NORTH LONDON WASTE AUTHORITY

REPORT TITLE: 2021/22 FINANCE UPDATE

REPORT OF: THE FINANCIAL ADVISER

FOR SUBMISSION TO: AUTHORITY MEETING

DATE: 16 DECEMBER 2021

SUMMARY OF REPORT:

This report provides an update on the Authority's finances and forecast outturn at the end of March 2022. In addition, it provides a bottom-up assessment of the budget and resource requirements for 2022/23 and considers the balances that may be available to support the 2022/23 levy. The report also contains proposals for the Prudential Indicators to be used for the period to the end of March 2023. A further review of costs will be undertaken in advance of the next Authority meeting in February 2021, at which the budget is set.

RECOMMENDATIONS:

The Authority is recommended to:

A. Approve the Prudential Indicators as laid out in paragraph 9;
B. Note this review of the 2020/21 revenue budget;
C. Note the current assessment of the budget and resource requirements for 2021/22 and the factors that could affect the level of the 2022/23 levy;
D. Note the issues that will need to be addressed in setting the budget and levy for 2022/23 at the Authority meeting on 10 February 2022
E. Note the annual audit letter for 2019/20 in Appendix C; and
F. Comment on and note the Audit Strategy Memorandum for 2020/21 in Appendix D

SIGNED: Jon Rowney, Financial Adviser

DATE: 6 December 2021

1. INTRODUCTION

1.1. This report provides an update on the outcome of the 2019/20 audit (with the final audit Letter provided in Appendix C), and the audit plan and timetable for the audit of the 2020/21 financial statements. The plan is provided in Appendix D

1.2. The report also contains an updated forecast for 2021/22. It also sets out the current assessment of the levy requirement for 2022/23, the anticipated levy arrangements based on that current assessment, and a note of the issues to be addressed at the Authority meeting in February 2022 when the budget and levy will be set.

1.3. Tables detailing the 2021/22 forecast outturn and 2022/23 budget forecast are set out in Appendices A and B, respectively. The Appendices also contain analyses of some key budget elements including the forecast balances. The background and supporting notes are provided in the body of the report.

1.4. The report concludes that the Authority is currently forecast to have a revenue surplus of £7.808m at 31 March 2022. This is an increase in balances of £1.080m, compared with the update to the September Authority meeting.

1.5. A bottom-up assessment of the forecast budget requirement for 2022/23 indicates that on a like-for-like basis, the net budget requirement is forecast to be £76.735m. This represents an increase in net expenditure of 6.23% compared to the 2021/22 budget. Costs in the waste contract with LondonEnergy Ltd are linked with the Retail Price Index (RPI). This is now forecast to be at least 6% for December.

1.6. Balances forecast to be available at 31 March 2022 that might be used to support the 2022/23 levy are forecast to be £7.808m. This is 88% higher than the balance of £4.156m than was available to reduce the 2021/22 levy. Taking these higher balances into account, the total levy for 2022/23 is currently forecast to be £57.906m consisting of a base element of £53.229m and a Reuse and Recycling Centre (RRC) element of £4.677m. This represents an increase of 0.19% on 2021/22.

1.7. As a result of the high balances arising during 2020/21, Camden and Islington both had reductions in the levy in 2021/22. Their relatively large projected increases in 2022/23 reflect the artificially low base against which the increase is compared. In addition, Camden, Islington and Waltham Forest are all forecasting increases in household waste in 2022/23. Barnet, Hackney and Haringey have built up significant balances in the year as they are forecast to deliver lower volumes of household waste compared to budget.

Table 1	Forecast Levy before balances			Balances available			Forecast Levy after balances		
			Increase/			Increase/			Increase/
	2021/22	2022/23	Decrease	2021/22	2022/23	Decrease	2021/22	2022/23	Decrease
	£000s	£000s		£000s	£000s		£000s	£000s	
Barnet	13,820	14,424	4.37%	(458)	(2,357)	414.63%	13,362	12,067	-9.69%
Camden	6,385	6,976	9.26%	(1,260)	(1,012)	-19.68%	5,125	5,964	16.37%
Enfield	7,689	8,098	5.32%	(554)	(630)	13.72%	7,135	7,468	4.67%
Hackney	8,091	8,245	1.90%	(506)	(1,180)	133.20%	7,585	7,065	-6.86%
Haringey	9,207	9,561	3.84%	(207)	(1,460)	605.31%	9,000	8,101	-9.99%
Islington	6,906	7,497	8.56%	(880)	(589)	-33.07%	6,026	6,908	14.64%
Waltham Forest	9,856	10,913	10.72%	(291)	(580)	99.31%	9,565	10,333	8.03%
	61,954	65,714	6.07%	(4,156)	(7,808)	87.87%	57,798	57,906	0.19%

1.8. The Member Finance Working Group will meet in January 2022 to examine the assumptions underpinning the current budget forecast and the levy options.

1.9. Further work will be carried out, with continuing close liaison with boroughs, to produce updated budget proposals for the Member Finance Working Group to review together with up-to-date advice on the Authority's budget and resource requirements for 2022/23. This will be reported to the Authority meeting in February 2022, at which the budget and levy will be set. In keeping with established practice, Officers will meet with Borough Finance Directors in January to seek their views on the application of balances and to report back to the Authority in February.

2. UPDATE ON THE AUDIT OF THE 2019/20 STATEMENT OF ACCOUNTS

2.1. A verbal update was provided to the Authority on 7 October that Mazars, the Authority's external auditors, had completed their review of goodwill in the 2019/20 financial statements and that officers and the Vice Chair of the Audit Committee (who chaired the Audit Committee meeting in September) would sign the audited statements. The auditors have now signed the audit opinion and the audited statements have now been published on the Authority's website.

https://www.nlwa.gov.uk/sites/default/files/inline-files/NLWA%20Statement%20of%20Accounts%202019-20%20%28Final%29%20%28website%29_0.pdf

2.2. Mazars have now issued the annual audit letter to the Authority and this included at Appendix C. The letter outlines the work that Mazars have undertaken as auditor and the findings arising from their work. The letter includes the two recommendations arising from the audit that were discussed at the Audit Committee.

2.3. The first recommendation is an ongoing action from to the 2018/19 audit, relating to the Authority's banking arrangements with the London Borough of Camden. Officers have concluded that it is impractical in terms of systems changes to separate the bank accounts and a number of governance and risk management measures have been put in place and these are included in the response to the recommendation in the appendix.

2.4. The second recommendation relates to the use of a formal fixed asset register. A simple register has been created which is being enhanced to reflect the changes that will be required for the implementation of International Financial Reporting Standard 16 (leases) which comes into effect for the 2021/22 statement of accounts. In the future, the Authority will be the owner of the final assets created by the North London Heat and Power Project (NLHPP) and work to develop an asset management system is underway.

3. 2020/21 EXTERNAL AUDIT STRATEGY MEMORANDUM

3.1. The External Audit Strategy Memorandum for the 2020/21 financial statements has been issued by Mazars and is included at appendix D. It sets out the stages of the audit process. Key to the Authority is the opinion on the accounts (including the Authority's Annual Governance Statement).

3.2. The report identifies three significant risks for consideration during the audit: management override of controls, the valuation of property, plant and equipment as well as the significant balances that were owed to constituent Boroughs at the end of the financial year. The auditor's approach to testing these risks is outlined in section 4 of the Memorandum.

3.3. In addition, the report identifies three areas of management judgement that require audit focus. There are enhanced risks relating to goodwill in the group accounts, cash and cash equivalents held by the London Borough of Camden on the Authority's behalf and an area of management judgement regarding the consolidation of the group financial statements. The auditors have outlined their approach to these items in the report.

3.4. The auditors are also required to form a conclusion as to whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. At the planning stage, the auditor is required to identify whether or not it considers that a value for money (VFM) risk exists. If the auditor considers that a VFM risk exists, Mazars will bring an updated version of the Memorandum to a future meeting.

3.5. Fees for the audit are being discussed with Mazars as they have increased from the original scale fee set by Public Sector Audit Appointments Ltd. The increase is in response to changes in the National Audit Office Code, revisions to Auditing Standards and increased regulatory requirements. The fee assumes that that no additional work will be required.

3.6. To defray these increased costs, the Government have announced that a grant of £15m will be available to local authorities. The Authority has been allocated £7,252 from this grant.

3.7. Following a planning meeting with Mazars, the audit has been planned for February and it is anticipated that the Audit Committee will meet in in late March or early April to review the outcome of the audit.

4. REVIEW OF THE 2021/22 REVENUE BUDGET

4.1. At the Authority meeting in June, Members were advised that 2020/21 Outturn had included a revenue surplus of £3.887m at 31 March 2021. After taking into consideration budgeted items brought forward from 2020/21 into 2021/22 for ongoing work, the balance of £3.754m was available to support the 2022/23 levy. In the October budget update, a further £2.974m saving was identified mainly due to increase sale price of recyclates and concluded the forecast balances arising at end of the financial year to be £6.728m. Subject to further changes, this balance would be available to support the 2022/23 budget and levy.

4.2. To inform this report, tonnages have been reviewed by Authority officers, using actual tonnages to the end of October, forecasting to the end of the year and looking forward for a further year (2022/23). These tonnages have been discussed with officers from all seven boroughs, as conditions and collection strategies are different in each borough and the recovery of the non-household (commercial) waste stream in particular will be dependent on the proportion of different types of commercial premises in each borough. These tonnages have also been shared with borough Environment Directors.

5. CURRENT YEAR FINANCIAL SAVINGS AND PRESSURES

5.1. This forecast has identified further savings in net expenditure of £1.735m when compared to the previous forecast produced in September, as shown in Table A1 in Appendix A. The following paragraphs address significant changes that have been identified in this forecast and where necessary, any mitigating actions.

Transport and Disposal and Landfill tax: (-£1.012m)

5.2. The change in forecast cost is largely due to saving on the electricity claim caused by improved market prices for electricity generated at the EcoPark. The contract with LondonEnergy Ltd (LEL) 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, resulting in a forecast reduction of £0.917m compared with the October review.

5.3. Based on actual residual waste tonnage date to October 2021 and the borough officer's own expectations for the reminder of the year, the Authority is projecting a total 585,948 tonnes of residual waste in 2021/22, a reduction of 2,737 tonnes residual wastes compared to the October review. This reduction is made up of household waste (+2,073 tonnes), non-household (-4,169 tonnes), chargeable household waste (-641 tonnes). 2021/22 forecast residual tonnage compared with budget for each borough is summarised in the table A2 in appendix A. Further details of the tonnage changes can be found in the Strategy and Services reports elsewhere on the agenda.

5.4. Prices in the Authority's waste contracts including its contract with LEL are linked to changes in the Retail Price Index (RPI). The October review allowed for an increase of 3.0% at the relevant review date (1st January for most LEL prices) for these contracts. Inflation is anticipated to be higher than this, and using HM Treasury's summary of independent forecasts, we are now forecasting a December RPI increase at 6%. The February budget review will contain the actual rate of change.

