

**NORTH LONDON WASTE AUTHORITY**

**REPORT TITLE:** FINANCE UPDATE

**REPORT OF:** THE FINANCIAL ADVISER

**FOR SUBMISSION TO:** AUTHORITY MEETING

**DATE:** 14 DECEMBER 2023

**SUMMARY OF REPORT:**

This report provides an update on the Authority's finances and forecast outturn at the end of March 2024. In addition, it provides a bottom-up assessment of the budget and resource requirements for 2024/25 and considers the balances that may be available to support the 2024/25 levy.

The report also includes an appendix which contains the Auditor's Annual Strategy Memorandum for the audit of the 2021/22 statement of accounts which has now commenced.

**RECOMMENDATIONS:**

The Authority is recommended to:

- A. Note this review of the 2023/24 financial position;
- B. Note the current assessment of the budget and resource requirements for 2024/25 and the factors that could affect the level of the 2024/25 levy
- C. Note the issues that will need to be addressed in setting the budget and levy for 2024/25 at the Authority meeting on 8 February 2024; and
- D. Note the Audit Strategy Memorandum in appendix D

**SIGNED:** Jon Rowney, FINANCIAL ADVISER

**DATE:** 4 December 2023

## 1. EXECUTIVE SUMMARY

### Overview

- 1.1. On 5 October 2023, the Authority was provided with an up-to-date assessment of its financial position. This included a revised outturn for 2022/23, and update on changes to the resources available in 2023/24 and an early indication of the budget for 2024/25 as well as an indicative levy based on that budget.
- 1.2. This report provides the outcome of a more detailed review of the 2023/24 forecast outturn, an update on the outlook for the budget and levy for 2024/25 and the medium-term forecast. In addition, Appendix D contains Mazars Audit Strategy Memorandum which outlines the plan for the audit of the 2021/22 financial statements.

### 2023/24 Forecast

- 1.3. **Financial Outturn:** The net expenditure outturn forecast for 2023/24 is £70.280m, a projected underspend of £0.525m compared to the October forecast and £14.591m underspend compared to the budget (before the electricity windfall). This underspend was primarily driven by the recognition of electricity income (resulting in the levy rebate), replanning of maintenance at a transfer station and increased income from interest on balances.
- 1.4. As reported in the Governance of LondonEnergy Ltd. paper elsewhere on this agenda, the company is seeking £9 million of additional funding during 2024 to assist with cost increases driven by the age and condition of the energy from waste facility, including maintenance and investment needed to keep the plant operating to its planned end of life, costs to remove or treat asbestos at the plant as well as the increasing cost of insurance. The company has already taken steps to minimise the costs.
- 1.5. The Authority is working through options to fund this with borough Directors of Finance and Environment as well as the Member Finance Working Group. Options include amending the Authority's policy of capitalising interest receivable on borrowing held for the North London Heat and Power Project (NLHPP) and the use of the Authority's contingency. As a result of increases to interest rates in 2023, the Authority is earning higher than expected income from interest on the balances it holds to fund investment in the North London Heat and Power Project. It is anticipated that these options will fund the additional LEL requirement without increasing beyond current plans the cost to constituent boroughs through the levy and charges in 2023/24 or 2024/25
- 1.6. **Waste Tonnage:** The tonnage related forecasts have been reviewed with borough officers. In 2023/24 the Authority is forecast to receive higher tonnes of waste compared to October forecast. 5,729 (1.03%) higher tonnes of residual waste are

forecast to be received by the Authority, organic waste (food waste, garden waste and mixed organic waste) is forecast to be 922 tonnes (1.54%) higher than October forecast and the forecast for mixed dry recycling is 2,914 tonnes (2.40%) lower than the October forecast.

- 1.7. Compared to the budget set for 2023/24 at the start of the year, the forecast for residual waste is for 5,247 (0.95%) fewer tonnes, the organic waste forecast has 996 fewer tonnes (1.63%) and there are 9,256 (7.03%) fewer tonnes of Mixed Dry Recyclates forecast.

### Forecast Borough Balances at 31 March 2024

- 1.8. The revenue balance at the end of the financial year is forecast to be £9.583m, an increase of £0.383m since the October report to the Authority. This difference would be available to support the 2024/25 levy.

