

**NORTH LONDON WASTE AUTHORITY**

**REPORT TITLE:** 2019/20 BUDGET UPDATE

**REPORT OF:** THE FINANCIAL ADVISER

**FOR SUBMISSION TO:** AUTHORITY MEETING

**DATE:** 3 OCTOBER 2019

This report is the second in the current year on the Authority's finances. It concludes that the Authority is forecast to have a revenue surplus of £3.861m at 31 March 2020, i.e. an increase of £0.590m compared with the first budget update.

The report also provides a budget and levy forecast for 2020/21. It concludes that overall levy could increase by £3.377m or 6.4% in 2020/21.

A further review of the 2019/20 budget together with an updated assessment of the budget and resource requirements for 2020/21 will be reported to the Authority in December.

The report also requests that the Authority note the findings and recommendations of the 2018/19 Annual Audit Letter.

**RECOMMENDATIONS:**

The Authority is recommended to:

- A. Note the findings and recommendations of the 2018/19 Annual Audit Letter.
- B. Note the second update of the 2019/20 revenue budget.
- C. Note that a third update of the 2019/20 budget will be reported to the Authority meeting in December together with an updated assessment of the budget and resource requirements for 2020/21

**SIGNED:** Financial Adviser

**DATE:** 23 September 2019

## **1. INTRODUCTION**

- 1.1. This report provides Members with the external auditor's Letter for noting. It also contains the second review of the 2019/20 budget and a detailed assessment of the prospects for 2020/21 including the budget and levy forecast.
- 1.2. Tables detailing the forecast 2019/20 outturn and 2020/21 budget forecast are set out in Appendix A. The Appendix also contains other key budget information including forecast balances.

## **2. 2018/19 ANNUAL AUDIT LETTER**

- 2.1. On 31 July 2019, the Authority's external auditors, Mazars LLP issued an unqualified audit opinion on the 2018/19 financial statements and reported that the statements gave a true and fair view of the financial position at 31 March 2019 and of the expenditure and income for the year then ended. Mazars also reported that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources. The audit certificate which formally completed the 2018/19 audit was issued on 31 July 2019.
- 2.2. The 2018/19 Annual Audit letter is contained in Appendix B to this report.
- 2.3. The audit made one recommendation, relating to the Authority's banking arrangements. These are managed on the Authority's behalf by the London Borough of Camden (LBC). Authority officers have discussed this with their counterparts at LBC and have concluded that there would be a significant amount of work to amend systems to be able to make as separate bank account practical. As a result, officers have also spoken with Internal audit about the possibility of testing the internal controls currently in place to review whether they are working effectively and if there any improvements that could be put in place to minimise the income risk. Further updates and the output of any work will be taken to the Member Finance Working Group.

## **3. 2019/20 REVENUE BUDGET UPDATE**

- 3.1. At the Authority meeting in June, Members were advised that the 2018/19 outturn had included a revenue surplus of £2.844m at 31 March 2019, which is available to support the 2020/21 budget and levy. The Authority was also advised of a number of 2019/20 budget variances that had emerged during the 2018/19 final accounts process and in the early months of 2019/20.

<b>Table 1</b>	<b>£m</b>
Higher level of balances brought forward from 2018/19	(2.844)
Reprofiling of NLHPP costs	0.302
Review of capital programme	(0.968)
Decrease in chargeable waste income	0.239
Total	<u>(3.271)</u>

- 3.2. Taken as a whole therefore, it was estimated that balances at 31 March 2020 would be £3.271m. As a result of the second update, forecast revenue balances at the end of the 2019/20 year are estimated to increase by a further £0.590m to £3.861m. This report provides details of the main changes and other issues that have arisen since the June meeting.

#### **4. SECOND BUDGET UPDATE**

##### **Financial Savings and Pressures**

- 4.1.1. The latest forecast for 2019/20 has identified a reduction in outturn of £0.590m. The following paragraphs address the changes that have been identified in this forecast and where necessary, any mitigating actions.

