EAST LONDON WASTE AUTHORITY
STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2022

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Contents

NARRATIVE REPORT

Preface

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 previous financial year. All public authorities in England are required by the Accounts and Audit Regulations 2015 to provide a narrative report with the Statement of Accounts (Accounts).

This publication presents the Authority's Accounts for the year ended 31 March 2022. Its purpose is to give clear and concise information about the financial affairs of the Authority to both Members of the Authority and the public.

Any enquiries about the Accounts or requests for further financial information should be addressed to the Finance Department, Lynton House, 255-259 High Road, Ilford, IG1 1NN or ELWA.finance@redbridge.gov.uk.

Key Financial Statements

The Statement of Accounts for 2021/22 sets out the Authority's income and expenditure for the financial year ended 31 March 2022 along with a number of supplementary statements and disclosure notes. The financial statements have been prepared in accordance with CIPFA'S Code of Practice on Local Authority Accounting in the UK and International Financial Reporting Standards. The key financial statements and disclosure notes contained in the Statement of Accounts for 2021/22 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 the net worth of the Authority as a result of incurring expenses, gathering income and from movements in the fair value of its assets. It also analyses the movement between reserves in accordance with statutory provisions.

b) The Comprehensive Income and Expenditure Statement (CIES) – This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. The Authority raises a levy to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The levy position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

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 Expenditure and Funding Analysis note shows how annual expenditure is used and funded from resources in the Authority's Budgetary Control Report and reconciles it with the Comprehensive Income and Expenditure Statement, which shows those resources consumed or earned in accordance with generally accepted accounting practices.

Organisational Overview and External Environment

The East London Waste Authority (ELWA, also referred to as the Authority) was created by regulations made under the Local Government Act 1985. From 1 April 1986, ELWA assumed responsibility for the disposal of waste arising in the area covered by the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge. The boroughs have a combined population of over 1.1 million people living in over 400,000 households, and each is responsible for the collection of household waste in their areas for disposal by the Authority of over 450,000 tonnes.

The Authority's current Strategy as reviewed in 2006[1] sets out its vision "To provide an effective and efficient waste management service that is environmentally acceptable and delivers services that local people value". It sets out how the Authority, together with the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge, intend to manage municipal solid waste by means of a Vision, Objectives and Targets.

The Authority has worked with the Constituent Councils to develop a new 'Joint Strategy for East London's Resources and Waste' to plan for the delivery of services, infrastructure, communication and engagement at the end of the existing Integrated Waste Management Services (IWMS) contract. This Joint Strategy was formally adopted by all five Partner Authorities in early 2022 and applies from 2027 to 2057.

In early 2022 the Authority launched the Procurement and Contract Expiry (PACE) Programme, which will cover the various strands of work required to prepare for the end of the IWMS Contract and the procurement of new arrangements and services to replace it. The PACE Programme Board has been established to ensure good governance of this programme.

The Authority is continuing to engage in and monitor the development of proposals and initiatives under the national Resources and Waste Strategy and the London Environment Strategy.

The Statement of Accounts sets out the Authority's financial position for the year to 31 March 2022. Further information on the nature and purposes of the Authority's expenditure is contained in the annual Revenue and Capital Budgets and the Budgetary Control monitoring reports which can be accessed on the ELWA website, http://eastlondonwaste.gov.uk/meetings/.

Governance

The Annual Governance Statement accompanying the Statement of Accounts (Appendix A) covers the Authority's governance arrangements as well as internal control issues. The Managing Director has 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 processes carried out by Internal Audit, External Audit and other review agencies.

Performance

The principal activity driver on the ELWA's budget is the level of waste tonnage delivered from the four London Boroughs (Constituent Councils). Based on these council returns and officer analysis of historic waste patterns, potential population growth and economic activity, the 2021/22 budget and levy setting process assumed 467,000 tonnes. The actual tonnage for the year was 453,701. Waste tonnages vary due to a number of factors such as householder recycling behaviour and changes by companies in packaging their goods as well as the matters above in predicting forecasts and trends. This year, the total tonnage was 2.85% lower than initially forecast, resulting in an underspend of £1.165m in respect of the operator payment.

Recycling for the year was 31.5%, which was in line with 2020/21 performance. A number of initiatives implemented during the course of the year should lead to an increase in performance in 2022/23.

[1] See: http://eastlondonwaste.gov.uk/minutes/east_london_waste_authority_strategy.pdf

Non-contract costs were underspent by £1.077m in total, primarily related to professional fees and, in particular, the development of the post-2027 waste strategy.

Commercial waste income recovered in 2021/22 following a reduction in 2020/21 as lockdowns impacted on the amount of commercial waste collected. Total income from commercial waste in 2021/22 was £3.057m, £0.057m higher than budgeted.

Income and Expenditure Account

The Authority set a balanced budget for 2021/22 in accordance with government legislation. Following an assessment of its future needs, the Authority in February 2021 approved a contribution from the Strategy and Business Risk Reserves totalling £20.528m, which enabled a one-off reduction in the 2021/22 levy. The Revenue Reserve was maintained at £3.000m.

Authority Revenue Outturn to 31 March 2022	**Budget £m**	**Actual £m**
Net expenditure on services	72.082	69.045
PFI grant	(3.991)	(3.991)
Levy raised	(47.563)	(47.563)
Net revenue outturn before accountancy adjustments and contribution from reserves	**20.528**	**17.491**
Net contribution from reserves	(20.528)	(17.491)
Net Revenue balance	**-**	**-**

As a result of the accounting adjustments that are required to be made under International Financial Reporting Standards (IFRS), the outturn position for the year as shown in the Comprehensive Income and Expenditure Statement is a deficit of £16.473m. The table on page 6 provides a reconciliation between this net surplus figure and the final deficit of £17.491m, before contributions to and from reserves, as shown above. Further detailed analysis can be found in the Expenditure and Funding Analysis at Notes 5 and 5a on pages 35-38.

Reserves Strategy

The Authority maintains reserves to meet specific purposes. This is a vital part of its financial management arrangements that cushion the impact of uneven cash flows, avoid unnecessary temporary borrowing and minimise the impact of unexpected events or emergencies.

The Authority has agreed to set aside a minimum level of normal operational revenue balances based on an analysis of risk and its longer-term strategy, including its approach to covering the costs arising from the development of the Joint Strategy and PACE Programme. Both reserve balances and risks are regularly reviewed as part of the budget and levy setting process and Medium Term Financial Strategy.

Further details can be found in the 2021/22 Levy report (8 February 2021) and the 2022/23 Levy Report (4 February 2022). Both reports are available at: http://eastlondonwaste.gov.uk/meetings.

The table below shows the final reserves balances as at 31 March 2022 and the anticipated levels for the next five financial years.

	Balance as at 31 March 2022 £m	Forecast Balance as at 31 March 2023 £m	Forecast Balance as at 31 March 2024 £m	Forecast Balance as at 31 March 2025 £m	Forecast Balance as at 31 March 2026 £m	Forecast Balance as at 31 March 2027 £m
Procurement Reserve	2.230	2.230	2.230	2.230	2.230	2.230
Revenue Reserve	3.000	3.000	3.000	3.000	3.000	3.000
Levy Reserve	2.136	-	-	-	-	-
Insurance Reserve	0.901	2.000	2.000	2.000	2.000	2.000
Business Risk Reserve	1.000	1.000	1.000	1.000	1.000	1.000
Capital Reserve	0.100	0.100	0.100	0.100	0.100	0.100

Three new reserves have been established in 2021/22, reflecting the changing needs of the Authority. The Levy Reserve holds funds set aside from the in-year surplus that will be utilised in the following financial year as part of the levy setting process. The additional surplus for 2021/22, above the forecast level included in the calculation of the 2022/23 levy, has been placed in an Insurance Reserve which will allow the Authority to consider an element of self-insurance in the future. As a result of the PACE Programme and the procurement of new arrangements and services to replace the IWMS contract having now started, it is appropriate to redesignate the Strategy Reserve as the Procurement Reserve and to transfer the existing balance. This supplements the funding for the costs arising from the development of the Joint Strategy and PACE Programme included in the revenue budgets. No additional contributions to earmarked reserves are included in the current Medium Term Financial Strategy.

Reconciliation of the Accounting Adjustments required under IFRS

	Actual £000	Actual £000
Balance before accountancy adjustments		**17,491**
Accountancy adjustments		(395)
Balance of net expenditure to be financed by reserves		17,096
PFI contract accountancy adjustments (see Note 25):		
Service Charge	(2,335)	
Lifecycle Asset Addition	(2,728)	
Contingent Rent	(5,774)	
Depreciation and Impairment of PFI assets	6,344	
Interest Payable on Finance Leases	3,870	(623)
Surplus for the year after PFI adjustments		**16,473**
Movement between Revenue Reserve and Other Reserves		
Transfer to Capital Adjustment Account	1,186	
Accumulated Absences Account	4	
Transfer from Pensions Reserve	(172)	
Transfers from earmarked reserves	(17,491)	(16,473)
Net Effect on Revenue Reserve		**-**
Revenue Reserve Brought Forward		(3,000)
Revenue Reserve Carried Forward		**(3,000)**

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

Capital Programme/Borrowing Facilities

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.

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.

The revenue budget for the year made provision for capital financing costs for a capital programme of £6.000m to fund the cost of the fire improvement works at Jenkins Lane and preliminary costs of the equivalent works at Frog Island. The capital expenditure in 2021/22 has been funded temporarily from internal borrowing. New borrowing will be taken out in 2022/23 and will be used to refinance the internal borrowing.

ELWA Operations

ELWA transferred its principal operations and contracts to Renewi UK Services Ltd 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. The Authority is responsible for three sites.

Local Government Pension Scheme (LGPS)

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

The results of the 2019 triennial actuarial valuation were used as part of the calculations for these accounts.

As at 31 March 2022 the Authority's estimated liability for retirement benefits exceeded the value of assets by £1.448m (31 March 2021: £2.004m) when valued in accordance with the accounting standards. The increase in the liability was due to the increase in the present value of the fund's obligation being greater than the increase in the fair value of the scheme's assets.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic impacted on the Authority's operations in 2019/20 and 2020/21 and, during 2021/22, the Authority remained alert to the risks and kept the potential impacts under close review. The IWMS Operator was able to receive all wastes collected by the Constituent Councils during 2021/22 and the Authority and its Operator complied with government guidance and legislation in place throughout the year. There were no direct costs incurred in 2021/22 as a result of the pandemic and no future costs are anticipated.