### 2024/25 Forecast Budget and Levy

|                | Forecast Levy before balances |         |                       | Balances available |         |                       | Forecast Levy after balances |         |                       |
|----------------|-------------------------------|---------|-----------------------|--------------------|---------|-----------------------|------------------------------|---------|-----------------------|
|                | 2023/24                       | 2024/25 | Increase/<br>Decrease | 2023/24            | 2024/25 | Increase/<br>Decrease | 2023/24                      | 2024/25 | Increase/<br>Decrease |
|                | £000s                         | £000s   |                       | £000s              | £000s   |                       | £000s                        | £000s   |                       |
| Barnet         | 15,499                        | 17,246  | 11.3%                 | (2,721)            | (2,088) | -23.3%                | 12,778                       | 15,158  | 18.6%                 |
| Camden         | 8,466                         | 8,743   | 3.3%                  | 151                | (2,051) | -1460.0%              | 8,617                        | 6,692   | -22.3%                |
| Enfield        | 11,452                        | 13,317  | 16.3%                 | (1,075)            | (931)   | -13.4%                | 10,377                       | 12,386  | 19.4%                 |
| Hackney        | 9,127                         | 10,517  | 15.2%                 | (1,568)            | (855)   | -45.5%                | 7,559                        | 9,662   | 27.8%                 |
| Haringey       | 10,154                        | 11,392  | 12.2%                 | (1,947)            | (1,226) | -37.1%                | 8,207                        | 10,167  | 23.9%                 |
| Islington      | 8,118                         | 9,023   | 11.2%                 | (1,359)            | (815)   | -40.0%                | 6,759                        | 8,208   | 21.4%                 |
| Waltham Forest | 11,490                        | 12,130  | 5.6%                  | (1,920)            | (1,619) | -15.7%                | 9,570                        | 10,511  | 9.8%                  |
|                | 74,306                        | 82,367  | 10.8%                 | (10,439)           | (9,583) | -8.2%                 | 63,867                       | 72,784  | 14.0%                 |

- 1.9. Section 4 of this report sets out the underlying assumptions and discusses significant issues that have been captured in the early budget forecast for 2024/25. It concludes that the net expenditure requirement will increase to £94.754m (a year on year increase of £9.683m or 11.4%) which reflects the opening of the EcoPark South assets in 2023/24 and the need to recognise the cost of interest on the borrowing undertaken, and the Authority is required to start making the Minimum Revenue Provision (MRP) in the following financial year (2024/25). This is in line with previous levy estimates once these facilities opened.
- 1.10. When compared to the approved levy for 2023/24, before the £10.2m windfall levy rebate was taken into account, the levy is forecast to increase by 10.8%. However, as the carry forward of balances is expected to be lower next year than it was this year, the levy may increase by 14.0%. Authority officers will continue to work to mitigate any increases. The potential effect on each borough is captured below.
- 1.11. The 10.8% increase before balances is driven by a full year of operating costs, interest charges and MRP relating to the new assets being brought into use in 2023/24. It

remains the central assumption that the Resource Recovery Facility will come into operation in 2023/24, subject to successful testing and start of service. If there were a delay to 2024/25, MRP payments would increase in 2025/26 rather than 2024/25. All boroughs are forecast to see an increase in the levy with the exception of Camden.

- 1.12. As reported to the Authority in October, there has been an amendment to Camden's tonnage forecasts which increases the commercial waste tonnages and reduces the amount of household waste, with no overall movement in total Camden waste. This decreases the costs attributable to Camden's levy but increases the amount that they pay in charges (although the overall payment attributable to Camden remains the same).
- 1.13. The Member Finance Working Group will meet in January 2024 to examine the assumptions underpinning the current budget forecast and the levy options.
- 1.14. 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 2024/25. This will be reported to the Authority meeting in February 2024, 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.