##### **Transport and Disposal: (-£0.880m)**

- 4.1.2. The key contributors to this saving are the consequences of reduced electricity generation at the EcoPark and improved electricity prices. The contract with LondonEnergy Ltd provides for an element of risk sharing in relation to the prices achieved for the electricity generated at the EcoPark. As LEL succeeds in securing higher prices, the Authority is required to compensate LEL less. In addition, the Authority's compensation is linked to the amount of electricity produced. With the reduction in capacity at the plant, the amount of compensation the Authority is forecast to pay LEL has fallen. This second budget review reflects a reduction of £0.906m
- 4.1.3. Except for 2015/16, residual waste tonnage has been falling for many years although the rate of decline has slowed recently. Based on data to July 2019 the Authority is projecting a total of 581,066 tonnes in 2019/20 which suggests the assumptions that underpinned the budget were broadly correct. It should be emphasised however that this is an early forecast. The Authority will refine these forecasts and consult with borough officers when preparing further budget updates for consideration in December 2019 and February 2020.
- 4.1.4. A breakdown of the residual waste forecast by borough can be found in Appendix A at table A2

- 4.1.5. In preparation for the forthcoming budget process, the Authority will liaise with borough officers to determine whether the early year waste stream changes are likely to continue for the remainder of 2019/20 and beyond. The outcome of this review together with an up-to-date assessment by boroughs of their recycling ambitions will help inform an assessment of the impact that this could have on the Authority's 2020/21 waste treatment services and budget requirements. Conclusions from these discussions will be reported to the December meeting of the Authority.
- 4.1.6. Within this modest forecast overall reduction in tonnage compared to the budget, there have been changes in the tonnages delivered to each transfer station for onward transport and treatment. The unplanned shut down of a turbine at the EcoPark has restricted plant capacity and hence the tonnage that can be transported from the Hendon rail transfer station for treatment at the EcoPark. An update on the repair of the turbine is provided elsewhere on the agenda. Sending waste by rail to a third-party Energy from Waste facility in Buckinghamshire incurs a higher cost than processing it at the EcoPark. Together with a small projected increase in tonnage delivered to Hendon this gives rise to a forecast increase of £0.058m compared with the first review.

#### **Organic Waste and MRF Services: (+£0.153m)**

- 4.1.7. Tonnage projections suggest that organic waste delivered to the Authority will be 4.5% less than allowed for in the budget and first review. A breakdown of the forecast by borough is provided in Appendix A at table A3.
- 4.1.8. Tonnages of dry recyclable material processed by the Authority's MRF providers are forecast to be 2.3% less than the first review. Members will be aware that new MRF contracts will commence in December 2019; the impact of the new arrangements is reflected in this review. A breakdown of the forecast by borough is provided in Appendix A at table A4.

#### **Corporate and Other Support Services: (+£0.063m)**

- 4.1.9. The Authority has made a provision for the outcome of a rent review of its office premises which is currently taking place.

#### **Revenue Funding - Capital Programme (-£0.933m)**

- 4.1.10. The budget was prepared on the basis that the Authority would have to borrow to fund capital expenditure as it fell due. As cash balances were available at year end, these have been used in the short term to defer borrowing and therefore interest costs.

4.1.11. More Significantly, after consulting with Members, Borough Finance Directors and the Authority's external auditors, the policy regarding the treatment of interest on borrowing during the construction period of the North London Heat and Power project has been amended. Interest will now be capitalised during the construction period instead of being charged against the levy. This lowers the levy during construction but results in higher charges once the new facility opens.

#### **Reuse and Recycling Centres (RRCs): (+ £0.219m)**

4.1.12. The budget included an assumption of savings in operating costs compared with 2018/19. To date this has not been achieved. In addition, income from RRC recyclates has been lower than budgeted. A meeting of the RRC Review Group is due to take place on 4 October.

#### **Income from Sale of Recyclates: (+£0.328m)**

4.1.13. As well as the lower tonnage mentioned in paragraph 4.4.2, officers have reviewed changing market prices and have reduced forecast income in the final quarter of the year.

4.2. A table detailing the forecast outturn and how it has changed since the first review is included in Appendix A as table A1

### **5. REVIEW OF THE OUTLOOK FOR 2020/21**

5.1. The following paragraphs set out the underlying assumptions and discuss significant issues and variances. This section of the report concludes with a table setting out the forecast 2020/21 levy and charges for each borough. Further reviews will be presented to the December 2019 and February 2020 Authority meetings. It is at this latter meeting that the Authority must agree its budget and set the levy for 2020/21.