5.5. Allowing for the above changes and a reduction in land fill tax costs landfill tax of £0.121m , the net effect of these changes is forecast to reduce the cost to the Authority by £1.012m in 2021/22 compared with the October budget review.

Composting Waste Services: (+£0.081m)

5.6. There has been an increase in biodegradable tonnage since the October report with green waste increasing by 985 tonnes and mixed food and green waste increasing by 1,544 tonnes. The forecast for separated food waste fell by 704 tonnes. Together, these variances are forecast to generate an additional cost of £0.081m. A breakdown of the forecasts for each waste type, by borough, is provided in Appendix A at table A3, A4 and A5.

Corporate and Other Support Services and Strategy & Service team: (-£0.069m)

5.7. The budget update reflects the re-profiling of various project into 2022/23. This includes a refresh of the condition survey of the energy centre at the EcoPark, the non-household composition survey and the joint waste strategy tonnage review.

Waste Prevention Programme and Recycling Communications (-£0.202m)

5.8. The budget for the waste education project and behaviour change project within the Waste Prevention Programme has been re-profiled to 2022/23. As part of the 3 years recycling campaign programme, £150k budget in 2021/22 has been rephased to 2022/23 to reflect when the works will be carried out.

Recycling Initiatives (-£0.048m)

5.9. There is a small reduction on the Recycling Initiative forecast as claims from charities for recycling credits were lower than anticipated in the first half of the year due to COVID 19. Officers have decreased the forecast for the year accordingly.

Income from sale of Recyclates (-£0.467m)

5.10. The average market price achieved in the 3rd quarter of 2021/22 (£71.97 per tonne) was higher compared to the October forecast of £67.16 per tonne. Therefore the forecast average income for the final quarter has been increased to reflect market conditions.

Interest on Balances (-£0.041m)

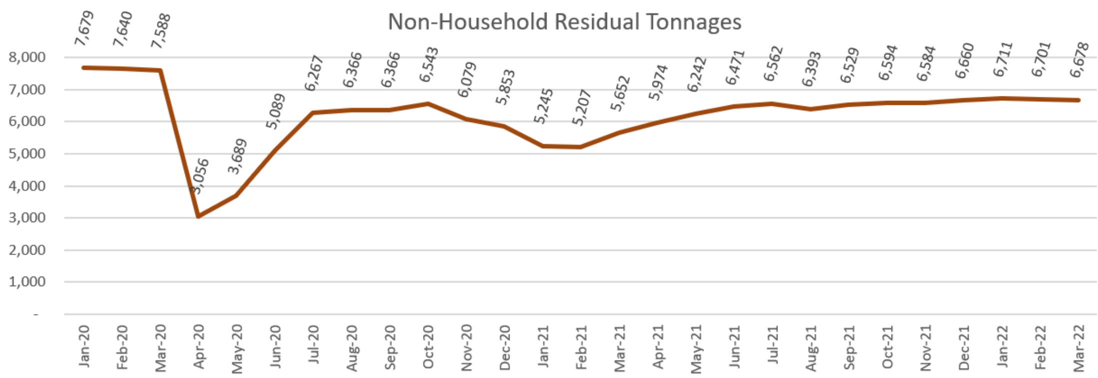
5.11. The Authority's cash balances are held and managed on its behalf by the London Borough of Camden in accordance with the Treasury management strategy. Based on the low interest rates achievable for April to October, the forecast has been reduced.

Charges to Boroughs for Non-Household Waste: (+£0.549m)

5.12. In the light of borough tonnage declarations, non-household residual waste is currently forecast to be 78,098 tonnes, i.e. a decrease of 4,169 tonnes compared with the October review figure of 82,267 tonnes. The declared 13,410 tonnes of recyclable waste represents an increase of 445 tonnes compared with the October update figure of 12,965 tonnes.

5.13. The 2020/21 budget included an assumption that by the end of Summer 2021, tonnage might return to levels seem before the pandemic hit. The current 2021/22 forecast for non-household waste indicates that tonnages will be below budget by 7,879 tonnes, a further reduction of 3,724 tonnes compared to October forecast. The chart on the following page illustrates the non-household residual tonnages and suggests it has not yet recovered to pre-COVID 19 level.

5.14. Although this is shown as a cost pressure to the Authority, Table A9 in Appendix A shows that most boroughs are forecast to receive a refund as they make payments on account based on the budgeted figure.



Charges to Boroughs for Chargeable Household Waste: (+£0.106m)

5.15. The latest declarations by the boroughs indicate a small decrease of 641 tonnes to 16,042 in residual tonnage and a 130 tonne decrease in recyclable tonnage to 4,491 compared with the October update. Estimated charges are shown in Table A10 in Appendix A. Most boroughs are forecast to receive a refund from the Authority for this category of waste.

Balances at 31 March 2022

5.16. The menu price-based levy requires the Authority to apportion all of its costs to the boroughs based on the types of waste and the tonnage delivered by each borough 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 additional share in the following year's levy, equal to the borough's balance.

5.17. Tables A7 and A8 in Appendix A show how in-year levy balances might be apportioned (based on current forecast) between the boroughs and used to reduce the levy when the Authority determines its 2022/23 levy in February 2022.

Overview

5.18. Allowing for the factors outlined above, the total net expenditure in 2021/22 for the Authority is estimated to be £67.022m. This represents a decrease of £1.735m compared with the October update. Taking into account a decrease in non-household and household charges since October of £0.655m, the net revenue surplus at 31 March 2022 is forecast to be £7.808m, i.e. an increase of £1.080m since the October review.

6. REVIEW OF THE BUDGET FOR 2022/23

6.1. When setting the levy for 2021/22, no balances were forecast as being available to support the 2022/23 budget and levy. Taking this into account, the levy was forecast to increase by 11.69% in 2022/23. Since then, the unaudited revenue balances at 31 March 2021 improved by £3.887m. In addition, reviews of the 2021/22 budget have identified that revenue balances at 31 March 2022 could increase by a further £3.921m to £7.808m.

6.2. The Authority's net expenditure for 2022/23 is forecast to be £76.735m for the year. This is 6.23% higher than the 2021/22 budget. The following paragraphs set out the underlying assumptions and discuss significant issues and variances. The budget for 2022/23 compared to 2021/22 is laid out in Appendix B at Table B1. Many budget areas are demand-driven in that they depend on the volume of waste and contractual cost rates.

Inflation

6.3. The largest of the Authority's contracts, the contract with LondonEnergy Ltd, is linked to changes in the Retail Price Index (RPI) with the most significant of these linked to the December index. The summary of independent forecasts published by HM Treasury for the month of October 2021 puts the December 2021 annual RPI increase at 6.0% and the budget forecast currently reflects this level of increase in the relevant costs plus a further 4.3% inflation increase in December 2022. Inflation assumptions will be reviewed and updated for the February budget and levy meeting.

Transport & Disposal and Landfill Tax

6.4. The 2022/23 Transport and disposal budget has been based on forecast residual waste stream of 595,744 tonnes (includes RRC tonnages), i.e. an increase of 9,796 tonnes compared with the 2021/22 forecast outturn. These tonnages have been reviewed with borough officers and the impacts are therefore tailored to each borough's circumstances. A breakdown by borough is included in table B2 in appendix B. The tonnage increase is driven mainly by assumptions around improving or recovering tonnages of residual non-household waste (9,288 tonnes), chargeable household waste (126 tonnes) and levy residual waste (382 tonnes).

6.5. In addition to the inflationary increase, the budget forecast reflects the full year effect of the additional cost of the new third-party waste contract.

6.6. The electricity income claim and landfill tax claim have been verified to the LEL budget and workings and are reflective of the throughput that can be achieved. The electricity income claim budget has reduced significantly due to the current assumption on the high demand and market prices. The Government has advised that landfill tax rates will rise from £96.70 per tonne to £98.60 per tonne from April 2022.

Composting Waste Services and MRF Services

6.7. The budget forecast reflects that mixed organic waste, food waste and green tonnages will reduce by 0.9% to 46,968 tonnes in 2022/23 compared to the 2021/22 forecast as laid out in tables B3 to B5 in Appendix B.

6.8. Mixed dry recycling tonnages increase by 3,254 tons compared to the 2021/22 forecast as laid out in Table B6 in Appendix B. The overall increase in this budget also reflects an allowance of 4.2% for a price inflation in April 2022.

Corporate Support Service and Strategy & Service Teams

6.9. The budget forecast includes the increase of 1.25% for employer National Insurance contributions and the full year effect of the known increase in the Authority's establishment in 2021/22. In addition, it also includes the rephasing of the waste data management system project, condition survey of the energy centre at the EcoPark, non-household composition survey and the joint waste strategy tonnage review from 2021/22 to 2022/23.

New Resource Recovery Facility (RRF)

6.10. The new Resource Recovery Facility is anticipated to commence operation in the autumn of 2022. £1.2m has been included in 2022/23 budget. This is in addition to the start of capital repayments on the facility which will become payable from 2023/24 and will represent a budget pressure from then. Officers are working with LEL to determine the level of operating cost required. Further updates will be provided in the next budget review.

North London Heat & Power Project

6.11. The budget forecast includes the ongoing feasibility, design and support costs for the North London Heat and Power Project that cannot be capitalised. All costs that can be capitalised will be funded by borrowing and interest will be added to project costs during the construction period.

Revenue Funding of the Capital Programme

6.12. The budget forecast provides for the financing costs of:

6.12.1. The Authority's investment in LondonEnergy Ltd

6.12.2. Pinkham Way

6.12.3. Lease of laydown area, part of the EcoPark and the purchase of Deephams Farm Road to support the North London Heat and Power project.

6.12.4. The Resource Recovery Facility, after it opens in the autumn of 2022.

6.12.5. The possible refurbishment of RRC sites

6.12.6. The possible investment in a waste transfer station

6.13. The Authority also makes a Minimum Revenue Provision (MRP). This represents the minimum amount that must be set aside in the Authority's revenue account each year, to repay the borrowing necessary to finance the asset acquisitions listed above.

6.14. The costs of borrowing for the North London Heat and Power Project (NLHPP) are rolled into the capital cost until the asset comes into use. Therefore, the impact of borrowing for the EcoPark South construction contract and associated costs will not be budgeted under this heading until completion.

Reuse & Recycling Centres

6.15. The budget provides for the operation of seven Reuse and Recycling Centres at a cost of £4.915m. An increase in cost of residual waste which is partly offset by savings on operational costs. The amount charged to the relevant boroughs through the 2022/23 levy will also allow for the change in balances that arose from the closure of the 2020/21 accounts and forecast changes in balances from 2021/22. An analysis by borough of these costs is provided in Table B7 in Appendix B.

6.16. While the net costs of the RRCs have only increased by 1.5%, the RRC portion of the levy has increased by a much larger amount. This is as a result of the closures in 2020 during the first lockdown which meant that balance available to reduce the 2021/22 levy was much higher than the balance available to offset the 2022/23 levy.

Income from the Sale of Recyclates

6.17. Due to volatility in market price, the price used for income from recyclates assumes that the current high market values are not sustained and therefore will return close to historic average prices. The 2022/23 budget forecast is based on an average income of £37.00 per tonne.