#### **Medium term Forecast**

- 1.15. Strong inflation in 2022 affected the index-linked contracts which make up the majority of the Authority's expenditure. Higher interest rates in 2023 have affected the income on the Authority's balances. In forecasting forward, it is therefore important to recognise the risk of the Authority being affected by cost changes driven by the wider economy. Subject to that point, in the following two years, net expenditure is forecast to increase to £97.453m in 2025/26 (a year-on-year increase of 2.6%) and £98.417m (1.0%) in 2026/27. The coming into operation of new facilities delivered by the North London Heat and Power Project (NLHPP) means that the Authority costs will rise in coming years. However, costs are forecast to remain at the cheaper end of the range in comparison with other waste authorities.
- 1.16. An updated levy model has been prepared for boroughs to show the longer-term effects of forecast future costs on the levy. The previous version of the model was produced to support the decision relating to the procurement of the Energy Recovery Facility in December 2021. Since then, tonnage and operating costs forecasts have changed, and the UK has experienced a period of inflationary increases and interest rates have risen. Further detail is provided in section 5

## **NLHPP Outturn**

- 1.17. The NLHPP outturn forecast is within the inflated budget range of £1.42bn - £1.52bn, and a table of spend to the end of September 2023 and the forecast outturn is included in section 6. For completeness, this information is also given in the paper reporting progress on the NLHPP.

## **Audit Update**

- 1.18. The Authority's Auditor, Mazars, have issued the Audit Strategy Memorandum for the 2021/22 financial statements and this is included at Appendix D. It sets out the stages of the audit process. Key to the Authority is the opinion on the accounts and the Authority's Annual Governance Statement. It is hoped that an Audit Committee can be scheduled early in 2024.
- 1.19. The Government is proposing to create a 'backstop' to ensure that all Local Government audits are brought up to date, with some local authorities still to complete the audits for 2015/16. At the time of writing, the Department for Levelling Up, Housing and Communities have not confirmed the action that will be taken or the timescale that it will involve. However, it is possible that the Authority's accounts for 2022/23 might receive a limited audit. A further update will be provided at a future meeting once the position is clearer.

## **Other Updates**

- 1.20. Since the October Authority meeting, interviews for the Independent Audit Member have been held and an offer has been made. An announcement will be made once a start date has been agreed.

## **2. 2023/24 FORECAST**

- 2.1. At the meeting on 9 February 2023, the Authority approved a budget for 2023/24 of £85.071m, before including windfall income of £10.200m. To reflect the windfall income that the Authority forecast to receive, Members also approved a one-off rebate of £10.200m as a deduction to the levy. The adjusted, post-windfall net expenditure was £74.871m and the forecast net expenditure and levy figures shown in table A1 in the appendices includes the adjustment.
- 2.2. Taking into account the revised plans and updated balances, at the Authority meeting on 4 October 2023 an updated 2023/24 net expenditure forecast was presented of £70.280m.
- 2.3. A revised forecast position for 2023/24, taking into account the current year to date spends, revised plans for the remainder of the year and revised tonnage forecasts has led to an updated 2023/24 net expenditure forecast position of £70.280m, i.e. an underspend of £0.525m compared to the October forecast.

- 2.4. A key driver of this reduced forecast is a maintenance project at the Hornsey Street transfer station being delayed to next financial year, a review of the allocation of costs at the Wembley transfer station and increase in interest received.
- 2.5. A detailed breakdown for the tonnage by type and borough can be found in tables A2-6 in Appendix A.
- 2.6. The key variances to the budget are as below:
- 2.6.1. **Transfer Station and Other Sites:** (£1.188m) favourable movement due to a rephasing of maintenance costs at the Hornsey Street transfer station to next financial year and a review of the allocation of costs of the Wembley transfer station.
- 2.6.2. **Revenue Funding – Capital Programme:** (£3.582m) favourable movement due to the delay in the opening of Resource Recovery Facility, the Reuse and Recycling Centre at the EcoPark and EcoPark House. Until these facilities open, the interest payable on loans taken out to fund these works will continue to be capitalised.
- 2.6.3. **Interest on Balances:** (£0.158m) favourable movement due to interest rates increasing higher than forecast. This does not include interest on balances held to fund the NLHPP.
- 2.7. A detailed commentary on the differences between the October forecast and the 2022/23 outturn is provided in the appendices.
- 2.8. As part of this forecast, officers have consulted with counterparts in the boroughs and updated tonnage forecasts. Residual waste forecasts have been increased compared to October forecast by 5,729 tonnes, an increase of 1.03%.