#### **Opening position and inflation assumptions**

5.1.1. The improvement in the revenue balance at 31 March 2019 and the variations reported in this review indicate that the Authority's reserves at the end of March 2020 are anticipated to increase by £0.590m from the first review to £3.861m.

5.1.2. Most of the prices in the Authority's contract with LEL are reviewed annually in line with the December Retail Price Index. As is customary, for financial planning purposes the Authority uses the HM Treasury's digest of forecasts published by banks and other institutions, which puts the increase in December 2019 RPI at 2.6%

and for December 2020 at 2.9%. For prices subject to future years, this report assumes 2.5%

### **Transport and Disposal**

- 5.1.3. At the budget meeting in February Members were provided with an up-to-date assessment of the estimated cost to boroughs of non-household waste in 2019/2020.
- 5.1.4. The 2020/21 transport and disposal budget has been based on a forecast residual waste stream of 579,963 tonnes. This reflects an assumption that there will be little change in the residual waste stream. In future reviews, this will be discussed with borough officers to ensure that planned changes to collections are captured.

### **Landfill Tax**

- 5.1.5. In recent years, Government policy regarding landfill tax has been to increase the tax in line with inflation, rounded to the nearest five pence. The rate of landfill tax has been announced in the budget over a year in advance and the figure for 2020/21 is anticipated to increase to £94.15 per tonne

### **Organic Waste and MRF Services**

- 5.1.6. In aggregate boroughs have indicated that they expect to send 43,917 tonnes of organic waste in 2020/21. This assumes no growth on 2019/20 expectations. The forecast will be discussed with borough officers before the next budget update.
- 5.1.7. The 112,326 tonnes of saleable dry recyclable waste represent a 1.4% increase on their 2019/20 expectations. As with organic wastes, boroughs will be consulted in advance of the next update to ensure that planned service changes are reflected.
- 5.1.8. Members will be aware that new MRF contracts start in December 2019. The forecasts reflect the provisions of these contracts.

### **Reuse and Recycling Centres**

- 5.1.9. The cost of running the Reuse and Recycling Centres have been updated to reflect known costs and estimated income from recyclates.

### **Sale of Recyclates**

- 5.1.10. Income from recyclates has been reduced to reflect current conditions. The price used includes a modest increase from the actual price achieved in the first quarter of 2018/19, but the recovery

of prices has been less positive than assumed at the start of the year.

### **Non-Household Waste Charges**

5.1.11. Based on returns provided by boroughs, the Authority anticipates that boroughs will deliver send 92,078 tonnes of residual waste and 11,281 tonnes of recyclable and organic waste to the authority in 2020/21.

### **Chargeable Household Waste**

5.1.12. Based on estimates provided by boroughs, the Authority forecasts that it expects to receive 17,879 tonnes of residual waste and 4,000 tonnes of organic waste and Mixed Dry Recycling in 2020/21.

### **Contingency**

5.1.13. This budget forecast in this report reflects the approach taken in recent budgets i.e. a specific £1m for the Heat and Power Project plus a 2% operational base provision of £1.377m. Officers will be reviewing this approach in the coming months.

### **Levy**

5.1.14. Table A9 in appendix A sets out our current view of the potential 2020/21 levy for each borough. It reflects the forecast balances at 31 March 2020 and the Authority's expenditure and income expectations. For the most part the menu price-based levy model apportions costs to boroughs using tonnage data. Residual waste tonnage forecasts have been prepared by the Authority but will obtain data from the boroughs to inform the preparation of the December update.

### **Conclusion**

5.1.15. Subject to member decisions and the variations included in this review, the Authority's reserves at the end of March 2020 are forecast to increase by £0.590m from the first review to £3.861m. A further review of the Authority's financial performance in 2019/20 and forecast for 2020/21 will be presented to the December meeting.

## **6. EQUALITIES IMPLICATIONS**

6.1. Budgets and forecasts are considered an allocation of resources. Approval to spend is sought separately by Officers. The equalities implications are considered as part of the spending approval.