The Authority is funded by a levy on the four Constituent Councils and the agreements in place with the Constituent Councils stipulate payment of the levy. However, any continuing financial impact of COVID-19 on Constituent Councils could impose constraints on future levy increases which in turn limits the Authority's capacity to increase the levy to fund its commitments.

Future Outlook, Risks and Opportunities

The Authority remains confident in future years that there is a clear strategy in continuing to deliver its vision to provide an effective and efficient waste management service that is environmentally acceptable and delivers services that local people value.

The current five-year Medium Term Financial Strategy to 2026/27 considers the major influences and activity drivers outlined earlier in this report and regularly reviews the risks the Authority faces which it manages through maintaining an adequate and prudent level of reserves. The Authority's 2021/22 financial position has enabled a contribution to the Insurance Reserve, resulting in a balance as at 31 March 2022 of £0.901m. Provision has been made in the revenue budget for costs arising from the development of the Joint Strategy and PACE Programme and the Procurement Reserve provides additional funding capacity, should it be required.

The one-off release of reserves enabled a reduction of 29.52% in the average levy in 2021/22. As a result, the average percentage increase in the levy in 2022/23 is 52.11%, followed by increases ranging from 2.42% to 9.46% over the remaining medium-term planning period.

The Authority will continue to work with the Operator to find further ways to substantially reduce costs and with the Constituent Councils to reduce tonnages. Over the past few years, despite growth in housing and population, waste disposal tonnages have not increased but remained broadly static.

Conclusion

The Statement of Accounts provides a detailed and comprehensive picture of the Authority's performance for 2021/22, as required by statute.

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

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 Councils and other readers find this document useful.

Maria G Christofi, BA (Hons), FCCA, CPFA

Finance Director and Section 73 Officer

23 June 2022

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

1. The Authority's Responsibilities

1.1 The Authority is required to:

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

c) approve the Statement of Accounts.

2. The Finance Director's Responsibilities

2.1 The Finance Director is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

2.2 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.

2.3 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.

3. Statement of the Finance Director

I certify that the Statement of Accounts presents a true and fair view of the Authority's financial position as at 31 March 2022 and of its income and expenditure for the year then ended.

Maria G Christofi, BA (Hons), FCCA, CPFA
Finance Director and Section 73 Officer
23 June 2022

Approval of Accounts

The Statement of Accounts was approved by East London Waste Authority.

[ ]
Chair of the Authority
[ ] 2022

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from the levy. The Authority raises a levy to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The levy position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

	2020/21 Restated				2021/22	
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure /Income £000**		**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure /Income £000**
2,587	-	2,587	Supplies and Services	2,840	-	2,840
49,165	-	49,165	Service Charges (Note 25)	48,803	-	48,803
686	-	686	Employee Costs	876	-	876
141	-	141	Premises Related Expenditure	176	-	176
6,562	-	6,562	Depreciation and Impairment of Fixed Assets (Note 9)	6,348	211	6,137
3,139	-	3,139	Third Party Payments & Support Services	3,170	-	3,170
-	2,681	(2,681)	Commercial Waste Charges	-	3,057	(3,057)
-	3,991	(3,991)	PFI and other Grants (Note 21)	-	4,013	(4,013)
-	363	(363)	Other Income	-	274	(274)
62,280	**7,035**	**55,245**	**Cost of Services**	**62,213**	**7,555**	**54,658**
10,059	141	9,918	Financing and Investment Income and Expenditure (Note 8)	9,770	84	9,686
-	67,488	(67,488)	Income from Levy	-	47,563	(47,563)
-	295	(295)	PFI Deferred Income released (Note 25)	-	308	(308)
234	-	234	Programmed PFI Lifecycle excess (Note 25)	-	-	-
72,573	**74,959**	**(2,386)**	**Deficit / (Surplus) on Provision of Services**	**71,983**	**55,510**	**16,473**
		3,608	(Surplus) / Deficit on revaluation of Property, Plant and Equipment assets (Note 9)			(39,828)
		333	Actuarial (gains) / losses on pension assets/liabilities (Note 26)			(728)
		3,941	**Other Comprehensive Income and Expenditure**			**(40,556)**
		1,555	**Total Comprehensive Income and Expenditure**			**(24,083)**

MOVEMENT IN RESERVES STATEMENT

2021/22 Movement

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'.

	Revenue Reserve Balance	Levy Reserve	Procurement Reserve	Insurance Reserve	Strategy Reserve	Business Risk Reserve	Capital Reserve (Revenue Contributions)	**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 2021	**(3,000)**	**-**	**-**	**-**	**(20,758)**	**(3,000)**	**(100)**	**(26,858)**	**(4,898)**	**(30,554)**	**2,004**	**25**	**(33,423)**	**(60,281)**
Movement in Reserves during 2021/22														
Total Comprehensive Income and Expenditure	16,473	-	-	-	-	-	-	**16,473**	-	(39,828)	(728)	-	**(40,556)**	**(24,083)**
Adjustment between accounting basis and funding basis under regulations (Note 6)	(16,473)	(2,136)	(2,230)	(901)	20,758	2,000	-	**1,018**	(2,326)	1,140	172	(4)	**(1,018)**	**-**
(Increase)/ Decrease in 2021/22	**-**	**(2,136)**	**(2,230)**	**(901)**	**20,758**	**2,000**	**-**	**17,491**	**(2,326)**	**(38,688)**	**(556)**	**(4)**	**(41,574)**	**(24,083)**
Balance at 31 March 2022	**(3,000)**	**(2,136)**	**(2,230)**	**(901)**	**-**	**(1,000)**	**(100)**	**(9,367)**	**(7,224)**	**(69,242)**	**1,448**	**21**	**(74,997)**	**(84,364)**

2020/21 Movement

	Revenue Reserve Balance	Strategy Reserve	Capital Reserve (Revenue Contributions)	Capital Receipts Reserve	**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 2020	**(3,000)**	**(18,265)**	**(3,000)**	**(100)**	**(24,365)**	**(3,970)**	**(35,083)**	**1,579**	**3**	**(37,471)**	**(61,836)**
Movement in Reserves during 2020/21											
Total Comprehensive Income and Expenditure	(2,386)	-	-	-	**(2,386)**	-	3,608	333	-	**3,941**	**1,555**
Adjustment between accounting basis and funding basis under regulations (Note 6)	2,386	(2,493)	-	-	**(107)**	(928)	921	92	22	**107**	**-**
(Increase)/ Decrease in 2020/21	**-**	**(2,493)**	**-**	**-**	**(2,493)**	**(928)**	**4,529**	**425**	**22**	**4,048**	**1,555**
Balance at 31 March 2021	**(3,000)**	**(20,758)**	**(3,000)**	**(100)**	**(26,858)**	**(4,898)**	**(30,554)**	**2,004**	**25**	**(33,423)**	**(60,281)**

BALANCE SHEET

The Balance Sheet shows the value as at 31 March 2022 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 includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

	Notes	31 March 2022 £000	31 March 2021 £000
Property, Plant & Equipment	**9**	123,460	83,009
Non-current Assets		**123,460**	**83,009**
Short Term Investments	**28**	9,503	30,456
Short Term Debtors	**11**	5,776	6,583
Cash and Cash Equivalents	**12**	609	1,292
Current Assets		**15,888**	**38,331**
Short Term Borrowing	**28**	(26)	(26)
Short Term Creditors	**13**	(10,331)	(11,594)
Current Liabilities		**(10,357)**	**(11,620)**
Long Term Borrowing	**28**	(800)	(800)
PFI Finance Lease Liability	**25**	(40,261)	(44,499)
Pension Liability	**26**	(1,448)	(2,004)
PFI Deferred Income	**25**	(2,118)	(2,136)
Long Term Liabilities		**(44,627)**	**(49,439)**
Net Assets		**84,364**	**60,281**
Usable Reserves	**14/MIRS**	(9,367)	(26,858)
Unusable Reserves	**15**	(74,997)	(33,423)
Total Reserves		**(84,364)**	**(60,281)**

Maria G Christofi, BA (Hons), FCCA, CPFA
Finance Director and Section 73 Officer
23 June 2022

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.

	2021/22 £000	2020/21 £000
(Deficit) / surplus on the provision of services	(16,473)	2,386
Adjustments to net surplus on the provision of services for non-cash movements	5,545	9,662
Net cash flows from Operating Activities (Note 16)	**(10,928)**	**12,048**
Investing Activities (Note 17)	14,483	(6,308)
Financing Activities (Note 18)	(4,238)	(4,482)
Net (decrease) / increase in cash and cash equivalents	**(683)**	**1,258**
Cash and cash equivalents at the beginning of the reporting period	1,292	34
Cash and cash equivalents at the end of the reporting period (Note 12)	**609**	**1,292**

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2021/22 financial year and its financial position as at 31 March 2022. 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 2021/22* 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. Going Concern

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code), which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on the going concern basis. In carrying out its assessment that this basis is appropriate, made for the going concern period to 30 November 2023, management of the Authority have undertaken forecasting of both income and expenditure, the expected impact on reserves, and cashflow forecasting.

East London Waste Authority carries out functions essential to the local community and is funded by a levy on the four Constituent Councils in accordance with The Joint Waste Disposal Authorities (Levies) (England) Regulations 2006. The agreements in place with the Constituent Councils stipulate payment of the levy and, consequently, it would not be appropriate for the Authority's financial statements to be provided on anything other than a going concern basis. The 2021/22 accounts therefore assume that the Authority's services will continue to operate for the foreseeable future.

The COVID-19 pandemic impacted on the Authority's operations in 2019/20 and 2020/21 and, during 2021/22, the Authority has remained alert to the risks and kept the potential impacts under close review. The IWMS Operator was able to receive all wastes collected by the Constituent Councils during 2021/22. There were no direct costs incurred in 2021/22 as a result of the pandemic and no future costs are anticipated.

	Balance 31 March 2022 £m	Purpose
Revenue Reserve	3.000	The Revenue Reserve is the general reserve held by the Authority to enable it to manage risk and cope with unforeseen events.
Levy Reserve	2.136	The Levy Reserve holds funds set aside from the in-year surplus that will be utilised in the following financial year as part of the levy setting process.
Procurement Reserve	2.230	The Procurement Reserve provides additional funding for costs arising from the development of the Joint Strategy and PACE Programme.
Insurance Reserve	0.901	The Insurance Reserve has been established to enable the Authority to consider an element of self-insurance in the future.
Business Risk Reserve	1.000	The Business Risk Reserve was created to cover any risks such as those set out in the annual budget and levy setting reports whilst maintaining the Revenue Reserve balance at £3.000m.
Capital Reserve	0.100	General capital reserve
	9.367	

The Authority has been in a surplus position for each of the past three financial years and has had no cause to call on its reserves.