#### **Funding for LondonEnergy**

- 2.9. As reported in the Governance of LondonEnergy Ltd. paper elsewhere on this agenda, the company is seeking £9 million of additional funding during 2024 to assist with cost increases driven by the age and condition of the energy from waste facility, including maintenance and investment needed to keep the plant operating to its planned end of life, costs to remove or treat asbestos at the plant as well as the increasing cost of insurance. The company has already taken steps to minimise the costs.
- 2.10. The funding for this is not currently included in the forecast. Authority Officers are considering the options available to be able to support LEL while also minimising the costs to boroughs. Officers are considering the option of amending an accounting policy so that the interest earned on balances held to support the NLHPP can be used to fund LEL in 2024. This income is currently used to reduce the interest paid on the

original borrowing for the project. This would mean a small increase the levy in the longer term as the interest cost would be spread over the life of the newly built assets. The Authority could also call on the contingency in 2023/24 or 2024/25.

- 2.11. It is likely that necessary additional support for LondonEnergy Ltd can be provided for 2024 without affecting levy plans for 2023/24 or 2024/25. As the Governance of LondonEnergy Ltd paper points out, officers will work further with the LondonEnergy Ltd board to clarify pressures in 2025 and beyond and provide further advice by mid-2024.
- 2.12. Officers will discuss the option further with Borough Directors of Finance and the Member Finance Working Group in January 2024.

### **3. BOROUGH BALANCES AT 31 MARCH 2024**

- 3.1. The menu price-based levy requires the Authority to apportion all 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.
- 3.2. Tables A9 and A10 in Appendix A show how in-year levy balances might be apportioned (based on the current forecast) between the boroughs and used to reduce the levy when the Authority determines its 2024/25 levy in February. A table detailing the forecast outturn and how it has changed since the October review is included in Appendix A as table A1.
- 3.3. Tables A7 and A8 in Appendix A reflect the forecast expectation for non-household and chargeable waste and show that most boroughs are forecast to receive a refund.

#### **2023/24 Summary**

- 3.4. Allowing for the factors outlined above, the total net expenditure in 2023/24 for the Authority is estimated to be £70.280m. This represents a decrease of £0.525m compared with the October update and £14.591m underspent against the budget (excluding the electricity windfall). Taking into account a decrease in non-household and household charges of £0.449m compared to the budget, the net revenue surplus on 31 March 2025 is forecast to be £9.583m, i.e. an increase of £0.383m since the October review.

### **4. 2024/25 BUDGET FORECAST**

- 4.1. The following paragraphs set out the underlying assumptions and discuss significant issues and variances for the coming year. This section of the report concludes with a table setting out the forecast 2024/25 levy and charges for each borough. This is based on data early in the current financial year and fuller data will be used to

present a further review to the February 2024 Authority meeting along with a draft budget for 2024/25 and the medium-term forecast. At the Authority meeting in February 2024, the Authority must agree its budget and set the levy for 2024/25, in line with the Inter Authority Agreement agreed in 2016.

### **Opening position**

- 4.2. When setting the levy for 2023/24, no balances were forecast as being available to support the 2024/25 budget and levy. Taking this into account, the levy was forecast to increase by 28.7% in 2024/25. Since then, the unaudited revenue balances at 31 March 2023 improved by £5.442m. In addition, reviews of the 2022/23 budget have identified that revenue balances at 31 March 2023 could increase by a further £4.141m to £9.583m.
- 4.3. The Authority's net expenditure is forecast to be £94.754m, before considering any available reserves. This is 11.4% higher than the budget excluding the windfall in 2023/24. The following paragraphs set out the underlying assumptions and discuss significant issues and variances. The budget for 2024/25 compared with 2023/24 is laid out in table C1 in Appendix C.

### **Inflation**

- 4.4. Most of the prices in the Authority's contract with LEL are reviewed annually in line with the December Retail Price Index (RPI). For financial planning purposes the Authority has used the HM Treasury's digest of forecasts published by banks and other institutions and has assumed an increase in December 2023 RPI at 6.3%. This is higher than the assumptions of 5.9% RPI inflation included in the 2023/24 budget. Inflation assumptions will be reviewed and updated for the February budget and levy meeting.