## **7. COMMENTS OF THE LEGAL ADVISER**

- 7.1. The Legal adviser has been consulted in the preparation of this report and comments have been incorporated.

### **List of documents used:**

Report to the Authority 7 February 2019 – Revenue Budget and Levy 2019/20

Report to the Authority 21 June 2019 – 2018/19 Revenue and Capital Budgets  
Financial Outturn and 2019/20 Update

2019/20 Budgetary Control working papers

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## APPENDIX A:

### FINANCIAL TABLES TO SUPPORT THE REPORT

Table A1 shows the variance between the first and the second review

<b>Table A1</b>	<b>2019/20 Budget</b>	<b>2019/20 June Forecast</b>	<b>2019/20 Current Forecast</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>				
Main Waste Disposal Contract (ex CA Waste)	36,961	36,961	36,081	(880)
Landfill Tax	1,568	1,568	1,542	(26)
Organic Waste Services	1,922	1,922	1,858	(64)
MRF Services	7,837	7,837	8,054	217
Transfer Stations and Other Sites	1,681	1,681	1,681	0
Corporate and other Support Service Costs	2,651	2,651	2,714	63
Strategy & Services Team	621	621	641	20
Waste Reduction Programme – New Initiatives	500	500	500	0
Joint Communications Initiative	83	83	83	0
Recycling Initiatives	239	239	239	0
North London Heat and Power Project	1,615	1,917	1,917	0
Revenue Funding – Capital Programme	8,930	7,962	7,029	(933)
	<b>64,608</b>	<b>63,942</b>	<b>62,339</b>	<b>(1,603)</b>
<b>Reuse and Recycling Centres Expenditure</b>				
Residual Waste	935	935	872	(63)
Landfill Tax	127	127	121	(6)
Operating Costs	3,479	3,479	3,767	288
	<b>4,541</b>	<b>4,541</b>	<b>4,760</b>	<b>219</b>
<b>Total Expenditure</b>	<b>69,149</b>	<b>68,483</b>	<b>67,099</b>	<b>(1,384)</b>
<b>Income</b>				
Rents	(119)	(119)	(119)	0
Sale of Recyclates	(2,221)	(2,221)	(1,893)	328
Interest on Balances	(40)	(40)	(40)	0
	<b>(2,380)</b>	<b>(2,380)</b>	<b>(2,052)</b>	<b>328</b>
Net Expenditure	66,769	66,103	65,047	(1,056)
Contingency	2,735	2,735	2,735	0
<b>Total Net Expenditure</b>	<b>69,504</b>	<b>68,838</b>	<b>67,782</b>	<b>(1,056)</b>
<b>Financed By</b>				
Use of Balances	(5,377)	(8,221)	(8,221)	0
Charges to Boroughs (Non-household waste)	(9,111)	(8,999)	(8,485)	514
Charges to Boroughs (Chargeable Household Waste)	(1,834)	(1,707)	(1,755)	(48)
2019/20 Levy - Base Element	(48,350)	(48,350)	(48,350)	0
- HWRC Element	(4,832)	(4,832)	(4,832)	0
Total Levy	<b>(53,182)</b>	<b>(53,182)</b>	<b>(53,182)</b>	<b>0</b>
<b>Total Resources Available</b>	<b>(69,504)</b>	<b>(72,109)</b>	<b>(71,643)</b>	<b>466</b>
<b>Estimated Additional Revenue Balances at 31 March 2020</b>	<b>0</b>	<b>(3,271)</b>	<b>(3,861)</b>	<b>(590)</b>

## Tonnage Forecasts

The Tonnages in tables A2-A4 have been reviewed based on actual tonnage delivered over the past 12 months. Where officers are aware of planned service changes, these have been included in the forecast. In advance of the next review, borough officers will be consulted on their own expectations.