As at 31 March 2022, ELWA held £0.609m as cash and cash equivalents, £9.503m as short-term investments and had total long term and short term borrowing of £0.826m. The Authority's cash flow projections demonstrate a positive cash and cash equivalents balance ranging from £10.000m to £20.000m between June 2022 and November 2023.

As set out above, the Authority holds reserves of £9.367m at 31 March 2022 which are cash-backed by short term investments of £9.503m. Of these investments, £2.000m is in overnight money market funds and £7.500m is in investments maturing within a year. Having reassessed the likely costs of the waste disposal arrangements following the end of the PFI contract in 2027 and its approach to funding these costs, the Authority in February 2021 agreed a one-off release of reserves totalling £20.528m to enable a reduction in the levy on Constituent Councils in 2021/22. Constituent Councils are aware that, should the expenditure on these future arrangements in any year exceed the budgetary provision available, the Authority will need to draw on its remaining reserves which will need to be replenished to be maintained in the following year.

Total reserves are forecast to be £8.330m as at 31 March 2023. These reserves can be drawn down at short notice over the going concern period to support the cash position if needed. The cashflow projections demonstrate that the Authority has no liquidity concerns for the next 12 months and no requirement to resort to any borrowing for cash management purposes.

The Authority reviews its finances regularly throughout the year, but particularly when it sets the budget and levy each February so that, if there are any unforeseen pressures, the Authority can adjust its future position (revenue and/or reserves) through the levy each time.

East London Waste Authority is in a strong and stable financial position with healthy levels of reserves. It sets a prudent budget and will continue to work with the operator to find further ways to substantially reduce costs and with the Constituent Councils to reduce tonnages. Throughout the period to 30 November 2023, the revenue reserve is not forecast to drop below £3.000m, which is the minimum required level as assessed by the Section 73 Officer.

The Authority remains satisfied, therefore, that it continues to be a going concern for 12 months from the date of the audit report and that it is appropriate that its financial statements are prepared on that basis.

3. Accruals of Income and Expenditure

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 2022.

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.

4. Cash and Cash Equivalents

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

Cash equivalents are highly liquid 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. 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.

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

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

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior 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.

6. Charges to Revenue for Non-current Assets

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.

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.

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.

7. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include 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 the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy. 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.

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.

8. Pension Provision

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 that need to be disclosed at the time that employees earn their future entitlement.

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

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

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 with current service costs are £0.130m higher (£0.053m higher in 2020/21).

b) Pension costs have increased to £0.042m.

c) The liability in the Balance Sheet has decreased and is now £1.448m (£2.004m in 2020/21).

d) An actuarial gain of £0.728m (£0.333m loss in 2020/21) is recorded in 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 26.

9. Discretionary Benefits

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.

10. Financial Instruments

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

Financial Liabilities

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

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

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

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

a) amortised cost.

b) fair value through profit or loss (FVPL).

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

Financial Assets Measured at Amortised Cost

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

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

The Authority currently holds no investments longer than one year.

Expected Credit Loss Model

The Authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12 month or lifetime basis. The Code requires that all local authorities shall not recognise a loss allowance for expected credit losses on a financial asset where the other party is central government or a local authority for which relevant statutory provisions prevent default.

The expected credit loss model also applies to lease receivables and contract assets and trade receivables (debtors) held by the Authority. The Authority adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance at an amount equal to lifetime expected credit losses.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased substantially since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased substantially or remains low, losses are assessed on the basis of 12 month expected losses.

Financial assets are amalgamated into the following groups to assess risk and associated loss allowances, also using a simplified approach contained in regulations for the latter category.

a) Group 1 – Investments in line with treasury management policy including counterparties that have external credit ratings of B or better. Loss allowances will be assessed based on default risk;

b) Group 2 – Other assets, expected loss is based on provision matrix or default risk.

Financial Assets Measured at Fair Value through Profit or Loss

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

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

a) instruments with quoted market prices – the market price

b) other instruments with fixed and determinable payments – discounted cash flow analysis.

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

a) Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the Authority can access at the measurement date.

b) Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.

c) Level 3 inputs – unobservable inputs for the asset.

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

11. Government Grants and Contributions

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.

Amounts recognised as due to the Authority 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.

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

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.

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 22 to the Accounts.

13. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

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 to 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.

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).

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).

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

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

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.

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).

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.

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 in the Movement in Reserves Statement.

Operating Leases

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 Other 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

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie repairs and maintenance) is charged as an expense when it is incurred to the Comprehensive Income and Expenditure Statement.

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

The last full revaluation of the PFI Scheme fixed assets was on 31 March 2022 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 2021/22 Code of Practice on Local Authority Accounting and are included in the Balance Sheet at fair value.

Non-current 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.

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.

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.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each financial 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 as follows:

a) 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)

b) 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.

c) 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

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).

Operational assets are depreciated on a straight-line basis over the useful life of the asset as estimated by the valuer.

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.

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

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.

The following asset classes will not be considered for componentisation:

a) Equipment – as considered immaterial;

b) Infrastructure;

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

The principal asset that the Authority holds on its balance sheet relates to its PFI asset. This can be broken down into six individual sites.

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;

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. Private Finance Initiative (PFI) and Similar Contracts

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.

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

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

The non-current 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 accounting for Property, Plant and Equipment.

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 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.

18. Reserves

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 transferred 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.

The Revenue Reserve is the statutory fund into which all the receipts of an Authority are required to be paid and from which all liabilities of the Authority are to be met, except to the extent that statutory rules might provide otherwise.

Three new usable reserves have been established in 2021/22, reflecting the changing needs of the Authority. The Levy Reserve holds funds set aside from the in-year surplus that will be utilised in the following financial year as part of the levy setting process. The Insurance Reserve will allow the Authority to consider an element of self-insurance in the future. The Procurement Reserve provides funding for costs arising from the development of the Joint Strategy and PACE Programme.

The Business Risk Reserve has been set up to cover potential business risk.

A Capital Reserve (revenue contribution) exists primarily to enable expenditure to be financed without the need to borrow or use capital receipts.

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.

The Pensions 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 31 March 2022. 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 26 to the Accounts.

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.

From 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.

The Accumulated Absences Account reflects untaken leave balances outstanding as at 31 March 2022.

19. Value Added Tax

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

20. Fair Value Measurement

The Authority measures some of its non-financial assets such as surplus assets and some of its financial instruments such as equity at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

a) in the principal market for the asset or liability, or

b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Authority's financial statements are categorised within the fair value hierarchy, as follows:

c) Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Authority can access at the measurement date

d) Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

e) Level 3 – unobservable inputs for the asset or liability.

21. Financial Relationship between the Authority and Constituent Councils

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

22. Provisions and Contingent Liabilities

<u>Provisions</u>

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

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

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

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

Contingent Liabilities

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

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

NOTES TO THE STATEMENT OF ACCOUNTS

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

Under the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) the Authority is required to disclose information relating to the expected impact of an accounting changes that will be required by a new accounting standard that has been issued but not yet adopted by the Code.

This applies to the adoption of the following new or amended standards within the 2022/23 Code:

a) Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes four changed standards:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

b) Property, Plant and Equipment: Proceeds before Intended Use (amendments to IAS 16)

These accounting policy changes come into effect from 1 April 2022 and are not expected to have a material impact on the Authority’s financial statements.

2. Critical Judgements in applying Accounting Policies

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:

There is a high degree of uncertainty about future levels of Government funding for local government. The Authority is funded by a levy on the four Constituent Councils. The agreements in place with the Constituent Councils stipulate payment of the levy. However, the Constituent Councils 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

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

The items in the Authority’s Balance Sheet at 31 March 2022 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 total obligation can be measured. For instance, a 0.1% decrease in the discount rate assumption would result in the total obligation increasing by £0.095m. However, the assumptions interact in complex ways. The Authority's actuary uses their experience to make the necessary adjustments accordingly.
Property, Plant and Equipment	Independent professional property valuations take place by surveyors appointed by the Authority. The valuations are undertaken in accordance with RICS and CIPFA rules and require the use of a variety of information and the judgement of surveyors in relation to market conditions, components and lifecycles.	Actual results only become apparent on the disposal of property. However, the balance on the revaluation reserve in note 15 provides an indication of the level of notional gain resulting from valuations. For prudence where there are notional losses, these are immediately recognised in the income and expenditure statement. The review considers the condition of the asset, its utility and usage, the market conditions, the lifespan and materiality.
	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 £0.567m per year.

4. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Finance Director on 23 June 2022. 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

2022, the figures in the Statement of Accounts and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events after the balance sheet date that require an adjustment to be made to the Statement of Accounts or are expected to have a material impact on the Authority's financial position.

5. Expenditure and Funding Analysis

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grant and the levy) by the Authority in comparison with those resources consumed or earned by the Authority in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2020/21				2021/22		
Net Expenditure chargeable to the Revenue Reserve	**Adjustments between the funding and accounting basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**		**Net Expenditure chargeable to the Revenue Reserve**	**Adjustments between the funding and accounting basis**	**Net Expenditure in the Comprehensive Income and Expenditure Statement**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
535	2,052	2,587	Supplies and Services	355	2,485	2,840
67,574	(18,409)	49,165	Contractor / Service Charge (Note 25)	67,899	(19,096)	48,803
611	75	686	Employee Costs	750	126	876
141	-	141	Transport & Premises Related Expenditure	176	-	176
-	6,562	6,562	Depreciation and Impairment of Fixed Assets (Note 9)	-	6,137	6,137
3,139	-	3,139	Third Party Payments & Support Services	3,171	(1)	3,170
(2,681)	-	(2,681)	Commercial Waste Charges	(3,057)	-	(3,057)
(3,991)	-	(3,991)	PFI and other Grants (Note 21)	(3,991)	(22)	(4,013)
(363)	-	(363)	Other Income	(338)	64	(274)
64,965	**(9,720)**	**55,245**	**Cost of Services**	**64,965**	**(10,307)**	**54,658**
171	(171)	-	Capital Financing Costs	131	(131)	-
(141)	141	-	Bank Interest Receivable	(42)	42	-
-	9,918	9,918	Financing and Investment Income and Expenditure (Note 8)	-	9,686	9,686
(67,488)	-	(67,488)	Income from Levy	(47,563)	-	(47,563)
-	(295)	(295)	PFI Deferred Income released (Note 25)	-	(308)	(308)
-	234	234	Programmed PFI Lifecycle excess (Note 25)	-	-	-
(2,493)	**107**	**(2,386)**	**Deficit/(Surplus) on Provision of Services**	**17,491**	**(1,018)**	**16,473**

2020/21				2021/22		
Net Expenditure chargeable to the Revenue Reserve	Adjustments between the funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure chargeable to the Revenue Reserve	Adjustments between the funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
(2,493)	**107**	**(2,386)**	**Deficit/(Surplus) on Provision of Services**	**17,491**	**(1,018)**	**16,473**
(2,493)	**107**	**(2,386)**	**Net Expenditure chargeable to Reserves**	**17,491**	**(1,018)**	**16,473**
(24,365)			**Opening Usable Reserve Balance**	**(26,858)**		
(2,493)			Plus Deficit/ (Surplus) on Revenue Reserve in Year	17,491		
(26,858)			**Usable Reserve Balance C/Fwd**	**(9,367)**		

5a. Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the Revenue Reserve Balance to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

The relevant transfers between reserves are explained in the Movement in Reserves Statement.