Non-Household Waste Charges

6.18. The Authority is expecting to receive 100,652 tonnes of residual waste and recycling in 2022/23, an increase of 9,144 tonnes compared to the forecast for 2021/22. The 2022/23 tonnage comprises 87,386 tonnes of residual waste, 11,235 tonnes of dry recyclable waste, 1,597 tonnes of food waste 56 tonnes of green waste and 378 tonnes of mixed organic waste.

6.19. The estimated charges per tonne of waste are included in table 2 below. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with its Materials Recycling Facility (MRF) providers.

6.20. Based on the advised tonnages the estimated cost to the boroughs is £9.215m. This is analysed by borough in Table B9 in Appendix B.

Table 2	**Price Per tonne £**
Residual	96.40
Biodegradable	82.32
Green	51.48
Food	25.77
Mixed Dry Recyclable	63.73

Chargeable Household Waste

6.21. The Authority expects to receive 20,250 tonnes of chargeable household waste in 2022/23, a reduction of 284 tonnes compared to the forecast for 2021/22. The 2022/23 tonnage comprises 16,169 tonnes of residual waste, 2,622 tonnes of dry recyclable waste, 756 tonnes of mixed organic waste, and 691 tonnes of food waste and 12 tonnes of green waste.

6.22. The estimated charges per tonne of waste are included in Table 2 above. The charge for dry recyclable waste is inclusive of the income the Authority receives through the income sharing arrangements with its MRF providers.

6.23. Based on the advised tonnages the estimated cost to the boroughs in 2022/23 is £1.806m. The cost is analysed by borough in Table B10 in Appendix B.

Efficiency Savings and Cost Reductions

6.24. Members will be aware that given the demand-led nature of the service provided by the Authority to the constituent boroughs and the long-term contracts that it has for the majority of these services, that the scope to make savings is limited. Despite these limitations, the officers are reviewing costs to identify savings within the budget and medium-term forecast.

Contingency

6.25. There is a high degree of uncertainty about the scale of a number of budget pressures in the coming year. At this stage the budget assumes that contingency is assessed on the same basis as recent years, namely a contingency of £1m plus 2%

of operational base costs (£1.485m), totalling £2.485m. This budget cannot be used without further Authority approval.

Levy Apportionment Arrangements

6.26. All boroughs formally agreed to adopt a menu-price based levy for 2016/17 onwards. Details of the calculation for 2022/23 can be found in Tables B7 and B8 in Appendix B.

7. MEDIUM TERM BUDGET FORECAST FOR 2023/24 TO 2025/26

7.1. Assuming that no balances are available to support budgets for these years, net expenditure and levies are forecast as follows:

	Net Expenditure £'000	Base Levy £'000	RRC Levy £'000	Total £'000	Increase %
2023/24	85,907	(65,779)	(5,038)	(70,817)	22.3%
2024/25	87,087	(66,652)	(5,163)	(71,815)	1.4%
2025/26	88,801	(67,967)	(5,292)	(73,259)	2.0%

7.2. The increases in net expenditure in 2023/24 are driven largely by the opening of the Resource Recovery Facility (RRF) in the autumn of 2022 and the inclusion of MRP which must be included for an asset from the financial year after it is brought into use.

8. FINANCING STRATEGY

8.1. At the Programme Committee on 2 September 2021, Members approved an updated financing strategy for the North London Heat and Power Project and since then, officers have continued to work towards delivering the cheapest form of finance available to the Authority.

8.2. The Authority's ability to raise finance for the Energy Recovery Facility (ERF) contract remains robust, with long-term fixed rate loans available from the Public Works Loan Board (PWLB) at less than 2% (as at 19 November 2021). PWLB finance is available in sufficient quantities and remains the Authority's backstop for financing.

8.3. Officers are also progressing obtaining a private credit rating with Moody's. The result of this rating is anticipated to be available in the second week of December and a verbal update will be provided at the meeting.

8.4. If a favourable credit rating is obtained then a further method of financing that could offer better value would be a municipal bond issue and officers are working with the UK Municipal Bonds Agency to advance this. A bond could offer three advantages over PWLB loans; the ability to sculpt the repayments to match how we raise money through the levy; an ability to defer part of the finance whilst locking-in the interest rate to reduce the costs of holding cash, plus the potential for lower rates.

8.5. Though the financing position is very positive, officers are aware of a market expectation that interest rates are likely to rise, possibly as soon as the next meeting of the Bank of England's Monetary Policy Committee on the morning of 16 December. With this in mind, officers will move to secure financing quickly in line with the revised standing orders if Members approve the ERF contract on 16 December. Preparations are being made for a consultation with borough Directors of Finance, and subsequently the Chair and Vice-Chair, to consider a tranche of financing shortly after the decision (likely PWLB). This will be converted to Euro to remove the risk of exchange rates moving adversely, against the Authority. In addition, a further consultation will be held after contract award in mid-January. This is expected to include the option of bond finance.

8.6. Whilst the exact timings and amounts will be determined by market conditions at the time, the prevailing objective will be to secure best value for money, lock in fixed interest rates to ensure security of levy and with a financing period that matches the useful economic life of the assets, which in the case of the Energy Recovery Facility is 40 years.

8.7. Updates on progress will be provided to the Member Finance Working Group in January and to the next Authority meeting.

9. PRUDENTIAL INDICATORS

9.1. The Authority determines its capital investment needs to meet its service obligations. In doing so, it must have regard to The Prudential Code for Capital Finance in Local Authorities. The Code is designed to ensure that local authorities have capital investment plans that are affordable, prudential and sustainable. To demonstrate that they have fulfilled these objectives the Code sets out indicators that must be used.

9.2. The Authority usually only sets its indicators once a year, alongside the budget. This review of the Prudential Indicators has been brought forward to sit alongside the procurement of the Energy Recovery Facility. This is the largest single project in the Authority's capital programme and it is sensible to ensure that the Prudential indicators are aligned to this.

9.3. Indicators for Affordability

9.3.1. The Authority's capital programme for 2020/21 to 2024/25 includes:

Purchase of the Western Road RRC.
Acquisition of lease for EcoPark land.
Commencement of the preliminary works to construct the Resource Recovery Facility, EcoPark House and the Energy Recovery Facility at the Edmonton EcoPark.
Possible acquisition of waste transfer station should the opportunity arise, and refurbishment works at existing RRC sites.

9.3.2. Based on this capital programme of £1,074m (2021/22 to 2024/25) the following ratios of financing costs to net revenue stream are recommended for approval. It should be noted that for the Authority, the net revenue stream is represented by the levy:

Ratio of Financing Costs to Net Revenue Stream					
	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
	10.96%	12.75%	14.57%	21.02%	20.47%

9.3.3. The estimate of the incremental impact of capital investment decisions proposed in this budget report, over and above capital investment decisions that have been previously taken by the Authority are:

Impact on the NLWA Levy					
	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
£m	Nil	-0.239	-0.662	-1.162	14.663

9.4. Indicators for Prudence

9.4.1. The Capital Financing Requirement measures the underlying need to borrow. The Code provides that over the medium-term net external borrowing does not exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current and next two years. This provides assurance that borrowing will be incurred only for capital purposes. The Authority met this requirement in 2020/21 and no difficulties are envisaged in 2021/22 or subsequent years. The following Capital Financing Requirements are therefore recommended for approval:

Capital Financing Requirement					
	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
£m	154	359	596	925	1,192

9.4.2. The Code requires that treasury management is carried out in accordance with good practice. The prudential indicator is that a local authority has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. Members will be aware that the Authority's cash resources are pooled with those of London Borough of (LB) Camden and that LB Camden undertakes treasury management activities on the Authority's behalf. Camden has adopted this code and its treasury management policies and procedures conform to the Code's requirements. Officers are satisfied that through the arrangement that the Authority has with LB Camden that treasury management activities undertaken on behalf of the Authority also meet the requirements of this Code.

9.5. Indicators for capital expenditure, external debt and treasury management

9.5.1. In 2021/22, the Authority continued the construction of the EcoPark South Facilities, completed the construction of the laydown area and the sewer diversion continued to plan for the construction of the Energy Recovery Facility. Planned capital expenditure for 2021/22 to 2024/25 is as outlined in paragraph 6.3.1.

9.5.2. Accordingly, the following estimated capital expenditure is recommended:

Capital Expenditure					
	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
£m	70	212	244	340	278

9.5.3. The following two Prudential Indicators (PI's) govern the Authority's ability to borrow funds in the money markets or from the Public Works Loans Board. They must be set at a level that allows headroom for the capital programme to be achieved. The following authorised limits for external debt are recommended for approval:

Authorised Limit for External Debt					
£m	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Borrowing	290	1,100	1,090	1,193	1,190
Other long term liabilities	Nil	1	1	1	1

9.5.4. The following operational boundaries for external debt are recommended for approval:

Operating Boundary for External Debt					
£m	**2020/21 Actual**	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
Borrowing	290	1,100	1,090	1,193	1,190
Other long term liabilities	Nil	1	1	1	1

9.5.5. The following prudential indicators are relevant for setting a treasury management strategy. The Authority has currently only taken fixed interest loans, but the indicators are set at a level that will enable the Authority to react to changing circumstances that may favour the use of variable rate loans.

Net Principal re Fixed Rate Borrowing					
	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
£m	290	1,100	1,090	1,193	1,190
Net Principal re Variable Rate Borrowing					
	2020/21 Actual	**2021/22 Estimate**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**
£m	Nil	810	800	903	900

9.5.6. In order to ensure flexibility in the loans that might be taken it is recommended that the following maturity structure of fixed rate borrowing is set for 2022/23. Given the Authority’s particular investment needs, the limits provide maximum flexibility for short-term borrowing.

Maturity Structure of fixed rate borrowing during 2022/23	Upper Limit %	Lower Limit %	Current %
Under 12 months	100	0	3
12 months and within 24 months	100	0	3
24 months and within 5 years	100	0	7
5 years and within 10 years	100	0	4
10 years and above	100	0	83

9.6. The indicators will be kept under review.

10. CONCLUSION

10.1. This update indicates that the 2021/22 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year and balances at 31 March 2022 are likely to be £7.808m higher than was assumed when the budget was set in February 2021. There is no certainty that any further balances will emerge in 2021/22 and the forecast levy for 2022/23 to 2024/25 includes no allowance for them. Officers are however reviewing costs to identify opportunities to reduce costs and will keep Borough Directors of Finance informed of progress.

10.2. In February 2022 it will be necessary for Members to take decisions to ensure that the 2022/23 budget is sufficient to meet the Authority's statutory obligations in the year ahead. To assist with this process, the Member Finance Working Group will meet in January 2022 to review the assumptions underpinning the 2022/23 budget forecast and to consider levy options. The outcome from this review together with up-to-date advice on the Authority's budget and resource requirements for 2022/23 will be reported to the budget and levy setting meeting in February.

11. EQUALITIES IMPLICATIONS

11.1. 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.