**Table A2 - 2019/20 residual waste tonnage forecast**

	<b>2018/19 Actual Tonnes</b>	<b>2019/20 Budget Tonnes</b>	<b>2019/20 Current Forecast Tonnes</b>	<b>Change %</b>
Barnet	102,616	100,128	104,491	+4.36
Camden	76,617	77,192	75,001	-2.84
Enfield	90,239	89,372	91,578	+2.47
Hackney	89,608	90,251	88,996	-1.39
Haringey	73,266	74,210	72,279	-2.60
Islington	79,020	79,268	78,261	-1.27
Waltham Forest	71,413	71,104	70,460	-0.91
<b>Total</b>	<b>582,779</b>	<b>581,525</b>	<b>581,066</b>	<b>-0.08</b>

**Table A3 - Organic Recycling tonnage forecast**

	<b>2018/19 Actual Tonnes</b>	<b>2019/20 Budget Tonnes</b>	<b>2019/20 Current Forecast Tonnes</b>	<b>Change %</b>
Barnet	16,279	14,000	14,035	+0.25
Camden	4,118	4,208	4,172	-0.86
Enfield	0	0	0	+0.00
Hackney	6,848	6,884	6,972	+1.28
Haringey	5,274	5,886	5,378	-8.63
Islington	4,567	6,335	4,522	-28.62
Waltham Forest	8,981	8,670	8,838	+1.94
<b>Total</b>	<b>46,067</b>	<b>45,983</b>	<b>43,917</b>	<b>-4.49</b>

**Table A4 - Mixed Dry Recycling tonnage forecast**

	<b>2018/19 Actual Tonnes</b>	<b>2019/20 Budget Tonnes</b>	<b>2019/20 Current Forecast Tonnes</b>	<b>Change %</b>
Barnet	26,940	29,000	26,790	-7.62
Camden	18,707	20,251	17,969	-11.27
Enfield	0	0	0	+0.00
Hackney	17,481	18,113	17,950	-0.90
Haringey	15,964	15,031	16,501	+9.78
Islington	15,171	14,808	15,607	+5.40
Waltham Forest	15,833	16,096	15,906	-1.18
<b>Total</b>	<b>110,096</b>	<b>113,299</b>	<b>110,723</b>	<b>-2.27</b>

**Re-use and Recycling Centre (RRCs) Balances at 31 March 2019**

Under the menu price based levy, the net costs of operating each RRC is attributed to boroughs in accordance with a visitor survey. Under or overspends continue to be attributable to individual sites and are carried forward to the levy calculation in the following year so the net cost to each borough in any year also reflects the changes in its balance position.

In setting the budget and levy for 2019/20, the Authority estimated that it would have balances owed to it of £0.291m to amend the cost of RRCs in 2019/20. The 2018/19 outturn contained additional balances of £0.042m.

Table A5 below provides a summary of the current financial position for each borough:

<b>Table A5</b>	<b>Change in RRC Balances at 1 April 2019 (As reported in June)</b>	<b>Total Operating Costs – 2019/20 Original Budget</b>	<b>Total Operating Costs - 2019/20 Current Forecast</b>	<b>Change in 2019/20 Total Operating Costs</b>	<b>Estimated RRC Balances at 31 March 2020 (Column 1 plus 4)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Barnet	(13)	1,177	1,105	(72)	(85)
Camden	75	473	559	86	161
Enfield*	0	34	35	1	1
Hackney	(6)	236	238	2	(4)
Haringey	28	638	728	90	118
Islington	(6)	738	757	19	13
Waltham Forest	(35)	1,245	1,333	88	53
<b>Total</b>	<b>43</b>	<b>4,541</b>	<b>4,755</b>	<b>214</b>	<b>257</b>

\* The Authority does not manage Enfield's RRC; the cost of disposing of this site's residual waste is included in Enfield's base levy.

Subject to final review in February, RRC balances of £0.257m will be taken into account in calculating the RRC element of the 2020/21 levy.

### Base Levy Balances at 31 March 2019

The menu price based levy requires the authority to attribute all of its costs to the boroughs and to hold borough specific balances. A positive balance for a borough can be used to support a future year's levy but if negative will be recovered through an addition to the levy. The following table sets out the forecast balance position excluding RRCs. It should be noted the costs in columns 2 and 3 are those that are attributable to the levy; they do not include the costs of processing non-household and chargeable household waste. The 2019/20 base levy included estimated balances of £8.554m, which enabled the Authority to set a base levy of £48.350m. Since the levy is fixed for the year, the additional balances arising from the 2017/18 outturn feed into the estimated balance at 31 March 2018 and can be taken into account together with any in-year savings when the Authority determines its 2019/20 levy.