### **Transport and Disposal**

- 4.5. The 2024/25 transport and disposal budget has been based on forecast residual waste stream of 555,302 tonnes (excluding RRC tonnages), i.e. a decrease of 294 tonnes compared with the forecast for 2023/24. These tonnages have been reviewed with borough officers and the impacts are therefore tailored to each borough's circumstances. A breakdown by boroughs is included in table B9 in Appendix B.
- 4.6. Electricity prices are assumed to remain high enough that there will be no requirement for the electricity income claim in the year.

### **Landfill Tax**

- 4.7. In recent years, Government policy regarding landfill tax has been to increase the tax in line with inflation, rounded to the nearest five pence. The rate of landfill tax for



2024/25 has been announced at £103.70 per tonne, an increase of £1.60 per tonne compared to 2023/24. The budget reflects the increased tax.

### **Organic Waste and Materials Recovery Facility Services**

- 4.8. The budget forecast for 2024/25 reflects that mixed organic waste, food waste and green tonnages are expected to have no significant change compared with the October forecast, dry mixed recycling tonnage is forecast to remain broadly the same compared with October forecast. The budget also reflects an allowance of 4.43% for price inflation in April 2024. The Tonnage forecasts are included in tables B2-B5 in Appendix B.

### **Waste Prevention and Communications Programme**

- 4.9. The budget contains provision to maintain the community fund programme at £250k, as proposed in the Waste Prevention Plan paper to this meeting. This is within an overall communications proposal which is held broadly constant in cash terms with 2023/24.

### **Reuse and Recycling Centres**

- 4.10. The costs of running the Reuse and Recycling Centres have been updated to reflect any known costs and estimated income from recyclates. An analysis of these costs is included in table B7 in Appendix B.

### **New Resource Recovery Facility (RRF)**

- 4.11. The budget includes the estimated cost of running the RRF for the entire year. The cost of funding the capital programme includes an allowance for interest on loans taken to fund the development and construction of the facility as well as a charge for the associated MRP.

### **Carbon Capture and Storage**

- 4.12. The budget and medium plan includes the approved cost of preparing the outline business case for a carbon capture and storage solution at the new energy recovery facility. This includes the cost of the second phase of the work. This will not be spent until phase 2 is approved.

### **Revenue Funding of the Capital Programme**

- 4.13. The budget forecast provides for the financing costs of:

4.13.1. The Authority's investment in LondonEnergy Ltd

4.13.2. Pinkham Way

- 4.13.3. Lease of laydown area, part of the EcoPark and the purchase of Deephams Farm Road to support the North London Heat and Power project
- 4.13.4. The RRF once it opens
- 4.13.5. The possible refurbishment of RRC sites
- 4.14. The Authority also makes an 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.
- 4.15. The costs of borrowing for the NLHPP are rolled into the capital cost until the asset comes into use. Therefore, the impact of borrowing for the construction of the Energy Recovery Facility and associated costs will not be budgeted under this heading until completion.

### **Sale of Recyclates**

- 4.16. There is volatility in the market price for the onward sale of recyclates. The price used for income from recyclates assumes that current market values, which are close to historic average prices, remain stable. However, as the Authority has benefitted from strong values early in 2023, the expected income over 2024/25 as a whole is forecast to be £629K below 2023/24.

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

- 4.17. The Authority anticipates that boroughs will deliver 75,918 tonnes of residual waste and 14,754 tonnes of recyclable and organic waste to the Authority in 2024/25.
- 4.18. 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.
- 4.19. Based on the advised tonnages the estimated cost to the boroughs is £10.438m. This is analysed by borough in Table B7 in Appendix B.

| <b>Table 2</b>       | <b>Price Per<br/>Tonne<br/>£</b> |
|----------------------|----------------------------------|
| Residual             | 124.54                           |
| Mixed Biodegradable  | 82.45                            |
| Green                | 57.70                            |
| Food                 | 2.67                             |
| Mixed Dry Recyclable | 75.79                            |

### **Chargeable Household Waste**

- 4.20. The Authority forecasts that it expects to receive 13,814 tonnes of residual waste and 3,322 tonnes of organic waste and dry mixed recycling in 2024/25.
- 4.21. 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.
- 4.22. Based on the advised tonnages the estimated cost to the boroughs in 2024/25 is £1.950m. The cost is analysed by borough in Table B8 in Appendix B.