12. COMMENTS OF THE LEGAL ADVISER

12.1. 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 11 February 2021 – Revenue Budget and Levy 2021/22
Report to the Authority 24 June 2021 – 2020/21 Financial Outturn and 2021/22 Update
Report to the Authority 07 October 2021 – 2021/22 Budget Update
2021/22 budgetary control and 2022/23 budget working papers

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APPENDIX A FINANCIAL TABLES TO SUPPORT THE REPORT

Table A1 shows the variance between the October update and the current forecast

Table A1	2021/22 Budget £'000	2021/22 October Forecast £'000	2021/22 Current Forecast £'000	Variance £'000
Expenditure				
Main Waste Disposal Contract (ex RRC Waste)	39,655	39,282	38,391	(891)
Landfill Tax	1,619	1,661	1,540	(121)
Composting Waste Services	1,736	1,831	1,912	81
MRF Services	9,889	10,107	10,104	(3)
Transfer Station and Other Sites	2,260	2,230	2,191	(39)
Corporate and Other Support Service Costs	2,868	2,926	2,960	34
Strategy & Services Team	865	896	793	(103)
Waste Prevention Programme	523	545	493	(52)
Recycling Communications	150	235	85	(150)
Recycling Initiatives	259	242	194	(48)
North London Heat and Power Project	752	811	811	0
Revenue Funding – Capital Programme	7,113	6,947	6,940	(7)
	67,689	67,713	66,414	(1,299)
Reuse and Recycling Centres Expenditure				
Residual Waste	983	1,013	1,044	31
Landfill Tax	149	157	162	5
Operating Costs	3,708	3,614	3,568	(46)
	4,840	4,784	4,774	(10)
Less				
Income				
Rents	(125)	(125)	(125)	0
Sale of Recyclates	(2,474)	(5,943)	(6,410)	(467)
Interest on Balances	(90)	(69)	(28)	41
	(2,689)	(6,137)	(6,563)	(426)
Net Expenditure	69,840	66,360	64,625	(1,735)
Contingency	2,397	2,397	2,397	0
Total Net Expenditure	**72,237**	**68,757**	**67,022**	**(1,735)**
Financed By				
Use of Balances	(4,157)	(8,043)	(8,043)	0
Charges to Boroughs (Non-household waste)	(8,510)	(7,934)	(7,385)	549
Charges to Boroughs (Chargeable Household Waste)	(1,772)	(1,710)	(1,604)	106
2021/22 Levy - Base Element	(53,584)	(53,584)	(53,584)	0
- HWRC Element	(4,214)	(4,214)	(4,214)	0
Total Levy	(57,798)	(57,798)	(57,798)	0
Total Resources Available	**(72,237)**	**(75,485)**	**(74,830)**	**655**
Estimated Additional Revenue Balances at 31 March 2022	**0**	**(6,728)**	**(7,808)**	**(1,080)**

TONNAGE FORECASTS

The tonnage in tables A2-A6 have been reviewed based on actual tonnage delivered in April to October 2021, and borough officers' own expectations for November 2021 to March 2022. Where officers are aware of planned service changes, these have been included in the forecast.

TABLE A2 – RESIDUAL WASTE FORECAST

	2020/21 Actual Tonnes	2021/22 Budget * Tonnes	2021/22 Q2 Forecast ^ Tonnes	2021/22 Q3 Forecast Tonnes	Change Q3 vs budget Tonnes	Change Q3 vs Budget %
Barnet	112,161	120,386	115,551	113,030	-7,356	-6.11
Camden	63,204	75,474	72,562	69,871	-5,603	-7.42
Enfield	88,750	90,552	91,387	91,744	+1,192	+1.32
Hackney	85,358	85,472	85,536	85,412	-60	-0.07
Haringey	74,643	77,608	74,505	74,724	-2,884	-3.72
Islington	71,165	75,234	73,726	75,491	+257	+0.34
Waltham Forest	75,113	74,886	75,418	75,676	+790	+1.05
Total	**570,394**	**599,612**	**588,685**	**585,948**	**-13,664**	**-2.28**

*2021/22 Budget tonnage includes 582,142 Household & Clinical tonnages (as reported in Authority Meeting 11/02/21 Table B2), 14,252 RRC Residual tonnages, 3,197 Rejected/contaminated tonnages, 21 Other tonnages (e.g. Asbestos etc...)

^ 2021/22 Q2 forecast tonnage includes 585,666 (as reported in Authority Meeting 07/10/21 Table A2) and 3,019 Rejected/contaminated tonnages

TABLE A3 – MIXED ORGANIC (FOOD AND GREEN) WASTE FORECAST

	2020/21 Actual Tonnes	2021/22 Budget Tonnes	2021/22 Q2 Forecast Tonnes	2021/22 Q3 Forecast Tonnes	Change Q3 vs Budget %
Barnet	1	0	0	0	N/A
Camden	0	0	0	0	N/A
Enfield	0	0	0	0	N/A
Hackney	9	0	0	0	N/A
Haringey	1,960	240	1,154	1,229	+412.08
Islington	3,708	3,793	3,837	3,917	+3.27
Waltham Forest	9,223	8,253	8,392	9,781	+18.51
Total	**14,901**	**12,286**	**13,383**	**14,927**	**+21.50**

TABLE A4 - FOOD WASTE TONNAGE FORECAST

	2020/21 Actual Tonnes	2021/22 Budget Tonnes	2021/22 Q2 Forecast Tonnes	2021/22 Q3 Forecast Tonnes	Change Q3 vs Budget %
Barnet	11	1	0	0	N/A
Camden	2,651	2,640	3,052	3,034	+14.92
Enfield	0	0	0	0	N/A
Hackney	4,375	6,448	6,363	5,943	-7.83
Haringey	3,033	4,488	3,654	3,405	-24.13
Islington	0	0	0	0	N/A
Waltham Forest	516	0	499	482	N/A
Total	**10,586**	**13,577**	**13,568**	**12,864**	**-5.25**

TABLE A5 – GREEN WASTE TONNAGE FORECAST

	2020/21 Actual Tonnes	2021/22 Budget Tonnes	2021/22 Q2 Forecast Tonnes	2021/22 Q3 Forecast Tonnes	Change Q3 vs Budget %
Barnet	10,275	10,944	11,714	12,201	+11.49
Camden	1,754	1,793	1,856	1,823	+1.67
Enfield	50	0	29	121	N/A
Hackney	2,647	2,699	2,652	2,715	+0.59
Haringey	1,543	2,233	1,573	2,016	-9.72
Islington	422	676	640	540	-20.12
Waltham Forest	282	156	160	193	+23.72
Total	**16,973**	**18,501**	**18,624**	**19,609**	**+5.99**

TABLE A6 – MDR TONNAGE FORECAST

	2020/21 Actual Tonnes	2021/22 Budget ^ Tonnes	2021/22 Q2 Forecast Tonnes	2021/22 Q3 Forecast Tonnes	Change Q3 vs Budget %
Barnet	29,736	29,375	28,900	28,358	-3.46
Camden	15,248	16,452	16,641	16,035	-2.53
Enfield	0	0	0	0	+0.00
Hackney	19,608	20,739	20,572	19,969	-3.71
Haringey	19,553	17,651	19,689	18,528	+4.97
Islington	15,904	16,147	16,272	16,249	+0.63
Waltham Forest	17,679	15,363	16,667	17,911	+16.59
Total	**117,728**	**115,727**	**118,741**	**117,050**	**+1.14**

^ 2021/22 Budget tonnage do not include 3,197 rejected tonnages. Total MDR tonnage 118,924 (as reported in Authority Meeting 11/02/21 Table B6)

Re-use and Recycling Centre (RRCs) Balances at 31 March 2022

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 2021/22, the Authority estimated that it would have balances owed to it of £0.627m to amend the cost of RRCs in 2021/22. The 2020/21 outturn contained additional balances of £0.171m.

Table A7 below provides a summary of the current financial position for each borough:

	Change in RRC Balances at 1 April 2021 (As reported in June) 1 £'000	Total Operating Costs – 2021/22 Original Budget 2 £'000	Total Operating Costs - 2021/22 Current Forecast 3 £'000	Change in 2021/22 Total Operating Costs 4 £'000	Estimated RRC Balances at 31 March 2022 (Column 1 plus 4) £'000
Barnet	(56)	958	886	(72)	(128)
Camden	(16)	506	509	3	(13)
Enfield*	(2)	211	246	35	33
Hackney	(1)	219	217	(2)	(3)
Haringey	(46)	622	595	(27)	(73)
Islington	(12)	665	640	(25)	(37)
Waltham Forest	(38)	1,031	1,052	21	(17)
Total	**(171)**	**4,212**	**4,145**	**(67)**	**(238)**

* 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 £0.238m will be included when calculating the RRC element of the 2022/23 levy.

Table A8 - Base Levy Balances at 31 March 2022

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 2021/22 base levy included estimated balances of £3.530m, which enabled the Authority to set a base levy of £53.585m. Since the levy is fixed for the year, the additional balances arising from the 2020/21 outturn feed into the estimated balance at 31 March 2022 and can be included together with any in-year savings when the Authority determines its 2022/23 levy.

	Additional balance at 1 April 2021 (reported In June)	2021/22 Budget Levy Costs	2021/22 Levy Costs - Current Forecast	Forecast Change in 2021/22 Levy Costs	Estimated Balance at 31 March 2022 (Column 1 plus 4)
	1	2	3	4	
	£'000	£'000	£'000	£'000	£'000
Barnet	(753)	12,404	10,928	(1,476)	(2,229)
Camden	(417)	4,619	4,037	(582)	(999)
Enfield	(617)	6,923	6,877	(46)	(663)
Hackney	(495)	7,367	6,686	(681)	(1,176)
Haringey	(559)	8,377	7,549	(828)	(1,387)
Islington	(481)	5,361	5,291	(70)	(551)
Waltham Forest	(393)	8,534	8,364	(170)	(563)
Total	**(3,715)**	**53,585**	**49,732**	**(3,853)**	**(7,568)**

Table A9 - 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 2021/22 compared with the original budget assumptions are shown in the table below

	2021/22 Budget Estimate £'000	2021/22 Current Forecast £'000	Estimated Variance £'000
Barnet	1,116	941	(175)
Camden*	2,393	1,894	(499)
Enfield	701	805	104
Hackney*	1,738	1,620	(118)
Haringey *	198	202	4
Islington *	2,247	1,794	(453)
Waltham Forest	117	129	12
Total	**8,510**	**7,385**	**(1,125)**

* Including income from non-household recyclable wastes.

Table A10 - Charges to Boroughs for Chargeable Household Waste:

Forecast charges to Boroughs for the disposal of Chargeable household waste in 2021/22 compared with the original budget assumptions are shown in the table below:

	2021/22 Budget Estimate £'000	2021/22 Current Forecast £'000	Estimated Variance £'000
Barnet	182	187	5
Camden*	333	285	(48)
Enfield	192	125	(67)
Hackney*	547	518	(29)
Haringey *	245	223	(22)
Islington *	273	266	(7)
Waltham Forest	0	0	0
Total	**1,772**	**1,604**	**(168)**

Table A11 – 2022/23 Levy Projection

After taking the balance into account, the increase compared to the approved 2021/22 levy has increase 0.2%. The table below shows how this increase is broken down by borough.