<b>Table A6</b>	<b>Additional balance at 1 April 2019 (reported In June)</b>	<b>2019/20 Budget Levy Costs</b>	<b>2019/20 Levy Costs - Current Forecast</b>	<b>Forecast Change in 2019/20 Levy Costs</b>	<b>Estimated Balance at 31 March 2020 (Column 1 plus 4)</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Barnet	(339)	10,686	10,842	156	(183)
Camden	(457)	5,988	5,641	(347)	(804)
Enfield	(337)	7,605	7,488	(117)	(454)
Hackney	(532)	7,728	7,550	(178)	(710)
Haringey	(412)	7,835	7,595	(240)	(652)
Islington	(361)	6,017	5,800	(217)	(578)
Waltham Forest	(449)	8,159	7,871	(288)	(737)
<b>Total</b>	<b>(2,887)</b>	<b>54,018</b>	<b>52,787</b>	<b>(1,231)</b>	<b>(4,118)</b>

## Charges to Boroughs for Non-Household Waste:

Although charges for non-household waste must be separate from the levy, the calculation methodology for these charges is set out in the provisions of the menu price based levy.

Forecast charges to boroughs for the disposal of non-household waste in 2019/20 compared with the original budget assumptions are shown in the table below:

<b>Table A7</b>	<b>2019/20 Budget Estimate £'000</b>	<b>2019/20 Current Forecast £'000</b>	<b>Estimated Variance £'000</b>
Barnet	1,044	1,006	(38)
Camden*	2,352	2,172	(180)
Enfield	857	800	(57)
Hackney*	1,880	1,691	(189)
Haringey *	302	251	(51)
Islington *	2,561	2,460	(101)
Waltham Forest	115	105	(10)
<b>Total</b>	<b>9,111</b>	<b>8,485</b>	<b>(626)</b>

\* Including income from non-household recyclable wastes.

## Charges to Boroughs for Chargeable Household Waste:

Forecast charges to Boroughs for the disposal of Chargeable household waste in 2018/19 compared with the original budget assumptions are shown in the table below:

<b>Table A8</b>	<b>2019/20 Budget Estimate £'000</b>	<b>2019/20 Current Forecast £'000</b>	<b>Estimated Variance £'000</b>
Barnet	203	128	(75)
Camden*	472	462	(10)
Enfield	127	121	(6)
Hackney*	537	527	(10)
Haringey *	238	232	(6)
Islington *	257	270	13
Waltham Forest	0	16	16
<b>Total</b>	<b>1,834</b>	<b>1,756</b>	<b>(78)</b>

\* Including income from non-household recyclable wastes.

## 2020/21 Levy Projection

After taking the balance into account, the increase compared to the approved 2018/19 levy has reduced from **12.3%** reported in February to **6.4%**. The table below shows how this increase is broken down by borough.

Table A9	2019/20 Actual Levy	2020/21 Current Forecast Levy Costs*	Forecast Levy Increase	2018/19 Additional Year End Balances	2019/20 Balances Currently Forecast	Additional Balance to reduce the 2020/21 Levy	2020/21 Revised Forecast Levy	Revised Forecast Levy Increase
	£'000	£'000 a	%	£'000 b	£'000 c	£'000 d (b+c)	£'000 (a+d)	%
Barnet	10,371	12,525	20.8%	(352)	84	(268)	12,257	18.2%
Camden	5,556	6,490	16.8%	(383)	(261)	(644)	5,846	5.2%
Enfield	7,135	7,803	9.4%	(337)	(116)	(453)	7,350	3.0%
Hackney	6,998	8,153	16.5%	(537)	(176)	(713)	7,440	6.3%
Haringey	8,019	8,974	11.9%	(384)	(150)	(534)	8,440	5.3%
Islington	5,986	6,853	14.5%	(367)	(198)	(565)	6,288	5.0%
Waltham Forest	9,117	9,622	5.5%	(484)	(200)	(684)	8,938	-2.0%
<b>Total</b>	<b>53,182</b>	<b>60,420</b>	<b>13.6%</b>	<b>(2,844)</b>	<b>(1,017)</b>	<b>(3,861)</b>	<b>56,560</b>	<b>6.4%</b>