2021/22

Adjustments Between Funding and Accounting Basis

Adjustments from Revenue Reserve to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Adjustments	Total Adjustments
	£000	£000	£000	£000
Supplies and Services	-	-	2,485	2,485
Contractor Service Charge	(16,611)	-	(2485)	(19,096)
Employee Costs	-	130	(4)	126
Depreciation and Impairment of Fixed Assets	6,137	-	-	6,137
Third Party Payments	(1)	-	-	(1)
PFI & other Grants	-	-	(22)	(22)
Other Income	-	-	64	64
Cost of Services	**(10,475)**	**130**	**38**	**(10,307)**
Capital Financing Costs	(131)	-	-	(131)
Bank Interest Receivable	-	-	42	42
Financing and Investment Income and Expenditure	9,728	42	(84)	9,686
PFI Deferred Income Released	(308)	-	-	(308)
Deficit/(Surplus) on Provision of Services	**(1,186)**	**172**	**(4)**	**(1,018)**
Difference between Usable Reserve Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(1,186)**	**172**	**(4)**	**(1,018)**

2020/21

Adjustments Between Funding and Accounting Basis

Adjustments from Revenue Reserve to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Adjustments	Total Adjustments
	£000	£000	£000	£000
Supplies and Services including Contingency Expenditure	-	-	2,052	2,052
Contractor Service Charge	(16,357)	-	(2,052)	(18,409)
Employee Costs	-	75	-	75
Depreciation and Impairment of Fixed Assets	6,562	-	-	6,562
Cost of Services	**(9,795)**	**75**	**-**	**(9,720)**
Capital Financing Costs	(171)	-	-	(171)
Bank Interest Receivable	-	-	141	141
Financing and investment income and Expenditure	10,020	39	(141)	9,918
PFI Deferred Income released	(295)	-	-	(295)
Programmed Lifecycle Excess	234	-	-	234
Deficit on Provision of Services	**(7)**	**114**	**-**	**107**
Difference between Usable Reserve Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	**(7)**	**114**	**-**	**107**

<u>Adjustments for Capital Purposes</u>

This column includes PFI adjustments for contingent rent, interest, capital and lifecycle costs (see Note 25) as well as depreciation and impairment, and for:

a) Capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

b) Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

c) Capital receipts used to fund capital expenditure and deferred income released relating to the use of PFI contractor leased assets.

<u>Net Change for the Pensions Adjustments</u>

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

d) For services – this represents the removal of the employer pension contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs.

e) For financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

Other Adjustments

Other adjustments represent amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

f) Accumulated absences adjustments.

g) Timing differences in funding.

h) Internal movements of non PFI grant to grant income and contractor insurance to supplies and services.

i) For financing and investment income and expenditure – internal movement relating to bank interest receivable.

6. Adjustment between the accounting basis and funding basis under regulations

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

For descriptions of the reserves refer to accounting policy 18 on page 30.

2021/22

	Revenue Reserve Balance	Business Risk Reserve	Strategy Reserve	Levy Reserve	Procurement Reserve	Insurance Reserve	Movement in Unusable Reserves
Adjustments to Revenue Resources:	**£000**	**£000**	**£000**	**£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 26)	(172)	-	-	-	-	-	172
Holiday pay - transferred to the Accumulated Absences Account	(21)	-	-	-	-	-	21
Reversal of previous year's accumulated absence	25	-	-	-	-	-	(25)
Total adjustments to Revenue Resources	**(168)**	**-**	**-**	**-**	**-**	**-**	**168**
Adjustments between Revenue and Capital Resources:							
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	49	-	-	-	-	-	(49)
Reversal of charges for depreciation and impairment of PFI non-current assets (transfer to/from the Capital Adjustment Account)	(6,137)	-	-	-	-	-	6,137
Statutory provision for the financing of PFI capital investment (transfer to/from the Capital Adjustment Account)	6,966	-	-	-	-	-	(6,966)
Reversal of PFI deferred income credit (transfer to/from Capital Adjustment Account)	308	-	-	-	-	-	(308)
Total adjustments between Revenue and Capital Resources	**1,186**	**-**	**-**	**-**	**-**	**-**	**(1,186)**
Other adjustments between Reserves:							
Contributions to and from reserves	(17,491)	2,000	20,758	(2,136)	(2,230)	(901)	-
Total adjustments between Reserves	**(17,491)**	**2,000**	**20,758**	**(2,136)**	**(2,230)**	**(901)**	**-**
Total Adjustments as shown in Movement in Reserves Statement	**(16,473)**	**2,000**	**20,758**	**(2,136)**	**(2,230)**	**(901)**	**(1,018)**

2020/21

	Revenue Reserve Balance	Strategy Reserve	Movement in Unusable Reserves
Adjustments to Revenue Resources:	**£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 26)	(92)	-	92
Holiday pay - transferred to the Accumulated Absences Account	(25)	-	25
Total adjustments to Revenue Resources	**(117)**	**-**	**117**
Adjustments between Revenue and Capital Resources:			
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	49	-	(49)
Reversal of charges for depreciation and impairment of PFI non-current assets (transfer to/from the Capital Adjustment Account)	(6,562)	-	6,562
Statutory provision for the financing of PFI capital investment (transfer to/from the Capital Adjustment Account)	6,225	-	(6,225)
Reversal of PFI deferred income credit (transfer to/from Capital Adjustment Account)	295	-	(295)
Total adjustments between Revenue and Capital Resources	**7**	**-**	**(7)**
Other adjustments between Reserves:			
Contribution to Strategy Reserve	2,493	(2,493)	-
Reversal of previous year's accumulated absence	3	-	(3)
Total adjustments between Reserves	**2,496**	**(2,493)**	**(3)**
Total Adjustments as shown in Movement in Reserves Statement	**2,386**	**(2,493)**	**107**

7. Movements in Earmarked Reserves

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 2021/22.

	Balance at 1 April 2020 £000	Transfers in 2020/21 £000	Balance at 31 March 2021 £000	Transfers in 2021/22 £000	Transfers out 2021/22 £000	Balance at 31 March 2022 £000
Revenue Reserve:						
Strategy Reserve	(18,265)	(2,493)	(20,758)	-	20,758	**-**
Business Risk Reserve	(3,000)	-	(3,000)	-	2,000	(1,000)
Capital Reserve (RCCO)	(100)	-	(100)	-	-	(100)
Levy Reserve	-	-	-	(2,136)	-	(2,136)
Procurement Reserve	-	-	-	(2,230)	-	(2,230)
Insurance Reserve	-	-	-	(901)	-	(901)
Total	**(21,365)**	**(2,493)**	**(23,858)**	**(5,267)**	**22,758**	**(6,367)**

8. Financing and Investment Income and Expenditure

	2021/22 £000	2020/21 £000
Interest payable and similar charges	3,954	4,352
Net pensions interest cost	42	39
Contingent Rent	5,774	5,668
Interest receivable and similar income	(84)	(141)
Total	**9,686**	**9,918**

9. Property, Plant and Equipment

Movement of Balances in 2021/22

	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£000	£000
Cost or Valuation		
At 1 April 2021	84,127	83,071
Additions – lifecycle costs	2,728	2,728
Additions - Life Cycle (deferred credit)	290	290
Assets under construction	3,742	-
Revaluation increases recognised in the Revaluation Reserve	33,728	32,558
Revaluation increases/(decreases) recognised in the Surplus/(Deficit) on the provisions of services	211	211
At 31 March 2022	124,826	118,858
Accumulated Depreciation and Impairment		
At 1 April 2021	1,118	1,105
Depreciation charge	6,348	6,345
Depreciation and impairment reversal written out to the Revaluation Reserve upon revaluation	(6,100)	(6,100)
At 31 March 2022	1,366	1,350
Net Book Value		
At 31 March 2021	83,009	81,966
At 31 March 2022	123,460	117,508

Comparative Movements in 2020/21

	Total Property, Plant and Equipment	PFI Assets included in Property, Plant and Equipment
	£000	£000
Cost or Valuation		
At 1 April 2020	91,620	90,799
Additions – lifecycle costs	2,193	2,193
Assets under construction	235	-
Revaluation decreases recognised in the Revaluation Reserve	(9,802)	(9,802)
Revaluation decrease recognised in the Surplus on the Provision of Services	(119)	(119)
At 31 March 2021	84,127	83,071
Accumulated Depreciation and Impairment		
At 1 April 2020	869	859
Depreciation charge	6,444	6,441
Depreciation and impairment reversal written out to the Revaluation Reserve upon revaluation	(6,194)	(6,194)
Impairment reversals recognised in the Surplus on the Provision of Services	(1)	(1)
At 31 March 2021	1,118	1,105
Net Book Value		
At 31 March 2020	90,751	89,940
At 31 March 2021	83,009	81,966

Additions and Revaluations

Additions relate to PFI lifecycle costs and PFI assets leased for no additional cost for the duration of the contract (See Note 25).

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.

The PFI asset was revalued in 2021/22 as at 31 March 2022. 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.

Depreciation

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

From 1 April 2015, the Authority's assets are assessed as per the Authority's component accounting policy (see page 28).

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

The Authority does not have material surplus assets.

In 2016/17, the Authority purchased a flare for the Aveley Landfill site for £0.052m.

The total fair value of the landfill sites as at 31 March 2022 is £1.940m. The next valuation is due in 2027.

Capital commitments

As at 31 March 2022 the Authority was in the process of entering into a contract for capital works at Frog Island for the enhancement or construction of property, plant and equipment. The total cost is expected to be within the budget allocated and the project is expected to be completed in 2022/23. At 31 March 2021, there were capital commitments for the equivalent works at Jenkins Lane.