	2021/22 Actual Levy £'000	2022/23 Current Forecast Levy Costs* £'000 a	Forecast Levy Increase %	2020/21 Additional Year End Balances £'000 b	2021/22 Balances Currently Forecast £'000 c	Additional Balance to reduce the 2022/23 £'000 d (b+c)	2022/23 Revised Forecast Levy £'000 (a+d)	Revised Forecast Levy Increase %
Barnet	13,362	14,424	7.9%	(809)	(1,548)	(2,357)	12,067	-9.7%
Camden	5,125	6,976	36.1%	(433)	(579)	(1,012)	5,964	16.4%
Enfield	7,135	8,098	13.5%	(621)	(9)	(630)	7,468	4.7%
Hackney	7,585	8,245	8.7%	(496)	(684)	(1,180)	7,065	-6.9%
Haringey	9,000	9,561	6.2%	(605)	(855)	(1,460)	8,101	-10.0%
Islington	6,026	7,497	24.4%	(493)	(96)	(589)	6,908	14.6%
Waltham Forest	9,565	10,913	14.1%	(431)	(149)	(580)	10,333	8.0%
Total	**57,798**	**65,714**	**13.7%**	**(3,888)**	**(3,920)**	**(7,808)**	**57,906**	**0.2%**

* Before balances are taken into account

APPENDIX B FINANCIAL TABLES TO SUPPORT THE REPORT BUDGET 2022/23

Table B1 shows the variance between the 2021/22 budget and the budget forecast for 2022/23

	2021/22 Budget £'000	2022/23 Current Forecast £'000	Variance £'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	39,655	40,987	1,332
Landfill Tax	1,619	1,704	85
Composting Waste Services	1,736	1,982	246
MRF Services	9,889	10,922	1,033
Transfer Station and Other Sites	2,260	3,426	1,166
Corporate and Other Support Service Costs	2,868	3,124	256
Strategy & Services Team	865	1,158	293
Waste Prevention Programme	523	587	64
Recycling Communications	150	300	150
Recycling Initiatives	259	275	16
North London Heat and Power Project	752	849	97
Revenue Funding – Capital Programme	7,113	8,587	1,474
	67,689	73,901	6,212
Reuse and Recycling Centres Expenditure			
Residual Waste	983	1,091	108
Landfill Tax	149	168	19
Operating Costs	3,708	3,656	(52)
	4,840	4,915	75
Income			
Rents	(125)	(128)	(3)
Sale of Recyclates	(2,474)	(4,398)	(1,924)
Interest on Balances	(90)	(40)	50
	(2,689)	(4,566)	(1,877)
Net Expenditure	69,840	74,250	4,410
Contingency	2,397	2,485	88
Total Net Expenditure	**72,237**	**76,735**	**4,498**
Financed By			
Use of Balances	(4,157)	(7,808)	(3,651)
Charges to Boroughs (Non-household waste)	(8,510)	(9,215)	(705)
Charges to Boroughs (Chargeable Household Waste)	(1,772)	(1,806)	(34)
2022/23 Levy - Base Element	(53,584)	(53,229)	355
- HWRC Element	(4,214)	(4,677)	(463)
Total Levy	(57,798)	(57,906)	(108)
Total Resources Available	**(72,237)**	**(76,735)**	**(4,498)**
Estimated Additional Revenue Balances at 31 March	**0**	**0**	**0**

TONNAGE FORECASTS

The tonnage forecasts in tables B2-B6 have been based on individual discussions with the boroughs to forecast the anticipated tonnages into 2022/23.

TABLE B2 – RESIDUAL WASTE FORECAST

	2020/21 Actual Tonnes	2021/22 Forecast Tonnes	2022/23 Budget Tonnes	Change Tonnes	Change %
Barnet	112,161	113,030	117,998	+4,968	+4.40
Camden	63,204	69,871	74,025	+4,154	+5.95
Enfield	88,750	91,744	88,926	-2,818	-3.07
Hackney	85,358	85,412	86,372	+960	+1.12
Haringey	74,643	74,724	76,317	+1,593	+2.13
Islington	71,165	75,491	76,209	+718	+0.95
Waltham Forest	75,113	75,676	75,897	+221	+0.29
Total	**570,394**	**585,948**	**595,744**	**9,796**	**+1.67**

TABLE B3 – MIXED ORGANIC (FOOD AND GREEN) WASTE FORECAST

	2020/21 Actual Tonnes	2021/22 Q3 Forecast Tonnes	2022/23 Budget Tonnes	Change Tonnes	Change %
Barnet	1	0	0	+0	N/A
Camden	0	0	0	+0	N/A
Enfield	0	0	0	+0	N/A
Hackney	9	0	0	+0	N/A
Haringey	1,960	1,229	0	-1,229	-100.00
Islington	3,708	3,917	3,793	-124	-3.17
Waltham Forest	9,223	9,781	8,781	-1,000	-10.22
Total	**14,901**	**14,927**	**12,574**	**-2,353**	**-15.76**

TABLE B4 – FOOD WASTE TONNAGE FORECAST

	2020/21 Actual Tonnes	2021/22 Q3 Forecast Tonnes	2022/23 Budget Tonnes	Change Tonnes	Change %
Barnet	11	0	0	+0	N/A
Camden	2,651	3,034	3,200	+166	+5.47
Enfield	0	0	0	+0	N/A
Hackney	4,375	5,943	6,457	+514	+8.65
Haringey	3,033	3,405	4,539	+1,134	+33.30
Islington	0	0	0	+0	N/A
Waltham Forest	516	482	492	+10	+2.07
Total	**10,586**	**12,864**	**14,688**	**+1,824**	**+14.18**

TABLE B5 – GARDEN WASTE TONNAGE FORECAST

	2020/21 Actual Tonnes	2021/22 Q3 Forecast Tonnes	2022/23 Budget Tonnes	Change Tonnes	Change %
Barnet	10,275	12,201	12,149	-52	-0.43
Camden	1,754	1,823	1,793	-30	-1.65
Enfield	50	121	0	-121	N/A
Hackney	2,647	2,715	2,699	-16	-0.59
Haringey	1,543	2,016	2,233	+217	+10.76
Islington	422	540	676	+136	+25.19
Waltham Forest	282	193	156	-37	-19.17
Total	**16,973**	**19,609**	**19,706**	**+97**	**+0.49**

TABLE B6 – MDR TONNAGE FORECAST

	2020/21 Actual Tonnes	2021/22 Q3 Forecast Tonnes	2022/23 Budget Tonnes	Change Tonnes	Change %
Barnet	29,736	28,358	29,163	+805	+2.84
Camden	15,248	16,035	16,452	+417	+2.60
Enfield	0	0	0	+0	+0.00
Hackney	19,608	19,969	20,559	+590	+2.95
Haringey	19,553	18,528	18,696	+168	+0.91
Islington	15,904	16,249	16,950	+701	+4.31
Waltham Forest	17,679	17,911	18,484	+573	+3.20
Total	**117,728**	**117,050**	**120,304**	**+3,254**	**+2.78**

TABLE B7 – REUSE AND RECYCLING CENTRE LEVY

The amounts charged to the relevant boroughs through the 2022/23 levy allow for the additional balances that arose from the closure of the 2020/21 accounts and forecast additional balances from 2021/22.

	Forecast RRC Balances at 1 April 2022 £'000	2022/23 Estimated costs £'000	2022/23 Estimated Levy £'000
Barnet	(128)	1,046	918
Camden	(13)	559	546
Enfield*	33	278	311
Hackney	(3)	246	243
Haringey	(73)	717	644
Islington	(37)	739	702
Waltham Forest	(17)	1,330	1,313
Total	**(238)**	**4,915**	**4,677**

TABLE B8 – BASE LEVY

The amounts charged to the relevant boroughs through the 2022/23 base levy allow for the additional balances that arose from the closure of the 2020/21 accounts and forecast additional balances from 2021/22.

	Forecast Balances at 1 April 2022 £'000	2022/23 Estimated Levy Requirement £'000	2022/23 Estimated Levy £'000
Barnet	(2,229)	13,378	11,149
Camden	(999)	6,417	5,418
Enfield	(663)	7,820	7,157
Hackney	(1,176)	7,998	6,822
Haringey	(1,387)	8,844	7,457
Islington	(551)	6,757	6,206
Waltham Forest	(563)	9,583	9,020
Total	**(7,568)**	**60,797**	**53,229**

TABLE B9 – NON-HOUSEHOLD WASTE CHARGES

The cost to boroughs in 2022/23 is estimated to be:

	2022/23 Estimated Tonnes	2022/23 Estimated Cost £'000
Barnet*	11,820	1,126
Camden*	25,060	2,256
Enfield	9,176	884
Hackney*	24,651	2,186
Haringey *	2,834	251
Islington *	25,548	2,367
Waltham Forest*	1,563	145
Total	**100,652**	**9,215**

* Including tonnages and income from non-household recyclable wastes.

The final charges will be calculated as part of the 2021/22 final accounts process and reported to the Authority in June 2022. Any under or over payment by boroughs will be collected from or repaid to boroughs at the conclusion of the final accounts process.

TABLE B10 – CHARGEABLE HOUSEHOLD WASTE

The cost to boroughs in 2022/23 is estimated to be:

	2022/23 Estimated Tonnes	2022/23 Estimated Cost £'000
Barnet	2,220	214
Camden	3,348	294
Enfield	1,429	138
Hackney	6,895	598
Haringey	2,880	257
Islington	3,478	305
Waltham Forest *	0	0
Total	**20,250**	**1,806**

* Waltham Forest has indicated that it does not collect such waste.

Arrangements for the settling of over or under payments by the boroughs are the same as for non-household waste.

