the Authority went live in 2012 and it continues to be developed and maintained. The website is used to engage directly with the community on waste disposal and reduction matter.

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 and liaison with the appropriate central government department. 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 contractor to implement a Communications Strategy to drive through improvements in waste management performance.

14. Partnerships

14.1 The most significant partnerships for the Authority are with its four Constituent Councils and through the IWMS Contract with Shanks Waste Management and John Laing Investments Limited that make up ELWA Limited.

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 Councils including those at the ELWA Management Board, Operational Management Team and Contract Monitoring group.

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 Managing Director has the responsibility for the maintenance and development of the internal control environment. The framework for this is in the Constitution and support is provided by the regular review process carried out by internal audit, external audit and other review agencies.

15.2 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 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 Management Board. At ELWA, this role is held by the Finance Director, with the statutory requirements of the Local Government Act 1985 met by the section 73 Officer. The Authority fully complies with the requirements and principles as set out in the CIPFA Statement on the Role of the Chief Finance 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. 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 Section 73 Officer, following consultation with the Management Board and External Audit as part of the annual planning process.

17.2 The Head of Audit 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 Head of Audit 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 at the time of the audit of the 2015/16 accounts is KPMG, previously it was 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 one overall criterion: that in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. This overall criterion is supported by three sub criteria relating to: informed decision making; sustainable resource deployment; and working with partners and other third parties.

19. Governance and internal control issues requiring improvement and outcome of 2015/16 action plan

19.1 There were four key actions arising from the 2015/16 action plan and these are detailed below.

Contract Management / Contract Monitoring

19.2 The Constituent Councils have devised and agreed individual monitoring arrangements for the delivery of the IWMS contract as each has different challenges. However despite agreeing these monitoring programmes, the Constituent Councils have still not fully implemented them and consequently further steps need to be taken in the monitoring regime to ensure that these elements of the contract are being adhered to.

19.3 The Automatic Number Plate Recognition (ANPR) system was introduced in January 2016. However, it is not yet fully effective and consequently not fully achieving the main aim of reducing costs through the reduction of non-contract waste. The key issues have been identified and need to be actioned during 2016/17.

Business Continuity Planning

19.4 The Authority's Business Continuity Plan (BCP) needed to be implemented during the fire at Frog Island and was found to be effective. This issue is no longer considered to be a significant risk.

Efficiency Savings and Budget Pressures

19.5 The action was to review the progress on the plans to achieve £1.5m efficiency savings.

19.6 The level of savings will be achieved through the ongoing savings from 2014/15 and one off additional payments from the contractor relating to the enforcement of contract provisions. Procedures have been established to monitor the achievement of efficiency savings as part of regular budget monitoring.

19.7 This is still a significant issue for 2016/17.

Physical security of assets

19.8 Improvements made to the physical security at Landfill sites and the illegal road has been removed. In the medium term ELWA is looking to dispose of its Landfill sites or to find alternative uses. This issue is no longer considered to be a significant risk.

20. Annual Governance Statement Action Plan 2016/17

20.1 The actions planned for 2016/17 are detailed below:

Number	Area to develop	Ongoing Action	Timescales	Lead Officer
1	Contract Management	• ELWA to continue to assess and to drive forward the implementation of the Constituent Councils' monitoring programmes for the delivery of the IWMS contracts. • ELWA and Shanks to work with the ANPR system provider to address weaknesses in the system.	March 2017	Managing Director
2	Budget Pressures	Need to meet potential budget pressures in respect of efficiency savings and royalty payments. Plans to be identified to meet the ongoing efficiency saving of £1.5m.	April 2016 to March 2017	Managing Director

Signed:

……………………………………………………………..
Mark Ash (Managing Director)

……………………………………………………………..
Cllr. Ken Clark (Chair) Date:

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.

Component Accounting

Ensures that the overall value of an asset is fairly apportioned over its significant components. Each significant component is identified, valued and accounted for separately if its useful life and method of depreciation is different from the overall asset.

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 dependent 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

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.

Private Finance Initiative

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.

Projected Unit Method

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.

Provisions

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.

Public Works Loans Board (PWLB)

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

Reclassification adjustments

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.

Reserves

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.

Revaluation Reserve

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

Revenue Expenditure

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

Revenue Reserve

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

Surplus or Deficit on the Provision of Services

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

Support Services

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

Total Comprehensive Income and Expenditure

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
MIRs	Movement in Reserves Statement
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