10. Investments

The Authority previously owned 100% of the share capital of ELWA Limited, its Local Authority Waste Disposal Company (LAWDC). On 23 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.

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 24 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 2021 were £17.576m (31 March 2020: £17.415m). The profit after taxation for the year ended 31 March 2021 was £2.093m (2019/20: £1.322m). The 2021/22 accounts will be available in July 2022.

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

On 28 February 2017 Shanks Group plc merged with Van Gansewinkel Groep BV to form Renewi plc.

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

In the opinion of the Directors, the investment in ELWA Limited is not of material interest for the purposes of Group Accounts as defined in the Code and therefore, there is no requirement to produce Group Accounts.

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

11. Short Term Debtors

	31 March 2022 £000	31 March 2021 £000
Trade Receivables		
Other local authorities	1,351	2,126
Prepayments		
Other entities and individuals	1,960	1,880
Other Receivable Amounts		
Central government bodies	2,436	2,577
Other entities and individuals	29	-
Total	5,776	6,583

12. Cash and Cash Equivalents

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

	31 March 2022 £000	31 March 2021 £000
Short term deposits	609	1,292
Total Cash and Cash Equivalents	609	1,292

13. Short Term Creditors

	31 March 2022 £000	31 March 2021 £000
Trade Payables		
Other local authorities	(2,629)	(3,105)
Other entities and individuals	(7,414)	(8,267)
Other Payables		
Central government bodies	-	-
Other entities and individuals	(288)	(222)
Total	(10,331)	(11,594)

14. Usable Reserves

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 2022 £000	31 March 2021 £000
Revaluation Reserve	(69,242)	(30,554)
Capital Adjustment Account	(7,224)	(4,898)
Pensions Reserve	1,448	2,004
Accumulated Absences Account	21	25
Total Unusable Reserves	(74,997)	(33,423)

Revaluation Reserve

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

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The Reserve 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.

	2021/22 £000	2020/21 £000
Balance at 1 April	(30,554)	(35,083)
Upward revaluation of non-current assets not posted to the Provision of Services	(40,649)	-
Downward revaluation of non-current assets not posted to the Provision of Services	821	3,608
Difference between fair value depreciation and historical cost depreciation written off to Capital Adjustment Account	1,140	921
Balance at 31 March	(69,242)	(30,554)

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisitions, construction or 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, was less than the depreciation on the assets. This will even out over the life of the PFI.

	2021/22 £000	2020/21 £000
Balance at 1 April	(4,898)	(3,970)
Reversal of charges for depreciation and impairment of non-current assets	6,137	6,562
Statutory provision for the financing of PFI capital investment	(6,966)	(6,225)
Statutory provision for the repayment of debt	(49)	(49)
Difference between fair value depreciation and historical cost depreciation written out of the Revaluation Reserve	(1,140)	(921)
PFI Leased Asset deferred credit released to Comprehensive Income and Expenditure Statement	(308)	(295)
Balance at 31 March	(7,224)	(4,898)

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to the pension fund 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.

	2021/22 £000	2020/21 £000
Balance at 1 April	2,004	1,579
Actuarial (gains) / losses on pension assets and liabilities	(728)	333
Employer's pension contributions and direct payments payable in the year	172	92
Balance at 31 March	1,448	2,004

Accumulated Absences Account

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.

	2021/22 £000	2020/21 £000
Balance at 1 April	25	3
Settlement or cancellation of previous year accrual	(25)	(3)
Amounts accrued at the end of the current year by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	21	25
Balance at 31 March	21	25

16. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

	2021/22 £000	2020/21 £000
Interest Received	42	141
Interest Paid	(3,954)	(4,352)
Net Interest	(3,912)	(4,211)

Cash Flow for Operating Activities:

	2021/22 £000	2020/21 £000
Net (Deficit) / Surplus on the Provision of Services	(16,473)	2,386
Adjustments to net surplus or deficit on the provision of services for the following non-cash movements		
Depreciation and impairment	6,137	6,562
(Decrease) / increase in creditors and provisions	(1,263)	4,306
Decrease / (increase) in debtors and payments in advance	807	(1,003)
Actuarial adjustments on pension assets/liabilities	172	92
Other non-cash adjustments	(308)	(295)
	5,545	9,662
Net cash flows from operating activities	(10,928)	12,048

17. Cash Flow Statement – Investing Activities

	2021/22 £000	2020/21 £000
Purchase of Property, Plant and Equipment	(6,470)	(2,428)
Net movement in short-term investments	20,953	(3,880)
Net cash flows from investing activities	14,483	(6,308)

18. Cash Flow Statement – Financing Activities

	2021/22 £000	2020/21 £000
Cash payments for the reduction of the outstanding liabilities relating to the finance leases on balance sheet PFI contracts	(4,238)	(4,032)
Repayment of long term borrowing	-	(450)
Net cash flows from financing activities	(4,238)	(4,482)

19. Officers' Remuneration

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

2021/22

	Remuneration	Pension Contribution	Total
	£	£	£
Managing Director	119,060	15,359	134,419

2020/21

	Remuneration	Pension Contribution	Total
¤	£	£	£
Managing Director	117,300	15,132	132,432

The Authority does not directly employ the Finance Director, who is employed by the London Borough of Redbridge. During 2021/22 the Finance Director received an honorarium of £10,455 (2020/21: £10,275) for services provided.

In addition to the employee's and employer's pension contributions deducted in respect of each pensionable ELWA employee, the London Pensions Fund Authority (LPFA) levies a further charge on the Authority based on their valuation of the pension fund. This additional charge of £40,555 for 2021/22 (2020/21: £39,120) cannot be attributed to any particular officer and is declared here for reasons of transparency.

The number of employees excluding senior officers whose remuneration, excluding employer's pension contributions, was £50,000 or more was:

Remuneration Band	2021/22 Number of employees	2020/21 Number of employees
£60,000 - £64,999	1	1
£70,000 - £74,999	-	2
£75,000 - £79,999	2	-
	3	3

There were no compulsory redundancies and no other departures in either 2021/22 or 2020/21.

20. External Audit Costs

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

	2021/22 £000	2020/21 £000
Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year	14	14
Proposed scale fee variation *	49	32
Additional fee in respect of the previous financial year *	-	44
Total	63	90

* The proposed fee for 2021/22 and proposed additional fees for 2020/21 have not yet been agreed.

21. Grant Income

The Authority credited the following grants to the Comprehensive Income and Expenditure Statement:

	2021/22 £000	2020/21 £000
PFI/Waste Infrastructure Capital Grant (WICG)	3,991	3,991
Distributor Take-back Scheme (DTS) for waste electrical and electronic equipment (WEEE)	19	-
Waste Prevention Programme	3	-
Total	4,013	3,991

For PFI/WICG grant details refer to Notes 22 and 25.

Valpak provided the funding for The Distributor Take-back Scheme (DTS) for waste electrical and electronic equipment (WEEE). The grant was used to provide information on wider reuse and waste prevention initiatives and fund the running of a series of Repair Cafes across the ELWA boroughs. The cafes provided residents the opportunity to attend for free to have items tested and, if possible, repaired as well as on-site repair options for other types of products (such as clothing and bicycles).

As part of a Waste Prevention Programme, the PFI Contractor, Renewi provided a match-funding contribution towards a two-phase campaign on safe battery disposal.

22. Related Party Transactions

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

The Department for Environment, Food and Rural Affairs award the PFI Grant which is also known as the Waste Infrastructure Capital Grant. Further details are in Note 25.

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

The material expenditure and income transactions with these related parties are as follows:

	2021/22		2020/21	
	Expenditure £000	Income £000	Expenditure £000	Income £000
Barking & Dagenham	875	(9,632)	832	(13,321)
Havering	976	(11,795)	975	(16,564)
Newham	901	(15,356)	877	(21,055)
Redbridge	479	(13,838)	468	(19,230)
ELWA Limited	71,017	(274)	67,574	(324)

Income received from the Constituent Councils 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

No Members or Officers have made declarations of interests or related party transactions for the 2021/22 financial year.

23. Leases

Authority as Lessee

Operating Leases

The Authority has acquired its civic amenity and recycling sites by entering into operating leases with the four Constituent Councils. Each lease is to the year 2032 with rent reviews taking place every five years. The last rent review was during 2018/19 with effect from 1 January 2018. Based upon current figures, the minimum lease payments due in future years are:

	2021/22 £000	2020/21 £000
Up to one year	358	358
Two to five years	1,430	1,430
Six years to end of lease	2,145	2,502
	3,933	4,290

The expenditure charged to the Third Party Payments line in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £0.358m (2020/21: £0.358m).

Authority as Lessor

Operating Leases

The Authority leases out land and property under operating leases for community service and economic development purposes.

Subleases

The civic amenity and recycling sites have subsequently been sublet to ELWA Ltd as part of the PFI contract at nil value.

Other leases

Other leases totalled £0.042m for 2021/22 (2020/21: £0.039m).

24. Capital Expenditure and Capital Financing

Included within capital expenditure additions is £3.018m relating to PFI Lifecycle costs as referred to in Note 25. This was financed by revenue through the unitary payment.

Other additions include Authority expenditure at PFI sites of £3.742m as referred to in Note 9.

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.

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.

	2021/22 £000	Restated 2020/21 £000
Opening Capital Financing Requirement	47,270	51,647
Capital Investment:		
Property, Plant and Equipment	6,760	2,428
Sources of Finance:		
Direct Revenue Contributions	(6,470)	(2,428)
Minimum Revenue Provision/the Statutory Repayment of Loans Fund Advances	(4,593)	(4,376)
Closing Capital Financing Requirement	42,967	47,270
Explanation of movements in year:		
Assets acquired under PFI Contract	6,760	2,428
Decrease in underlying need for borrowing	(11,063)	(6,804)
Decrease in Capital Financing Requirement	(4,303)	(4,376)

25. Private Finance Initiatives and Similar Contracts

The IWMS/PFI Contract, which commenced on 24 December 2002, is for 25 years. ELWA Limited is implementing a capital investment programme of more than £100m 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.

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.

The Government provides PFI grant funding based upon a Notional Credit Approval of £47m, equivalent to approximately £85m 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 to be made in 2026/27. This did not affect the overall total grant in cash terms which has remained the same.

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

<u>Future Contractual Obligations</u>

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 2022 (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 2022/23	16,706	4,609	3,484	24,799
Payable within 2 to 5 years	66,822	26,856	8,788	102,466
Payable within 6 to 10 years	16,705	8,796	599	26,100
Total	100,233	40,261	12,871	153,365

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

	2021/22 £000	2020/21 £000
Balance outstanding at start of the year	44,499	48,531
Payments during the year	(4,238)	(4,032)
Balance outstanding at year end	40,261	44,499

Unitary Charge

In accordance with accounting requirements for PFI schemes, 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.