TABLE B11 – MEDIUM TERM FORECAST

	2023/24 Budget Forecast £'000	2024/25 Budget Forecast £'000	2025/26 Budget Forecast £'000
Expenditure			
Main Waste Disposal Contract (ex RRC Waste)	43,088	44,126	45,192
Landfill Tax	1,722	1,765	1,788
Composting Waste Services	2,074	2,126	2,179
MRF Services	12,569	12,883	13,205
Transfer Station and Other Sites	2,230	2,280	2,331
Corporate and Other Support Service Costs	3,084	3,146	3,309
Strategy & Services Team	855	880	906
Waste Prevention Programme	566	578	591
Recycling Communications	0	0	0
Recycling Initiatives	282	289	296
North London Heat and Power Project	400	100	100
Revenue Funding – Capital Programme	14,846	14,663	14,578
	81,716	82,836	84,475
Reuse and Recycling Centres Expenditure			
Residual Waste	1,118	1,146	1,175
Landfill Tax	173	177	181
Operating Costs	3,747	3,840	3,936
	5,038	5,163	5,292
Income			
Rents	(131)	(135)	(138)
Sale of Recyclates	(3,341)	(3,425)	(3,510)
Interest on Balances	(40)	(40)	(40)
	(3,512)	(3,600)	(3,688)
Net Expenditure	83,242	84,399	86,079
Contingency	2,665	2,688	2,722
Total Net Expenditure	**85,907**	**87,087**	**88,801**
Financed By			
Use of Balances	0	0	0
Charges to Boroughs (Non-household waste)	(12,426)	(12,575)	(12,797)
Charges to Boroughs (Chargeable Household	(2,664)	(2,697)	(2,745)
Levy - Base Element	(65,779)	(66,652)	(67,967)
- HWRC Element	(5,038)	(5,163)	(5,292)
Total Levy	(70,817)	(71,815)	(73,259)
Total Resources Available	**(85,907)**	**(87,087)**	**(88,801)**
Estimated Additional Revenue Balances at 31 March	**0**	**0**	**0**

REPORT ENDS

APPENDIX C

Annual Audit Letter

North London Waste Authority

Year ending 31 March 2020

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Contents

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 (the Authority) for the year ended 31 March 2020. 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	Our auditor's report issued on 15 October 2021 included our opinion that the financial statements: • give a true and fair view of the Authority's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and • have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20
Other information published alongside the audited financial statements	Our auditor's report included our opinion that: • the other information in the Statement of Accounts is consistent with the audited financial statements.
Value for money conclusion	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 2020.
Reporting to the group auditor	In line with group audit instructions, issued by the NAO on 4th November 2020, we reported to the group auditor in line with the requirements applicable to the Authority's WGA return on 22 October 2021.
Statutory reporting	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.

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 2020 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, stated that in our view, the financial statements give a true and fair view of the Authority’s financial position as at 31 March 2020 and of its financial performance for the year then ended. The audit report included emphasis of matter paragraphs:

- As detailed within our response to the significant risk over the valuation of the Authority’s Property, Plant and Equipment, our auditor's report includes an emphasis of matter paragraph with respect to the Authority's disclosure of material valuation uncertainties in the valuations.

Our opinion on the Authority's and Group's financial statements was not qualified in respect of these matters.

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.

2. AUDIT OF THE FINANCIAL STATEMENTS

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. We have set materiality based on the financial statements and qualitative factors. 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 2020:

		Group	**Authority**
Financial statement materiality	Our financial statement materiality is based on 1.5% of Gross Operating Expenditure.	£1,240k	£880k
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£37k	£26k

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 Audit Committee within our 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 Management at various levels within an organization are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. Our audit methodology incorporates this risk as a standard significant risk at all audits. We do not consider this risk at the Authority to be unusually high or requiring enhanced audit procedures	We addressed the risk through performing audit procedures, covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • journals and other adjustments recorded in the general ledger in preparing the financial statements; and • any significant transactions outside the normal course of business.	There are no significant findings arising from our review of areas of potential management override of controls.
Revenue recognition Our audit methodology incorporates revenue recognition as a significant risk at all audits, although based on the circumstances of each audit, it is rebuttable. Based on our initial knowledge and planning discussions we have concluded that we can rebut the presumption of a revenue recognition risk for the majority of the Authority's revenue income. In particular we can rebut the revenue recognition risk for income derived from the annual levy for each London Borough. The area where we are not rebutting the income risk relating to all other material classifications of income, such as fees, charges and sales derived from the Authority's operations, as this carries a higher level of inherent risk.	We addressed this risk by obtaining a detailed understanding of the Authority's processes which assure it that revenue is materially recognised in the correct accounting year. We carried out: • detailed testing of non-levy income transactions within the 2019/20 financial statements to confirm they are accounted for in the correct year; and • testing receipts of non-levy income around the year-end to provide assurance that there are no material unrecorded items of income in the 2019/20 accounts.	There are no significant findings arising from our review of revenue recognition

2. AUDIT OF THE FINANCIAL STATEMENTS

Identified significant risk	Our response	Our findings and conclusions
Property, Plant and Equipment valuations The Authority's accounts as at 31 March 2020 contained material balances relating to land and buildings totalling £30m. The equivalent value in the Group accounts is £117m. The Authority's policy is to revalue assets every five years which creates a risk that the carrying value of assets not revalued in year is materially different from the year end value. A formal valuation was performed by a professional valuer on the Ecopark site as at 31 March 2020 for incorporation into the NLWA group accounts. This is a materially significant asset to the group, accounting for 80% of group assets. The Authority's valuer applied a material valuation uncertainty paragraph to the valuations performed. Due to the material significance of the values and the high degree of estimation uncertainty associated with the revaluations of land and buildings held by the Authority and LondonEnergy Limited (LEL), we have determined there is a significant risk in this area. .	We addressed this risk by reviewing the approach adopted by the Authority for the assets which have been revalued during the year, as follows: • assessing the Authority valuer's qualifications, objectivity and independence, and reviewed the valuation methodology used, including reviewing the underlying data and assumptions; • reviewing the approach that the Authority has adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and consider the robustness of that approach in light of the valuation information reported by the Authority's valuers; • considering movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time; • comparing the valuation output with market intelligence to obtain assurance that the valuations are in line with market expectations; and • reviewing the consolidation valuation adjustment for the EcoPark, required by accounting standards, as disclosed in the Group financial statements. Where assets had not been revalued in year, we considered the appropriateness of the valuation alongside management's consideration of potential for impairment.	The Authority's valuer has included a material valuation uncertainty paragraph within their valuation report. This applies to the full land and building balance as Ecopark is materially significant. The Authority has included a disclosure of material valuation uncertainty of land and buildings in the notes to the financial statements. We have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our auditors report. There are no further significant findings from our work on property, plant and equipment valuations.

Internal control recommendations

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 deficiencies in internal control as part of our audit.

Fixed Asset Register – Level 2

Description of deficiency	Due to the level of assets held by the Authority, they have not in prior years utilised a formal Fixed Asset Register (FAR). The FAR plays an important role in the governance and stewardship of assets, but also as a key financial control as the FAR should be formally reconciled to the financial statements on an annual basis.
Potential effects	Without a formal reconciliation between the FAR and financial statements there is a risk that assets could be misstated or misappropriated
Recommendation	A fixed asset register was created as part of the audit response, but in the coming months its use should be furthered by the Authority, including formal reconciliations to the financial statements. This will be of increasing importance as the NHLPP progresses and the value of assets are recorded in the NLWA financial statements
Management response	A Fixed Asset Register has been created which at 31 March 2020 contained the 6 land or building assets owned by the Authority. This has been enhanced for the 2020/21 financial year to include a formal reconciliation to the financial statements. It will be further amended to recognise the changes required for the implementation of International Financial Reporting Standard 16 (leases) in 2021/22.

NLWA Bank account – Level 2

Description of deficiency	The Authority does not have its own bank account. Cash is held by London Borough of Camden 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 effects	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 the Authority borrows funds for expenditure to be 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.
Management response	It has proved to be impractical in terms of system changes that would have to be made, to split the bank accounts. Instead, measures have been put in place to ensure that governance and risk management arrangements are enhanced. These include: • Ensuring that all future borrowings are made in NLWA's own name (as has been the case in the past) • Ensuring that lenders allow the funds to be paid directly into the London Borough of Camden's bank account • Ensuring that NLWA have appropriate controls in place to understand how London Borough of Camden invest the Authority's money • Ensuring that the Authority has appropriate arrangements in place to ensure that financial reporting requirements at year end are appropriate, and disclosed correctly. A Treasury Management agreement was signed by the Authority and London Borough of Camden to formalise the arrangement in May 2021.

3. VALUE FOR MONEY CONCLUSION

Value for money conclusion	Unqualified

Our audit approach

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; and
- working with partners and other third parties.

Our auditor's report 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 31st March 2020.

Sub-criteria	Commentary	Arrangements in place?
Sustainable resource deployment	The revenue balances as at 31 March 2020 was £8.443m. Compared to 2018/19, the net cost of services increased by £0.679m (1.4%). This can largely be attributed to the increased cost of waste disposal and the net cost of recycling. The Authority has set a levy of £55.2m for 2020/21 (£53.2m in 2019/20) to be funded by constituent councils. The MTFF covering 2020/21 to 2022/23 was approved at the Authority's meeting held in February 2020. The MTFF assumes that the net expenditure requirement will increase to £74.715m (4.11%) in 2021/22, £77.285m (3.44%) in 2022/23 and £95.688m (23.81%) in 2023/24 The Authority secured a loan of £100m in February 2020 from the Public Loan Workboard towards financing the costs of NLHPP.	Yes

3. VALUE FOR MONEY CONCLUSION

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 Committee is made up of fourteen governors, two from each of the seven constituents of the North London Boroughs. The members hold the Authority accountable to meeting its responsibilities. The Authority meets 5 times in a year. The Programme Committee replaced the Member Project Steering Group and started its operation in 2019/20. It is responsible for receiving and discussing detailed reports on the progress of North London Heat and Power Project (NLHPP). It considers and agrees strategies relating to the programme and take decisions on matters such as procurement strategy and contract letting. This committee meets in between the Authority meetings. The Authority has a high level risk register for strategic risks that might affect the current and short-term delivery of the Authority's services. The risk register was regularly updated during the 2019-20 year to reflect the impact of Covid-19 on the Authority. Given the significance of the project, a separate NLHPP risk register is maintained, focussing on the successful construction and commissioning of major new infrastructure. The operational risk registers are specific, more detailed and used for ensuring that risks associated with specific areas of work are monitored and managed. They are reviewed by the Member Finance Working Group. The Head of Internal Audit opinion is that there is adequate level of assurance from the Authority's governance framework in 2019/20. 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 (MTFF). Decisions on treasury management are linked to the MTFF and capital programme of the Authority. The MTFF covering 2022/23-2024/25 was approved by the Authority in February 2021. There has been regular reporting to the Authority of performance and financial performance throughout the year. The MTFF covering 2020/21 to 2022/23 was approved at the Authority's meeting held in February 2020	Yes

3. VALUE FOR MONEY CONCLUSION

Sub-criteria	Commentary	Arrangements in place?
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. The Authority also has a good working relationship with its wholly owned subsidiary LondonEnergy Limited. The Authority continues to engage with the general public, including north London residents to inform them about the case for the NLHPP, its costs, benefits and value.	Yes

3. VALUE FOR MONEY CONCLUSION

Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our 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 Strategy Memorandum, we reported that we had not identified significant risks to our VFM conclusion. This position did not change during the audit.

4. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	**No matters to report**
Completion of group audit reporting requirements	**Consistent**
Other information published alongside the audited financial statements	**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 action 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 answered correspondence from an elector in the objection period, but this did not result in a formal objections to the 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, and to carry out certain tests on the data. We submitted this information to the NAO on 22 October 2021.

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.

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 Audit Committee in February 2020.