### **Contingency**

- 4.23. The budget forecast in this report reflects the approach taken in recent budgets, i.e. £1m plus 2% of the operational base provision.

### **Levy**

- 4.24. The table in paragraph 1.7 sets out the current estimate of the potential 2024/25 levy for each borough. It reflects the forecast balances at 31 March 2024 and the Authority's expenditure and income expectations. Residual waste and recycling tonnage forecasts will be reviewed in conjunction with borough counterparts to inform the February update.

### **Efficiency Savings and Cost Reductions**

- 4.25. 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, the scope to make savings is limited. Despite these limitations, officers are reviewing costs to identify savings within the budget and medium-term forecast.

### **Levy Apportionment Arrangements**

- 4.26. All boroughs formally agreed to adopt a menu-price based levy for 2016/17 onwards. Details of the calculation for 2024/25 can be found in Tables B7 and B8 in Appendix B.

## **5. MEDIUM TERM FORECAST**

- 5.1. After 2024/25 there are currently no balances available to offset the levy. Based on high level estimates of future expenditure, the current total levy estimates are as below. Borough directors of finance have confirmed that increases to the levy resulting from the opening of NLHPP assets have been factored into their own forecasts. The Energy Recovery Facility is forecast to open during 2027/28, at which

point the borrowing costs will be recognised and net expenditure and the levy increase as a result.

- 5.2. If balances are available at the end of 2024/25 they will be used to reduce the cost of services in 2025/26. There has not been a year since 2010, in which balances have not developed to reduce the eventual levy for the following year.

|         | <b>Net<br/>Expenditure<br/>£'000</b> | <b>Base Levy<br/>£'000</b> | <b>RRC Levy<br/>£'000</b> | <b>Total<br/>£'000</b> | <b>Increase<br/>%</b> |
|---------|--------------------------------------|----------------------------|---------------------------|------------------------|-----------------------|
| 2025/26 | 97,453                               | (78,680)                   | (6,016)                   | (84,696)               | 16.4%                 |
| 2026/27 | 98,417                               | (79,400)                   | (6,166)                   | (85,566)               | 1.0%                  |

- 5.3. At the Authority meeting in December 2021, the Authority produced a longer term levy model to forecast the likely costs and income arising from the opening of the new facilities built by the North London Heat & Power Project. This has been updated to reflect the Authority's latest forecast of income and operating costs, and also the wider economic environment such as inflationary rises and increasing interest rates.

- 5.4. The graph below shows the changes that have occurred to forecast future levies since the meeting in December 2021. It captures the latest forecast up to 2033/34, by which time the latter stages of the NLHPP will be completed. The black dotted line reflects the levy forecast reported to the December 2021 meeting.

- 5.5. Since then, a number of changes have occurred, and these have been identified to explain the make-up of the movements:

5.5.1. The grey area represents the increase in the forecast levy due to increases in inflation. As a result of factors outside the Authority's control, these have been much higher than the estimate of future inflation included in the December 2021 version, with the Consumer Price Index reaching a high of over 10% earlier in 2023. This increase has a multi-year effect as a period of high inflation affects the "base cost" for operations and contracts.