	2021/22 £000	2020/21 £000
Payments to Renewi	65,413	65,522
Capital Repayment	(4,238)	(4,032)
Interest Payable	(3,870)	(4,230)
Programmed Lifecycle Costs	(2,728)	(2,427)
Contingent Rent	(5,774)	(5,668)
Service Charges	**48,803**	**49,165**

The 2021/22 programmed lifecycle cost of £2.728m has been charged to the Unitary Payment. The actual lifecycle cost incurred by the PFI contractor totalled £2.951m and backdated adjustments to life cycle relating to restatement totalled £0.067m. The excess between actual and programmed lifecycle costs has been added to deferred Income.

During 2016/17 the contractor provided assets to the value of £2.700m for no additional cost for the duration of the contract. These leased assets with a contra liability have been added to the Balance Sheet.

As the benefit of the fair value cost to the contractor is consumed the related deferred income is released to the Comprehensive Income and Expenditure account.

PFI Deferred Income

	2021/22 £000	2020/21 £000
Balance B/fwd	2,136	2,431
Differences in Lifecycle expenditure	290	-
Deferred income released to Comprehensive Income and Expenditure Statement	(308)	(295)
Balance C/fwd	**2,118**	**2,136**

26. Defined Benefit Pension Schemes

Participation in Pension Schemes

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.

Transactions Relating to Post-Employment Benefits

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 benefits is reversed out of the Revenue Reserve via the Movement in Reserves Statement.

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:

	2021/22 £000	2020/21 £000
Comprehensive Income and Expenditure Statement		
Cost of Services, Employee and Support Services:		
Current Service Cost	231	137
Past Service Costs	-	13
Financing and Investment Income and Expenditure:		
Net Interest Expense	38	36
Administration Expenses	4	3
Total Post Employment Benefit charged to the Surplus or Deficit on the Provision of Services	**273**	**189**
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	(477)	(381)
Other actuarial losses on assets	-	-
Change in financial assumptions	(265)	822
Change in demographic assumptions	-	(43)
Experience losses / (gains) on defined benefit obligation	14	(65)
Total Re-measurements	**(728)**	**333**
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	**(455)**	**522**
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	728	(333)
Actual amount charged against the Revenue Reserve Balance for pensions in the year	(172)	(92)
Employer's contributions payable to scheme	**101**	**97**

The underlying assets and liabilities attributable to the Authority with the London Pensions Fund Authority (LPFA) as at 31 March 2022 are as follows:

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

	Funded Liabilities Local Government Pension Scheme 2021/22 £000	Funded Liabilities Local Government Pension Scheme 2020/21 £000
Opening balance at 1 April	4,897	4,053
Current service cost	231	137
Past service costs	-	13
Interest cost	102	94
Contributions by scheme participants	42	40
Actuarial gains from changes in demographic assumptions	-	(43)
Actuarial (gains) / losses from changes in financial assumptions	(265)	820
Experience loss / (gain) on defined benefit obligation	14	(65)
Benefits paid net of transfers in	648	(152)
Closing balance at 31 March	**5,669**	**4,897**

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

	Funded Assets Local Government Pension Scheme 2021/22 £000	Funded Assets Local Government Pension Scheme 2020/21 £000
Opening fair value of scheme assets	2,893	2,474
Interest income	64	58
Return on plan assets less interest	477	379
Other actuarial losses	-	-
Administration expenses	(4)	(3)
Employer contributions	101	97
Contributions by scheme participants	42	40
Benefits paid plus unfunded net of transfers in	648	(152)
Closing fair value of scheme assets	**4,221**	**2,893**

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.

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

Assets	**2021/22 %**	**2021/22 £000**	**2020/21 %**	**2020/21 £000**
Equities	57	2,402	54	1,572
Target Return Portfolio	22	909	24	681
Infrastructure	10	430	8	245
Property	9	379	9	263
Cash	2	101	5	132
Total	**100**	**4,221**	**100**	**2,893**

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

The total return on the fund assets for the year to 31 March 2022 is £0.541m (2020/21: £0.439m).

The asset share as at 31 January 2022 is as follows:

Employer Asset Share – Bid Value		**31 January 2022**	
		% Quoted	**% Unquoted**
Equities			
	Real Estate	1	-
	Consumer, Discretionary	4	-
	Consumer, Staples	8	-
	Financials	6	-
	Health Care	4	
	Industrials	6	-
	Information Technology	13	-
	Materials	1	-
	Communication Services	2	-
	Trade Cash/Pending	2	-
	Private Equity	-	9
Fixed Income		3	-
Investment/Hedge Funds and Unit Trusts		11	-
Credit		-	8
Infrastructure		-	10
Real Estate		-	9
Cash		3	-
Total		**64%**	**36%**

Pension Assets and Liabilities Recognised in the Balance Sheet

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	
	31 March 2022 £000	**31 March 2021 £000**
Present value of the defined benefit obligation	5,669	4,897
Fair value of plan assets	(4,221)	(2,893)
Net liability arising from defined benefit obligation	**1,448**	**2,004**

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 £1.448m (2020/21: £2.004m) 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.

The projected employer contributions for the year to 31 March 2023 are £0.104m.

Basis for Estimating Assets and Liabilities

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 31 March 2019, adjusting for known membership and scheme changes where applicable.

The principal assumptions used by the LPFA actuary have been:

	2021/22 Weighted by liability	2020/21 Weighted by liability
Mortality assumptions		
Longevity at 65 for current pensioners:		
Males	22.7	22.6
Females	24.7	24.6
Longevity at 65 for future pensioners:		
Males	23.7	23.6
Females	26.2	26.1

	2021/22	2020/21
Financial Assumptions:		
Rate of Inflation CPI	3.25%	2.85%
Rate of increase in salaries	4.25%	3.85%
Rate of increase in pensions	3.25%	2.85%
Rate for discounting scheme liabilities	2.60%	1.95%

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

The sensitivity analysis in the following table has 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. 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 £5.669m (2021/22)	
	Increase in Assumption by 0.1%	**Decrease in Assumption by 0.1%**
	£000	£000
Adjustment to:		
- discount rate	5,576	5,764
- long term salary increase	5,670	5,668
- pension increases and deferred revaluation	5,763	5,577
- life expectancy assumptions (increase or decrease by one year)	5,948	5,404

27. Contingent Liabilities

As at 31 March 2022 the Authority had one contingent liability:

Fly Tipping Clearance

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.

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.

Remedying the illegal waste activity would include surveys, equipment and manpower as well as landfill tax and clean-up/environment costs. 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 £0.010m (to tidy the site) and in excess of £1.000m if 100% of the material is disposed of to landfill.

28. Financial Instruments

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

Financial Assets	Current				
	Investments		Debtors		Total
	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Amortised cost	9,503	30,456	-	-	**9,503**
Other financial assets	-	-	5,776	6,583	**5,776**
Total financial assets	**9,503**	**30,456**	**5,776**	**6,583**	**15,279**

Financial Liabilities	Non-Current		Current				
	Borrowings		Borrowings		Creditors		Total
	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000	31 March 2021 £000	31 March 2022 £000
Amortised cost	(800)	(800)	(26)	(26)	-	-	(826)
Other financial liabilities	-	-	-	-	(10,331)	(11,594)	(10,331)
Total financial liabilities	**(800)**	**(800)**	**(26)**	**(26)**	**(10,331)**	**(11,594)**	**(11,157)**

IFRS 9 introduced fundamental changes to the classification of financial assets. For the Authority, those items previously identified as Loans and Receivables from 1 April 2018 now fall within the Amortised Cost Business Model.

The Code of Practice states that disclosures of fair value are not required when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables.

Due to the simplified long term and short-term nature of the Authority's financial assets and liabilities, the reclassification and re-measurements required by IFRS 9 has had no impact on the accounts.

The impact of Financial Instruments on the Comprehensive Income and Expenditure Statement is as follows:

Income, Expense, Gains and Losses

	2021/22		2020/21	
	Surplus or Deficit on the Provision of Services	Surplus or Deficit on the Provision of Services	Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
	£000	£000	£000	£000
Financial Assets measured at amortised cost				
Interest revenue (Note 8)	(84)		(141)	-
Total Income	**(84)**		**(141)**	**-**
Financial Liabilities measured at amortised cost				
Interest expense (Note 8)	3,954		4,352	-
Contingent rent (Note 8)	5,774		5,668	-
Pension interest and expected return on pension assets (Note 8)	42		39	-
Total Expense	**9,770**		**10,059**	**-**
Total	**9,686**		**9,918**	

The Fair Values of Financial Assets and Financial Liabilities that are not measured at Fair Value (but for which Fair Value Disclosures are required)

Except for those financial assets carried at fair value, all other financial liabilities and financial assets held by the Authority 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 take place over the remaining life of the instruments, using the following assumptions:

a) For loans from the PWLB payable, PWLB premature repayment rates have been applied to provide the fair value under PWLB debt redemption procedures. An additional note to the tables sets out the alternative fair value measurement applying the borrowing rates, highlighting the impact of the alternative valuation;

b) For loans receivable prevailing benchmark market rates have been used to provide the fair value;

c) No early repayment or impairment is recognised;

d) Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount;

e) The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2022		31 March 2021	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities				
Long Term PFI Liabilities	40,261	40,261	44,499	44,499
Long Term Public Works Loan Board	800	1,337	800	1,473
Short Term Public Works Loan Board	26	26	26	26
Short Term Creditors (Note 13)	10,331	10,331	11,594	11,594
Financial Assets				
Short Term Debtors (Note 11)	5,776	5,776	6,583	6,583
Short Term Cash Investments	9,503	9,503	30,456	30,456

The fair value of Public Works loan Board (PWLB) loans as at 31 March 2022 is £1.363m. (31 March 2021: £1.499m). This is calculated using the premature repayment rate published by the PWLB on 31 March 2022, using level 2 inputs and making the following assumptions:

a) Estimated ranges of interest rates at 31 March 2022 are 1.91% to 2.63% for loans from the PWLB.

b) No early repayment or impairment is recognised.

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

The fair value of the Public Works Loan Board (PWLB) loans is greater than the carrying amount because the Authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the current market at the balance sheet date. This shows a notional future loss (based on economic conditions at 31 March 2022) arising from a commitment to pay interest to lenders above current market rates.