To reflect the additional regulatory requirements facing auditors and the additional risks arising on the audit from the changing scale of the Authority, we are in the process of agreeing additional fees for the 2019-20 audit with the Head of Finance. Our proposed additional fees are set out below:

Area of work	2019/20 proposed fee	2019/20 final fee
Agreed fee for delivery of audit work under the NAO Code of Audit Practice	£14,068	£14,068
Additional fee for work required to meet regulatory requirements and changing scale of Authority - recurring	N/A	£10,949
Additional fee for work relating to statutory powers – non-recurring	N/A	£1,320
TOTAL	**£14,068**	**£26,337**

Fees for other work

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

6. FORWARD LOOK

Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1st April 2020 a new Code came in to force and will apply to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

There are however significant changes to the work on value for money arrangements, and the way we report the outcomes of our work to you.

The auditor's work on value for money arrangements

From 2020/21 we are still required to satisfy ourselves that you have made proper arrangements for securing the economy, efficiency and effectiveness in your use of resources, however unlike under the 2015 Audit Code, we will no longer report in the form of a conclusion on arrangements. Instead, where our work identifies significant weaknesses in arrangements, we are required to report those weaknesses to you, along with the actions that need to be taken to address those weaknesses.

Our work on value for money arrangements will focus on three criteria, specified in the revised Audit Code:

- Financial sustainability: how the body plans and managers its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

Under the new Audit Code we will be expected to report and make recommendations as soon as we identify a significant weakness in arrangements, as opposed to reporting our conclusion on arrangements at the end of the audit cycle as has previously been the case.

Reporting the results of the auditor's work

We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit but will also include a detailed commentary on your arrangements in place to achieve economy, efficiency and effectiveness. This commentary replaces the conclusion on arrangements that was previously provided and will include details of any significant weakness identified and reported to you, follow up of any previous recommendations made, and the our view as to whether recommendations have been implemented satisfactorily.

The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.

6. FORWARD LOOK

Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report makes several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The report and recommendations are wide-ranging, and includes:

- the creation of the Office of Local Audit and Regulation (OLAR), be created to manage, oversee and regulate local audit;
- reviewing reporting deadlines;
- reviewing governance arrangements in local authorities, including the membership of the Audit Committee; and
- increasing transparency and reducing the complexity of local authority financial statements.

The recommendations and findings will now be considered by the Department for Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government) and we look forward to working with all stakeholders to implement changes to ensure the development and sustainability of local audit.

The full report is available here: https://www.gov.uk/government/publications/local-authority-financial-reporting-and-external-audit-independent-review

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APPENDIX D

Indicative Audit Strategy Memorandum

North London Waste Authority

Year ended 31 March 2021

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Contents

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North London Waste Authority
Unit 1B, Berol House 25 Ashley Road
Tottenham Hale
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N17 9LJ

Mazars LLP
Tower Bridge House
St Katharine's Way
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E1W 1DD

6 December 2021

Dear Audit Committee Members

Indicative Audit Strategy Memorandum – Year ended 31 March 2021

We are pleased to present an Indicative Audit Strategy Memorandum for North London Waste Authority (the Authority) for the year ended 31 March 2021. The purpose of this document is to provide the Committee with an indication of the summarised audit approach, the highlighted significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing the Authority which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the audit. We will issue the final Audit Strategy Memorandum on completion of our audit planning procedures in the New Year.

We have recently changed your Mazars engagement lead and audit manager for the 2020/21 audit. Suresh Patel replaces Lucy Nutley and will present this indicative plan to the 16 December 2021 Committee meeting.

Client service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations so, if you have any concerns or comments about this document or audit approach, please contact Suresh on 07387 242052

S Patel

Suresh Patel, Partner
For and on behalf of Mazars LLP

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Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of North London Waste Authority (the Authority) for the year to 31 March 2021. The scope of our engagement is set out in the Statement of Responsibilities of Auditors and Audited Bodies, issued by Public Sector Audit Appointments Ltd (PSAA) available from the PSAA website: https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/. Our responsibilities are principally derived from the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (NAO), as outlined below.

Audit opinion

We are responsible for forming and expressing an opinion on the financial statements. Our audit does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Going concern

The Authority is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting. The Financial Advisor is responsible for the assessment of whether is it appropriate for the Authority to prepare it's accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of the Financial Advisor 's use of the going concern basis of accounting in the preparation of the financial statements and the adequacy of disclosures made.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both those charged with governance and management. This includes establishing and maintaining internal controls over reliability of financial reporting.

As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and Internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Value for money

We are also responsible for forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources. We discuss our approach to Value for Money work further in section 5 of this report.

Reporting to the NAO

We report to the NAO on the consistency of the Authority's financial statements with its Whole of Government Accounts (WGA) submission

Electors' rights

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Authority and consider any objection made to the accounts. We also have a broad range of reporting responsibilities and powers that are unique to the audit of local authorities in the United Kingdom

02

Section 02:

Your audit engagement team

2. Your core audit engagement team

Suresh Patel

Partner and Engagement Lead

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Martha Ndhlovu

Engagement Manager

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Telephone: 07583 042830

Suresh joined the firm in August 2021 and has 28 years of experience auditing London Borough councils, following 18 years with the Audit Commission, 4 years with Mazars in 2012-2016 and for the last 5 years as an Associate Partner with EY. He is joined by Martha Ndhlovu an Assistant Manager who joined Mazars in January 2021 with experience of auditing local councils with BDO LLP as well as wider audit experience in Zimbabwe.

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

Auditing accounting estimates

For the audit of the 2020/21 accounts, our audit approach incorporates the revision to ISA 540 in respect of auditing accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard affect the nature and extent of information that we may request and increase the level of audit work required. PSAA has recognised this in its fee consultations, and we reflect this in Section 6.

Audit approach

Our audit approach is a risk-based approach primarily driven by the risks we consider to result in a higher risk of material misstatement of the financial statements. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to this assessment.

If we conclude that appropriately designed controls are in place, then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

We plan and perform our audit to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in more detail in section 8.

The diagram on the next page outlines the procedures we perform at the different stages of the audit.

3. Audit scope, approach and timeline

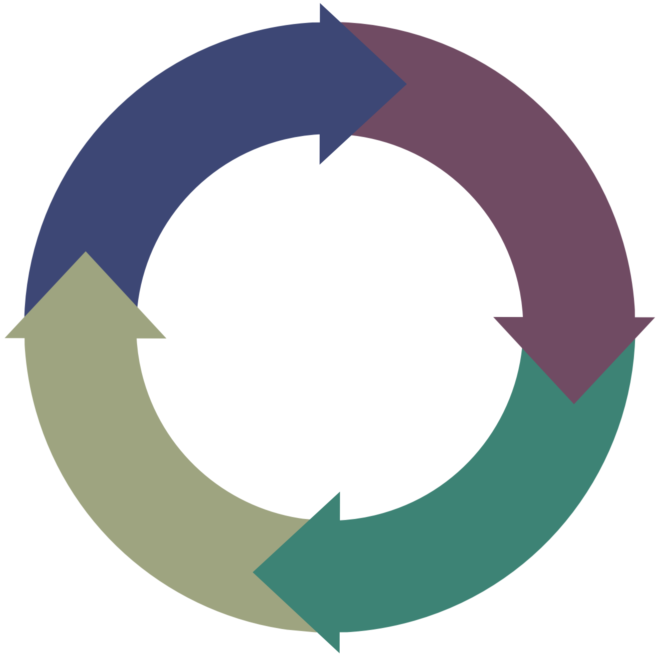
We include a provisional timeline which we have discussed with Head of Finance.

Planning: January 2022

- Planning visit and developing our understanding of the Authority
- Initial opinion and value for money risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the final audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

Interim: February 2022

- Documenting systems and controls
- Performing walkthroughs
- Reassessment of audit plan and revision if necessary



Completion: March/April 2022

- Final review and disclosure checklist of financial statements
- Final engagement lead review
- Agreeing content of letter of representation
- Reporting to the Audit Committee
- Reviewing subsequent events
- Signing the auditor’s report

Fieldwork: February 2022

- Reviewing the draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

3. Audit scope, approach and timeline

Reliance on internal audit

We do not intend to rely on the work of internal audit. However, we will review their work and it to inform our assessment of the control environment and we will modify the nature, extent and timing of our audit procedures. We will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our control's evaluation procedures

Management's and our experts

Management makes use of experts in specific areas when preparing the Authority's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our experts & approach
Defined benefit liability	Barnett Waddingham	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries.
Property, plant and equipment	Savills	We will review the analysis of property valuation movements available from third parties and consider the outcome of the Authority's valuations in comparison with these, challenging conclusions as appropriate. We will review the Gerald Eve analysis of property valuation movements provided centrally by the NAO and consider the outcome of the Authority's external valuer's valuations in comparison with these, challenging conclusions as appropriate. Where appropriate, we will use our the Mazars Real Estates Valuation team to confirm the appropriateness valuation movements and methodologies.

Service Organisations

International Auditing Standards (UK) (ISAs) define service organisations as third party organisations that provide services to the Authority that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. The table below summarises the service organisations used by the Authority and our planned audit approach.

Items of account	Service organisation	Audit approach
Financial systems used for the production of the statement of accounts.	London Borough of Camden	We plan to obtain assurance by understanding the process and controls that the Authority has in place to assure itself that transactions are processed materially correctly.
Financial instrument valuations	London Borough of Camden	Our testing will include obtaining confirmation of the nature and value of the sums invested by LB Camden on behalf of the Authority directly from LB Camden's auditors (Mazars LLP). Our work will also include testing that the disclosures relating to the nature and fair value of the investments are appropriately disclosed in the Authority's financial statements.

3. Audit scope, approach and timeline

Group audit approach

The Authority's group structure for 2020/21 has not changed from the prior year. LondonEnergyLimited (LEL) is the Authority's wholly owned subsidiary. The Authority has assessed that LEL represents a significant component and, as such, it will be preparing group accounts, consolidating the results of the Authority and LEL. In auditing the accounts of the Authority's Group financial statements, we need to obtain assurance over the transactions in the Group relating to LEL.

Our approach reflects the size and complexity of the transactions from LEL that are consolidated into the Authority's Group financial statements. Our plan, based on our understanding and the values reported in the prior year financial statements, is to support our audit work on the group accounts, we seek to place reliance on the work of the external auditor of LEL. In line with auditing standards, we will liaise with the component auditor in order to confirm that their programme of work is adequate for our purposes and satisfies professional requirements. The external auditors of LEL are BDO LLP.

We apply a separate materiality for the audit of the Group accounts as set out in section 8. We have not identified any significant risks for Group accounts purposes in relation to the component. The significant risks and areas of audit focus for the Authority as a single-entity are set out in section 4. Based on our initial planning discussions we do not consider these significant risks to be risks for LEL.

Entity	Significant by size	Significant risk	Planned audit scope	Auditor
LEL	Yes	No	Full Audit	BDO LLP

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified relevant risks to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

Standard risk

This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

Areas of audit focus

Where we identify a material item of account or aspect of financial reporting that represents a challenge to the Authority, we will highlight it to the Audit Committee as an area of audit focus.

4. Significant risks and other key judgement areas

Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.