\* Before balances are taken into account

**REPORT ENDS**



# Annual Audit Letter

## North London Waste Authority

Year ending 31 March 2019





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for North London Waste Authority for the year ended 31 March 2019. Although this letter is addressed to the Authority, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 31 July included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Authority's financial position as at 31 March 2019 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report issued on 31 July included our opinion that</p> <ul style="list-style-type: none"><li>• the other information in the Statement of Accounts is consistent with the audited financial statements.</li></ul>
Value for Money conclusion	<p>Our auditor's report concluded that we are satisfied that in all significant respects, the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.</p>
Reporting to the group auditor	<p>In line with group audit instructions issued by the NAO, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under s24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Authority.</p>

## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Authority and whether they give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, issued to the Authority on 31 July, stated that, in our view, the financial statements give a true and fair view of the Authority's financial position as at 31 March 2019 and of its financial performance for the year then ended.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table below provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2019:

Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Revenue Expenditure	£866,000
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£26,000

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Authority's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Authority within the Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
Management override of controls	<p>We addressed the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> <li>accounting estimates included in the financial statements for evidence of management bias;</li> <li>journals and other adjustments recorded in the general ledger in preparing the financial statements; and</li> <li>any significant transactions outside the normal course of business.</li> </ul>	There were no significant findings arising from our review of areas of potential management override of controls.
Revenue recognition	<p>We addressed this risk by obtaining a detailed understanding of the Authority's processes which assure it that revenue and expenditure materially recognised in the correct accounting year. We carried out:</p> <ul style="list-style-type: none"> <li>detailed testing of non-levy income transactions within the 2018/19 financial statements to confirm they are accounted for in the correct year; and</li> <li>testing receipts of non-levy income around the year-end to provide assurance that there are no material unrecorded items of income in the 2018/19 accounts.</li> </ul>	There were no significant findings arising from our review of revenue recognition.
Property, plant and equipment valuation	<p>We addressed this risk by reviewing the approach adopted by the Authority for the assets which have been revalued during the year, as follows:</p> <ul style="list-style-type: none"> <li>assessing the Authority valuer's qualifications, objectivity and independence, and reviewed the valuation methodology used, including reviewing the underlying data and assumptions;</li> <li>comparing the valuation output with market intelligence to obtain assurance that the valuations are in line with market expectations; and</li> <li>reviewing the consolidation valuation adjustment for the EcoPark, required by accounting standards, as disclosed in the Group financial statements.</li> </ul>	There were no significant findings arising from our review of property, plant and equipment valuation

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Internal control recommendation

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. We identified the following matter as part of our audit.

#### Separate bank account

The Authority does not have its own bank account. Cash is held by London Borough of Camden, in their main bank account, acting as agent for the Authority. As a consequence, the Authority does not have formal processes in place to undertake reconciliations to ensure that their cash holdings are complete and accurate. The Authority instead monitors cash through its budget monitoring activities.

#### Potential effect

The lack of a separate bank account increases the risk of cash being misstated or incorrectly allocated between London Borough of Camden and the Authority.

This matter will become more significant as expenditure is incurred on the North London Heat and Power Project.

#### Recommendation

The Authority should set up its own bank account and establish its own processes to undertake regular bank reconciliations.

### 3. VALUE FOR MONEY CONCLUSION

Value for Money conclusion

Unqualified

#### Our approach to Value for Money

We are required to consider whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Our auditor's report, issued to the Authority on 31 July, stated that, in all significant respects, the Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Sub-criteria	Commentary	Arrangements in place?
Informed decision making	The Authority has standing orders that set out in detail how the Authority operates, how decisions are made and the procedures to be followed to ensure efficiency, transparency and accountability.  The Authority also has in place a risk management regime. Risk registers are reviewed by the Authority's management team and the Members Finance Working Group.  The Authority produces an annual budget which is used to determine the levy for the next financial year. The Authority also produces a Medium Term Financial Forecast.	Yes
Sustainable resource deployment	The Authority produces an annual budget which is used to determine the levy for the next financial year. The Authority also produces a Medium Term Financial Forecast.	Yes
Working with partners and other third parties	The Authority works with a range of third parties. The principal responsibility of the Authority is to receive, treat and/or dispose of waste collected from its seven constituent North London Boroughs.	Yes

The NAO's guidance requires us to carry out work to identify whether or not a risk to the Value for Money conclusion exists. Risk, in the context of our Value for Money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Authority being inadequate. In our Audit Completion Report, we reported that we had identified no significant Value for Money risks.