The Authority has pledged no collateral in respect of repayment of any loan to another entity.

The carrying value of financial instruments reported on the Balance Sheet includes interest on loans and investments.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value. The valuation of PFI and finance lease liabilities have been based on level 2 inputs using a discounted cashflow analysis, with the most significant inputs being the discount rate.

Transfers between Levels of the Fair Value Hierarchy

There have been no transfers between input levels during the year.

Changes in the Valuation Technique

There has been no change in the valuation technique used during the year for the financial instruments.

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value:

Recurring fair value measurements	**Other significant observable inputs (Level 2) 31 March 2022**	**Other significant observable inputs (Level 2) 31 March 2021**
	£000	£000
Financial liabilities		
Financial liabilities held at amortised cost:		
Long Term PFI Liabilities	40,261	44,499
Long Term Public Works Loan Board	800	800
Short Term Public Works Loan Board	26	26
Short Term Creditors (Note 13)	10,331	11,594
Total	**51,418**	**56,919**
Financial assets		
Financial assets held at amortised cost:		
Short Term Debtors (Note 11)	5,776	6,583
Short Term Cash Investments	9,503	30,456
Total	**15,279**	**37,039**

As at 31 March 2022 the Authority had not entered into any financial guarantees.

29. Nature and Extent of Risks arising from Financial Instruments

Overall Procedures for Managing Risk

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.

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

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

This risk is minimised through the Annual Investment Strategy, which is available on the Authority's website.

Credit Risk Management Practices

The Authority's credit risk management practices are set out in the Annual Investment Strategy. The Authority maintains 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 through Treasury Management Practices (TMP's). The TMP's are a requirement of the Code of Practice and are reviewed periodically.

The procedures for risk management are set out through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Authority to manage risk in the following ways:

a) by formally adopting and following the requirements of the Code of Practice;

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

    a) the Authority's overall borrowing;

    b) maximum and minimum exposure to fixed and variable interest rates;

    c) maximum and minimum debt repayment profile;

    d) maximum annual exposure to investments maturing beyond one year.

The Investment Strategy for the forthcoming year sets out criteria for both investing and selecting investment counterparties in compliance with government guidance. The Strategy's objective is to prioritise the security and liquidity of the Authority's investments over the investment yield. Performance is reported bi-annually to the Authority. The Annual Investment Strategy for 2021/22 was approved by the Authority Members on 8 February 2021 and is available to view on the Authority's website – item 7 at: https://eastlondonwaste.gov.uk/wp-content/uploads/08.02.2021-ELWA-Authority-Agenda-Pack-Public.pdf

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

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.

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 is also collated and assessed and then used to produce a matrix to monitor each individual institution against the Authority's criteria.

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 £3.000bn.

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.

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.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £30.450m 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 31 March 2021 that this was likely to crystallise.

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:

Asset Class Percentages		
Type of Asset	**% of Total Investment as set by 2021/22 Treasury Management Strategy**	**% of Total Investment as at 31 March 2022**
	%	**%**
UK Government	100	-
Local Authorities	85	-
UK Banks – Specified	80	45
Money Market Funds	40	20
Enhanced Cash Funds/Money Market Funds (VNAV)	15	-
Building Societies – Specified	45	-
Total Unspecified Investments	50	-
Non-UK Banks – Specified (subject to group limit)	40	35
Non-UK Government and Supranational Bonds (subject to group limit)	30	-
Total Group Non-UK Investments	40	-
Corporate Bonds	15	-

The asset class percentages are well within the upper limits prescribed in the Authority's Treasury Management Strategy for 2021/22.

The boundary is set at £2.000m for long-term investments as specified in the Authority's Treasury Management Strategy. The Authority currently has no investments for longer than one year.

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.

Amounts Arising from Expected Credit Losses

Using the expected credit loss model the calculated loss allowance for investments at amortised cost is negligible therefore having no impact on the carrying value of investments.

Credit risk arising from Authority's exposure from other debtors

There is no impairment allowance for doubtful debt as 31 March 2022 (£nil provision at 31 March 2021), as all outstanding debtors are expected to pay.

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.

Invoiced payments for services are either required in advance or due at the time the service is provided. As at 31 March 2022, £0.624m (31 March 2021: £0.753m) is due to the Authority from its trade debtors, which 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	**2021/22 £000**	**2020/21 £000**
Three months or less	621	753
Three to six months	3	-
Total	624	753

Liquidity Risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of Prudential Indicators and the approval of the treasury and investment strategy reports). It 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 37% 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.

As at 31 March 2022, all of the Authority's outstanding loans were with the PWLB.

Refinancing and Maturity Risk

The maturity analysis for borrowing is as follows:

Renewal Period	**Market Loans Outstanding as at 31 March 2022 £000**	**Limit of Projected Fixed Rate Borrowing for Each Period %**	**% of Total Borrowing as at 31 March 2022 %**	**% of Total Borrowing as at 31 March 2021 %**
Less than one year	26	3	3	3
Between five and ten years	800	97	97	67
Total	826	100	100	100

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

Market Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. 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.

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 receivable 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.

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

a) Setting a maximum for the Authority's borrowings at variable rates. For 2021/22 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.

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.

According to this assessment strategy, at 31 March 2022, 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	79

As at 31 March 2022 the Authority holds no variable interest rate investments or borrowings as they are all at fixed rates. Therefore, there is no predicted impact for this on the Comprehensive Income and Expenditure Statement.

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 28 – Fair Values of Financial Assets and Liabilities.

Price Risk

The Authority, excluding its Pension Fund, does not invest in equity shares and therefore is not exposed to losses arising from movement in the price of shares.

Foreign Exchange Risk

The Authority, excluding its Pension Fund, has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

Glossary

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

Actuarial Valuation
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.

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. A measure of the costs of economic benefits derived from intangible assets that are consumed during the period.

Balance Sheet
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 Expenditure
Expenditure on the acquisition of non-current or intangible assets, or expenditure that adds to the value of an existing asset.

Capital Adjustment Account
Represents amounts set aside from revenue resources or capital receipts to finance expenditure on 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 in hand and available-on-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.

Cashflow
A statement that shows the changes in cash and cash equivalents during the financial year.

Comprehensive Income and Expenditure Statement
A Statement showing the net cost of the Authority's services during the year. It demonstrates how costs have been financed from general Government Grants and Income from Local Taxpayers.

Contingent Liability
A possible obligation arising from a past event whose existence will be confirmed by the occurrence of one or more uncertain future events not wholly within the control of the Authority, or a present obligation arising from past events where it is not probable that there will be an associated cost or the amount of the obligation cannot be accurately measured.

Credit Ratings for Investments
A scoring system used by credit rating agencies such as Fitch, Moodys and Standard and Poors to indicate the credit-worthiness and other factors of Governments, Banks, Building Societies, and other financial Institutions.

Creditors
Amount of money owed by the Authority for goods and services received but not paid for as at 31 March.

Debtors
Amount of money owed to the Authority by individuals and organisations for goods and services provided but where income was not received as at 31 March.

Defined Benefit Scheme
A pension scheme where the benefits payable on retirement are determined by predetermined formula and not dependent on market returns.

Depreciation
A measure of the cost of the economic benefits of the tangible fixed asset consumed during the year which is charged to the revenue account.

Depreciated Replacement Cost
The current cost of replacing or recreating an asset with its modern equivalent asset less deduction for all physical deterioration and all relevant obsolesce and optimisation.

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 where a finance company owns an asset and leases it to the Lessor in exchange for rentals. The Lessor will remain a large part, or all of the cost of the assets in rentals. At the end of the lease, the Lessee has the option to acquire ownership of the asset by paying, the last rental, or a final purchase price. This is a lease that substantially transfers the risks and rewards of a fixed asset to the lessee. With a Finance Lease, the present value of the lease payments would equate to the fair value of the leased asset.

Financial Instruments Adjustment Account (FIAA)
Provides a balancing mechanism between the different rates at which gains and losses are recognised under the Code and are required by Statute to be met from the General Fund.

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.

IAS 19
A complex accounting standard based on the principle that an organisation should account for retirement benefits when it is committed to do so even though the benefits will not be paid for years in the future.

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

Infrastructure Assets
Assets that have an indeterminate life and, although valuable, do not have a readily realisable value e.g. roads.

Intangible Assets
Non-financial assets that do not have physical substance but are identifiable and controlled by the Authority, for example purchased software licences.
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 assets are included in the Balance Sheet after depreciation has been provided for.

Net Realisable Value
The open market value of the asset less the expenses to be incurred in realising the asset.
Non-Current Assets
Assets that yield benefits to the Authority and the services it provides for a period of more than one year.

Operating Lease
This is a lease other than a finance lease. An operating lease contract allows the use of an asset, but does not convey rights similar to ownership of the asset. The lessee pays rentals to the lease company and, the asset is returned at the end of the lease period.
Operational Assets
Assets held, occupied, used or consumed by the Authority in the direct delivery of its service.

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 Chief Financial Services Officer.

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.

Public Works Loans Board (PWLB)
Central Government Agency, which funds much of local government borrowing.

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 in 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
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 frontline 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

AGS	Annual Governance Statement
CFR	Capital Financing Requirement
CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
ELWA	East London Waste Authority
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IWMS	Integrated Waste Management Strategy
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
MIRS	Movement in Reserves Statement
MRP	Minimum Revenue Provision
PFI	Private Finance Initiative
PWLB	Public Works Loans Board

ANNUAL GOVERNANCE STATEMENT

Introduction

Each year the East London Waste Authority (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 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.

Scope of Responsibility

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

In discharging these obligations, the Authority is required by Regulation 5 of the Accounts and Audit Regulations 2015 to put 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 and evaluating the effectiveness of the Authority's overall governance and risk management arrangements, by taking into account public sector auditing standards.

The Purpose of the Governance Framework

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

The system of internal control is a significant and ongoing part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risks connected with failure to achieve policies, aims and objectives, but effective internal systems of control can provide substantial, albeit not absolute, assurance of the effectiveness of the Authority's policies, aims and objectives. 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.

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.

Vision and Purpose

The Authority is responsible for the disposal of waste collected by the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge and to arrange for places where residents can deposit their household wastes. The boroughs have a combined population of over 1.1 million people living in over 400,000 households, and each is responsible for the collection of household waste in their areas for disposal by the Authority in total over 450,000 tonnes per annum.

The Authority's current Strategy as reviewed in 2006[1] sets out its vision "To provide an effective and efficient waste management service that is environmentally acceptable and delivers services that local people value". It sets out how the Authority, together with the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge, intend to manage municipal solid waste by means of a Vision, Objectives and Targets.