Key: Significant risk; Enhanced risk / significant management judgement

1 Management override of controls

2 Valuation of property, plant and equipment

3 Year end balances with councils

We have the following **areas of audit focus**:

A. Goodwill impairment

B. Cash and cash equivalents

C. Group consolidation

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will address the risk through performing audit procedures, covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	**Property, plant and equipment (PPE) valuation** The CIPFA Code requires that the carrying value of PPE should reflect the appropriate fair value as at the year end. the Authority has adopted a rolling revaluation model which sees other land and buildings revalued over a five year cycle, and may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have not been revalued in year is materially different from the year end fair value. The draft accounts show Land and buildings with a value of £101m and assets under construction at £85m. Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.	○	●	●	We will address this risk by reviewing the approach adopted by the Authority to assess the risk that assets not subject to valuation at year end are not materially misstated, and consider the robustness of that approach. We will also assess the risk of the valuation changing materially in year, considering the movement in market indices between revaluation dates and the year end, in order to determine whether these indicate that fair values have moved materially. In addition, for those assets which have been revalued during the year we will: • assess the valuer's qualifications; • assess the valuer's objectivity and independence; • review the methodology used; and • perform testing of the associated underlying data and assumptions. We will also follow up the recommendation made during the 2019/20 audit regarding the Fixed Asset Register.

Enhanced risks

3	**Year end balances with councils** The Authority receives revenue from constituent councils - £55m is the levy and around £11m relates to non-household and chargeable household waste. These sources of revenue are based on estimates which are then compared to actual tonnages at the year end. The accounts include year end balances with councils where the estimated amounts were either over or understated. Due to the nature of making estimates, there is an inherent risk that the year end balances with councils are materially misstated.	○	●	●	We will obtain an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will review whether controls over these processes have been adequately designed and implemented. We will challenge of aspects of how you derive your estimates, the methods and models used, your assumptions and the data you use. We will check the year end calculations for reasonableness.

4. Significant risks and other key judgement areas

Areas of audit focus

	Description	Planned response
A	**Goodwill impairment** Within the group accounts the Authority recognises Goodwill of £50m in relation to its acquisition of LEL in 2010. Accounting standards require the Authority to consider the impairment of goodwill annually. Given the value of the Goodwill we highlight this as an area of audit focus.	In 2019/20 we carried our procedures to understand the Authority's approach to the valuation of goodwill. We were satisfied that the 2019/20 accounts were materially stated in this respect. For 2020/21 we will challenge management in respect of changes that it may need to make in its impairment review. If there are any significant changes we will recognise this as an enhanced risk and potentially engage a financial reporting specialist to understand the basis of the changes and the impact on the existing accounting.
B	**Cash and cash equivalents** The Authority's cash and treasury management requirements are undertaken on its behalf by the London Borough of Camden; it therefore has no cash or cash equivalents on its own account. Instead, the Authority maintains an inter-authority account with Camden on which Camden pays interest equivalent to the average return achieved on its own investment activity for the year. In 2019/20 we reported internal control points in respect of this arrange and as such for 2020/21 we highlight this as an area of focus.	We will review the measures that the Authority has put in place for 2020/21 to ensure that governance and risk management arrangements are enhanced, including the arrangements for ensuring that the Authority as appropriate: • Controls in place to understand how London Borough of Camden invest the Authority's money • Financial reporting requirements at year end are appropriate, and its assets financial assets are disclosed correctly.
C	**Group consolidation** The Authority prepares group accounts, consolidating LEL. Whilst this is not a new requirements, there are inherent risks around group consolidation. We therefore highlight this as an area of focus.	We will seek to place reliance on the work of the external auditor of LEL. In line with auditing standards, we will liaise with the component auditor in order to confirm that their programme of work is adequate for our purposes and satisfies professional requirements. The external auditors of LEL are BDO LLP. We will also review the consolidation of LEL to prepare the group accounts.

05

Section 05:

Value for Money

5. Value for Money

The framework for Value for Money work

We are required to form a view as to 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 view, and sets out the overall criterion and sub-criteria that we are required to consider.

The new Code of Audit Practice (the Code) has changed the way in which we report our findings in relation to Value for Money (VFM) arrangements from 2020/21. Whilst we are still required to be satisfied that the Authority has proper arrangements in place, we will now report by exception in our auditor's report where we have identified significant weakness in those arrangements. This is a significant change to the requirements under the previous Code which required us to give a conclusion on the Authority's arrangements as part of our auditor's report.

Under the new Code, the key output of our work on VFM arrangements will be a commentary on those arrangements which will form part of the Auditor's Annual Report.

Specified reporting criteria

The Code requires us to structure our commentary to report under three specified criteria:

1. **Financial sustainability** – how the Authority plans and manages its resources to ensure it can continue to deliver its services
2. **Governance** – how the Authority ensures that it makes informed decisions and properly manages its risks
3. **Improving economy, efficiency and effectiveness** – how the Authority uses information about its costs and performance to improve the way it manages and delivers its services

Our approach

Our work falls into three primary phases as outlined opposite. We need to gather sufficient evidence to support our commentary on the Authority's arrangements and to identify and report on any significant weaknesses in arrangements. Where significant weaknesses are identified we are required to report these to the Authority and make recommendations for improvement. Such recommendations can be made at any point during the audit cycle and we are not expected to wait until issuing our overall commentary to do so.

Planning and risk assessment	Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include: • NAO guidance and supporting information • Information from internal and external sources including regulators • Knowledge from previous audits and other audit work undertaken in the year • Interviews and discussions with staff and members
Additional risk-based procedures and evaluation	Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.
Reporting	We will provide a summary of the work we have undertaken and our judgements against each of the specified reporting criteria as part of our commentary on arrangements. This will form part of the Auditor's Annual Report. Our commentary will also highlight: • Significant weaknesses identified and our recommendations for improvement • Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.

Status of the VFM work

We have yet to commence our planning and risk assessment work. We will report the results of our planning and risk assessment work to the next Audit Committee.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for work as the Authority's appointed auditor

We are in the process of agreeing a divergence from the scale fees set by PSAA, as a result of changes in the scope of our work arising from a new NAO Code, revisions to auditing standards and increased regulatory requirements. We are also in the process of agreeing the impact of these with the Head of Finance on the final fee for 19/20 and the proposed fee for 2020/21. Please note that audit time responding to correspondence from the public will necessitate an additional audit fee.

Area of work	2020/21 Proposed Fee	2019/20 Actual Fee
Code Audit Work (Scale fee)	£14,068	£14,068
Scale fee variations:		
- Increased regulatory requirements (Note 1)	£6,000	£5,748
- Correspondence from members of the public (Note 2)	TBC	£1,320
- Group accounts (Note 3)	£5,000	£5,201
- Code changes to value for money (Note 4)	£6,000-£11,000	-
- Revised auditing standard on accounting estimates (Note 5)	£2,000-£4,000	-
TOTAL FEES	**TBC**	**£26,337**

Notes:

1. Since the most recent PSAA tender there has been a significant increase in the requirements of auditors including increased challenge on management judgements (for the Authority in respect of capital works and borrowing), more granular testing of asset valuations and increased internal quality control requirements. The addition auditor inputs should be reflected in the fees.
2. We are required to consider correspondence and questions from local electors. The time we need to do this, which tends to be by senior team members, necessitates an additional audit fee.
3. The Authority has a material subsidiary. There is a different reporting framework, reporting date and auditor - we as group auditor need to undertake testing of consolidation adjustments, including valuations of PPE and goodwill.
4. The Code introduces new VFM requirements. We have used the PSAA determined range for the additional fees that this requires for 2020/21.
5. For 2020/21 a revised auditing standard in relation to auditing accounting estimates applies, requiring additional audit inputs. We have used the PSAA determined range for the additional fees that this may require for 2020/21.

07

Section 07:

Our commitment to independence

7. Our commitment to independence

We are committed to independence and are required by the Financial Reporting Council to confirm to you at least annually in writing that we comply with the FRC's Ethical Standard. In addition, we communicate any matters or relationship which we believe may have a bearing on our independence or the objectivity of the audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities creating any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place which are designed to ensure that we carry out our work with integrity, objectivity and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the audit team; and
- Use by managers and partners of our client and engagement acceptance system which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this document, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence please discuss these with Suresh in the first instance.

Prior to the provision of any non-audit services Suresh will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our auditor independence.

No threats to our independence have been identified.

Any emerging independence threats and associated identified safeguards will be communicated in our Audit Completion Report.

08

Section 08:

Materiality and other misstatements

8. Materiality and misstatements

Summary of initial materiality thresholds:

Threshold	Group initial threshold £	Authority initial threshold £
Overall materiality	1,436,000	1,129,000
Performance materiality	1,149,000	904,000
Trivial threshold for errors to be reported to	43,000	34,000

Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented and audited to levels of materiality;
- Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- Will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our initial materiality is set based on a benchmark of Gross Revenue Expenditure taken from the draft 2020/21 accounts - £79.8m for the Group and £62.7m for the Authority. We will identify a figure for materiality but identify separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Audit Committee.

We consider that Gross Revenue Expenditure remains the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

8. Materiality and misstatements

Materiality (continued)

We have set a materiality threshold at 2% of Gross Revenue Expenditure. Based on the draft 2020/21 accounts the overall materiality for the year ended 31 March 2021 is £1.436m for the Group accounts and £1.13m for the Authority. This is an increase from the prior year use of 1.5% and is based on our judgement of the factors that impact materiality and the user of the accounts. We will continue to monitor materiality throughout the audit to ensure that it is set at an appropriate level.

Performance Materiality

Performance materiality is the amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality. This is the top end of our range.

Specific Materiality

Auditing standards enable us to set specific materiality (lower than performance materiality) for items of account or disclosures that we consider to be politically sensitive and/or of more interest to the user of the accounts. In common with most other authorities, we have identified the following disclosures in the accounts where we will apply a specific materiality threshold for our audit procedures:

- Officers remuneration.
- Related parties.

Misstatements

We accumulate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. Based on our preliminary assessment of overall materiality, our proposed triviality threshold is £43k for the Group and £34k for the Authority based on 3% of overall materiality. If you have any queries about this please do not hesitate to raise these with Suresh.

Reporting to the Audit Committee

The following three types of audit differences will be presented to the Audit Committee:

- summary of adjusted audit differences;
- summary of unadjusted audit differences; and
- summary of disclosure differences (adjusted and unadjusted).

A

Appendix: Key communication points

Appendix: Key communication points

We value communication with Those Charged With Governance as a two-way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Audit Strategy Memorandum;
- Our Audit Completion Report; and
- Auditor’s Annual Report

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Audit Strategy Memorandum

- Our responsibilities in relation to the audit of the financial statements;
- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Audit Completion Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Audit Strategy Memorandum
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Audit Strategy Memorandum
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Audit Completion Report
With respect to fraud communications: • Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Audit Completion Report and discussion at the Audit Committee. Audit Planning and Clearance meetings

Appendix: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Audit Completion Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Audit Committee in the context of fulfilling their responsibilities.	Audit Completion Report
Significant deficiencies in internal controls identified during the audit.	Audit Completion Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Audit Completion Report

Appendix: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Completion Report and the Audit Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Audit Completion Report
Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods	Audit Completion Report
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms	Audit Strategy Memorandum and/or Audit Completion Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Audit Completion Report

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