1. Executive summary

2. Audit of the financial statements

3. Value for Money conclusion

4. Other reporting responsibilities

5. Our fees

6. Forward look

## 4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Other information published alongside the audited financial statements	Consistent
Completion of group audit reporting requirements	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Authority's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting a cation to be taken. We have the power to:

- Issue a report in the public interest
- Make statutory recommendations that must be considered and responded to publicly;
- Apply to the court for a declaration that an item of account is contrary to law; and
- Issue an advisory notice under schedule 8 of the 2014 Act

We have not exercised any of these statutory reporting powers.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions.

### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Authority. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.

### Reporting to the NAO in respect of Whole of Government Accounts consolidation data

The NAO, as group auditor, requires us to complete the WGA Assurance Statement in respect of its consolidation data. We submitted this information to the NAO by 13 September 2019.

## 5. OUR FEES

### Fees for work as the Authority's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Authority in January 2019.

Having completed our audit work for the 2018/19 financial year, we can confirm that our final fees are as follows:

Area of work	2018/19 proposed fee	2018/19 final fee
Delivery of audit work under the NAO Code of Audit Practice	£14,068	£14,068

### Fees for other work

We confirm that we have not undertaken any non-audit services for the Authority in the year.

## 6. FORWARD LOOK

### Audit Developments

#### *Code of Audit Practice*

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. We have responded to the National Audit Office's consultation on the content of the Code (<https://www.nao.org.uk/code-audit-practice/about-code/>)

A new Code will be laid in Parliament in time for it to come in to force no later than 1 April 2020.

#### **Financial Resilience**

##### *Fair Funding Review*

The Authority will need to incorporate the outcome of the Spending Review, due in the latter half of 2019, to its Medium Term Financial Plan. The Spending Review will set out the department allocations for 2020/21 and potentially beyond. Regardless of the timing and period covered by the Spending Review, the Authority recognises the key issue is the management of general reserves to a level that ensures it remains financially resilient and able to deliver sustainable services. It must, therefore, ensure it clarifies and quantifies how it will bridge the funding gap through planned expenditure reductions and/ or income generation schemes.

##### *Local Authority Financial Resilience Index*

CIPFA is moving forward with its financial resilience index, which it believes will be a barometer on which local authorities will be judged. We would expect the Authority to have at least considered the index once it is formally released.

##### *Commercialisation*

The National Audit Office will be publishing a report on Commercialisation during 2019. Depending on the Authority's appetite for Commercialisation, we would expect the Authority to consider the outcome of the report and ensure any lessons learnt are incorporated into business practice.

Further, the UK Debt Management Office's Annual Report, published on 23 July 2019, reported that, as at 31 March 2019, the Public Works Loan Board's loan book was £78.3 billion with 1,308 new loans totalling £9.1 billion advanced during the year. As a result, we expect local authorities to clearly demonstrate:

- the value for money in the use of Public Works Loan Board funds to acquire commercial property
- the arrangements for loan repayment through the updated Statutory Guidance on Minimum Revenue Provision in 2019/20, 2020/21 and beyond.

#### **Financial Reporting**

##### *UK Local Government Annual Accounts*

The CIPFA/LASAAC Local Authority Code Board specifies the financial reporting requirements for UK local government. A consultation is underway to inform the direction and strategy for local government annual accounts. We will be submitting our response and suggest practitioners also voice their opinion.

##### *Lease accounting*

The implementation of IFRS 16 *Leases* in the Code is delayed until 1 April 2020. The Authority will need a project plan to ensure the data analysis and evaluation of accounting entries is completed in good time to ensure any changes in both business practice and financial reporting are captured.

## CONTACT

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