The Authority has worked with the Constituent Councils to develop a new 'Joint Strategy for East London's Resources and Waste' https://eastlondonwaste.gov.uk/jointstrategy/ to plan for the delivery of services, infrastructure, communication and engagement at the end of the existing Integrated Waste Management Services (IWMS) contract. This Joint Strategy was formally adopted by all five Partner Authorities in early 2022 and applies from 2027 to 2057. The Joint Strategy sets out the aims and aspirations of the five partner authorities and provides the basis on which to develop further plans and strategies for the delivery of future collection and treatment services, including a procurement plan for ELWA for new arrangements to replace the IWMS contract in late 2027.

In early 2022 the Authority started the Procurement and Contract Expiry (PACE) Programme, which will cover the various strands of work required to prepare for the end of the IWMS Contract and the procurement of new arrangements and services to replace it. The PACE Programme Board has been established to ensure the current contract is wound down efficiently and the successor services provide improved reuse and recycling, and value for money. Since the end of 2021/22 a Procurement Director has been recruited, and the Authority's officer team will be further expanded along with external advisers to provide the necessary capacity for delivery. An indicative programme of work has been drawn up, which is being used as the basis for procuring the services of technical, legal and financial advisers to support the PACE Programme.

The Authority is continuing to engage in and monitor the development of proposals and initiatives under the national Resources and Waste Strategy and the London Environment Strategy. These proposals are being reviewed and assessed to determine any likely or potential impacts on the Authority and/or the Constituent Councils, in order to understand the associated impacts on either the IWMS Contract or the PACE Programme.

The IWMS Contract, which runs from 2002 to 2027, has a number of requirements designed to implement the Authority's current Strategy:

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 the Operator (Renewi UK Services Limited) to meet the Authority's requirements.

b) The Five-Year Service Delivery Plan (FYSDP) follows a similar format to the OSDP but provides a greater level of detail. The first FYSDP is also a schedule to the Contract. The FYSDP was reviewed in 2020, however with a number of strategic issues remaining uncertain, including a significant number of consultations from Defra that will impact on long-term waste management decisions within ELWA, the FYSDP was agreed to cover a two-year period. This will now be formally reviewed in 2022 to provide a five-year framework to the end of the 25-year PFI Contract.

c) The Annual Budget and Service Delivery Plan (ABSDP) follows a similar format to the other SDPs but provides an even greater level of detail, particularly in respect of financial matters. 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 an opportunity for the Constituent Councils to provide input into the

[1] See: http://eastlondonwaste.gov.uk/minutes/east_london_waste_authority_strategy.pdf

proposed plans to take account of any planned service changes or requirements in the coming financial year. Performance against the 2021/22 ABSDP was good but did not reach the 33% recycling of household waste as anticipated. This was in large part due to the significant impact of COVID-19 on service delivery.

It is recognised that the Authority cannot achieve its vision alone. It needs to work in partnership with its four Constituent Councils, contractors and sub-contractors, other bodies and the community to make this happen.

Performance Management and Reporting

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.

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

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 discussed and reported 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 progress on the contract review and achievement of efficiencies.

Authority Constitution

The Constitution sets out the governance and decision-making arrangements of the Authority, including the roles and responsibilities of Members and Officers. It provides details of how decisions are made and who can make them. It also contains the rules for managing our finances and resources effectively.

A comprehensive update of the Constitution was undertaken in 2018/19 and the revised Constitution was approved by the Authority in February 2019. Further minor updates were made in February 2022. The Constitution includes a clear reference to the scheme of delegation, which outlines who is authorised to make particular decisions and the remit of those decisions. In addition, clear rules regarding contractual and tendering matters and dealings with land are outlined within the Constitution. Alongside these are financial rules relating to income and expenditure and financial authority limits.

Codes of Conduct

The Constitution (Part E) deals with the Codes of Conduct for Members and Employees. The Authority is not required to adopt a statutory Code of Conduct for its Members as it is not a 'relevant authority' as defined by the by the Localism Act 2011. Therefore, the Authority's Members are bound by their respective Council Codes when acting in their official capacity for the Authority. Copies of each Constituent Council's Members' Code of Conduct are available on the respective Councils' websites.

Risk Management

The Authority has embedded risk management processes throughout its structure. The Corporate Risk Register which deals with both strategic and operational risks is agreed and reviewed by the Management Board and Authority Members on a regular basis.

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

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

Compliance with Policies, Laws and Regulations

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; Finance Director – Section 73 officer (Local Government Act 1985); and Monitoring Officer – Legal Adviser, each of whom has the power to refer matters to the Authority where a breach of regulation is possible or suspected. These officers form part of the Management Board. None of these officers have been required to use these powers during the year.

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

Counter Fraud including Whistle-blowing

The Authority has an agreed Anti-Fraud and Corruption Strategy, a Whistleblowing procedure embedded in the Constitution and in July 2021 agreed new further policies setting out anti-bribery and corruption and anti-money laundering arrangements and how the Authority will take actions to sanction and prosecute those found to have committed fraud against the Authority.

The Whistleblowing arrangements are available to the general public, employees and contractors. Our Constituent Councils have their own whistleblowing procedures.

The collective documents that form the anti-fraud strategy and supporting policy suite were developed and approved so that the Authority has a strengthened, comprehensive, and integrated approach to preventing, and also where necessary, responding to instances of fraud and corruption.

The Anti-Fraud and Corruption Strategy and supporting policies are reviewed annually. The strategy and policies were either re-approved or were approved for the first time by the Authority in July 2021.

Complaints Process

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.

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

Members of the public may also complain to the Local Government Ombudsman if a corporate complaint has not been satisfactorily resolved and maladministration could arise. The Authority has had no previous history of any such complaints.

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

Training and Development

Members receive briefings to keep them up to date with changes and to supplement training received via their Constituent Councils. This is supplemented by formal and informal information about the Authority through briefings, workshops and conferences where necessary.

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.

Communication and Engagement

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 and briefings for Constituent Councils. In addition, the Authority employs the IWMS contractor to provide a waste education programme for local schools.

The Authority is trialling a Waste Prevention Programme, in order to provide local stakeholders with a greater range of information and resources to promote a reduction in waste arisings and divert more unwanted items towards reuse services. The two-year trial began in April 2021, and the Authority will take a decision on whether to continue the programme beyond this trial period following a review of its impacts, as part of setting the 2023/24 budget.

Partnerships

The most significant partnerships for the Authority are with its four Constituent Councils and through the IWMS Contract with Renewi UK Services Limited as both Operator and shareholder of ELWA Limited (the Contractor) alongside JLEN Environmental Assets Group Limited. There are sound governance arrangements in place for partnerships. These are implemented via regular formal meetings with Renewi UK Services Limited and include those with ELWA Limited. The Authority nominates an 'A-Director' to serve as a member of the board of ELWA Ltd. The board is not quorate unless the A-Director attends, but can reconvene without the A-Director.

There are also regular formal meetings with the Constituent Councils including those at the Management Board, Operational Management Team and Contract Monitoring Group.

Review of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control, albeit that this is undertaken as an ongoing process. 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 processes carried out by Internal Audit, External Audit and other review agencies.

The five yearly and annual processes, conducted within a formal framework provided by the IWMS Contract, enforce a disciplined review of objectives and effectiveness. Any actions required are set out in an Annual Governance Statement Action Plan. Overall, the governance arrangements are regarded as fit for purpose in accordance with the Authority's governance framework.

Role of the Finance Director

The Chief Finance Officer (CFO) fulfils the statutory requirements of the Local Government Act 1985 and is the organisation's senior executive charged with leading and directing financial strategy and administration and assisting the Head of Paid Service to discharge their corporate responsibilities. This is a pivotal role, both for external stakeholders and within the Management Board. At the Authority, this role is held by the Finance Director. The Authority fully complies with the governance requirements and principles as set out in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government and with the standards of financial management set out in the CIPFA Financial Management Code.

Internal Audit

An effective Internal Audit function is a core part of the Authority's arrangements to ensure the proper conduct of its financial affairs. Internal Audit priorities are risk based and agreed with the Finance Director (Section 73 Officer), following consultation with the Management Board and External Audit as part of the annual planning process.

The Head of Audit and Investigations 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 Rules 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 and Investigations for the London Borough of Redbridge reports on the outcomes of the annual programme of audit work to Members and management.

Based upon the outcomes of the audit work undertaken during 2021/22 and other appropriate sources of assurances, the Head of Internal Audit and Investigations has reached the opinion that the Authority's systems of governance, risk management and internal control remain generally sound and provide substantial assurance. This means that the governance, risk management and internal control arrangements are sufficiently well designed and operating consistently and effectively to:

- identify and manage the significant risks to required levels to satisfactorily achieve the Authority's objectives
- ensure reliable management information
- ensure effective and efficient operations
- ensure assets are safeguarded
- ensure compliance with law, regulation, polices, procedures and contacts.

There was no reported fraud or irregularity during the year.

Any Internal Audit recommendations made in 2021/22 will need to be implemented during the following financial year.

External Audit

The Authority's External Auditor is Ernst & Young (EY). EY 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 ELWA has sound arrangements in place to deliver value for money. This value for money conclusion is based on the overall evaluation as to whether the Authority has put in place 'proper arrangements to secure economy, efficiency and effectiveness in its use of resources'. The Code of Audit Practice requires the auditors to design their work to gain sufficient assurance to enable them to provide a commentary under three reporting criteria:

- Financial sustainability
- Governance
- Improving economy, efficiency and effectiveness

Impact of the COVID-19 Pandemic:

The COVID-19 pandemic impacted on the Authority's operations in 2019/20 and 2020/21 and, during 2021/22, the Authority has remained alert to the risks and kept the potential impacts under close review. The IWMS Operator was able to receive all wastes collected by the Constituent Councils during 2021/22 and the Authority and its Operator complied with government guidance and legislation in place throughout the year. Operations normalised following the lifting of restrictions relating to the pandemic, though plans utilised during that period can be swiftly put back into action in the event that any restrictions are re-imposed.

The Authority reverted to in person meetings with effect from its Annual General Meeting in June 2021.

Significant Governance Issues:

There are no significant governance issues identified in the 2021/22 Annual Governance Statement. As reported above, however, any Internal Audit recommendations made as a result of audit work undertaken in 2021/22 will need to be implemented during the following financial year. Internal Audit recommendations have been captured in action plans and their implementation will be monitored during 2022/23.

Signed:

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Andrew Lappage (Managing Director) Date: 23 June 2022

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Cllr. John Howard (Chair of the Authority) Date: 23 June 2022