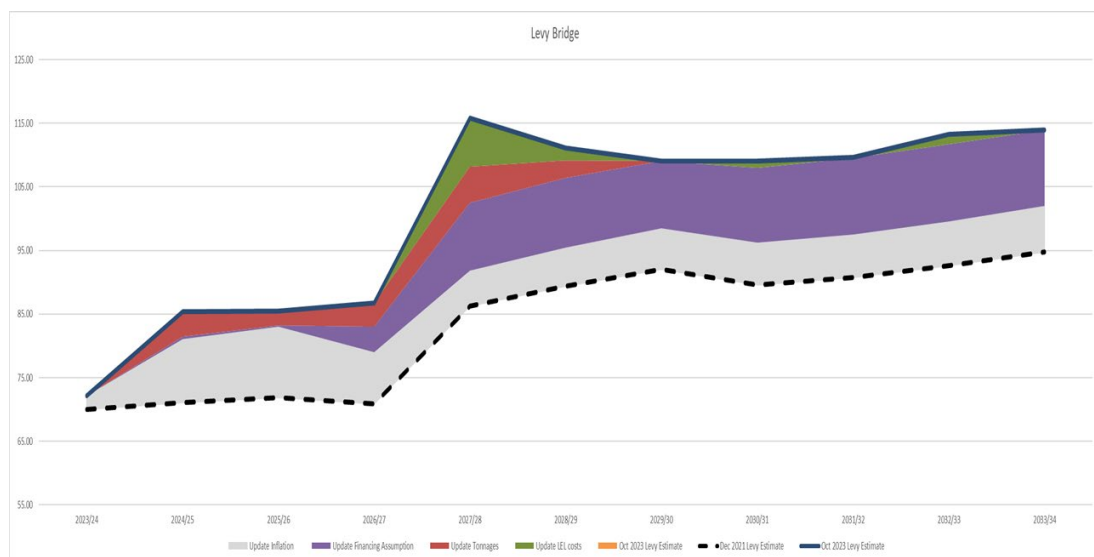
5.5.2. The Purple area represents the increase in the forecast due to the rise in interest rates. The Authority could now borrow from the Public Works Loan Board at 5.37% on Friday 1 December. This is significantly higher than the £970m already borrowed at an average of 2.4%. The 2021 model made cautious assumptions about interest rates for future borrowing, but no independent forecaster was advising of 4.5% increases in interest rates between July 2022 and September 2023. Authority officers and advisers will continue to develop proposals for the most cost-effective borrowing, but financing costs have risen since 2021. A positive aspect of long-term borrowing is that it fixes costs for the long term (in the case of the energy

recovery facility, borrowing will ultimately be over the life of the asset. Therefore, funding the borrowing elements of the Authority's cost will be fixed and decline in relative terms over time against inflation.

5.5.3. The red area represents an increase to tonnage assumptions, driven by both the Authority accepting LB Enfield recycling from April 2023 and the inclusion of borough reuse and recycling plans in the 2021 model. The latter made some assumptions regarding the introduction of the Government's Deposit Return Scheme and Extended Producer Responsibility, both of which have been delayed.

5.5.4. The Green area contains all other changes to assumptions, such as changes to operating costs and income.

5.5.5. The blue line at the top of the graph reflects the latest levy forecast.



## 6. NLHPP OUTTURN

6.1. In July 2019, the Programme Committee noted the baseline budget for the NLHPP at £1,220.6m based on March 2019 prices. The NLHPP will be delivered over a 12-year period including demolition of the existing energy from waste facility.

6.2. The latest overall forecast position is that the programme is expected to remain within the March 2019 baseline budget.

6.3. In line with the recommendations from the Corporate Peer Challenge, the Authority will also report the NLHPP forecasts in current prices, i.e. including inflation. In the April 2023 Authority paper, an outturn forecast was presented with the range of £1.42bn-£1.52bn.

- 6.4. The Authority has always included inflation estimates within supporting information provided relating to forecasts of future borough levies and considered in subsequent procurement decisions.
- 6.5. Despite the widespread inflationary impacts that the economy has faced, the upward pressure on the project's costs have been mitigated with the careful management of borrowing and appropriate risk sharing with contractors. Over 80% of costs for the project are now secured under contract, and it is possible to forecast the outturn cost with a degree of certainty. These contracts have been entered into before the rise in inflation began in 2022. In addition, the majority of borrowing for the project was undertaken at fixed rates while interest rates were at historically low levels.
- 6.6. Spend to date is £610m, with almost £1,277m of the forecast outturn already committed. This reflects the value of work agreed in contracts – including construction works, advisors, Authority direct costs and third-party fees.

| <b>Outturn cost (including inflation)</b> | <b>Actual Cost to Date</b> | <b>Estimate to Complete</b> | <b>Total</b>     |
|---|----------------------------|-----------------------------|------------------|
| Committed Base Cost                       | £610.1m                    | £666.6m                     | <b>£1,276.7m</b> |
| Uncommitted Base Cost                     |                            | £151.1m                     | <b>£151.1m</b>   |
| Contingency                               |                            | £80.2m                      | <b>£80.2m</b>    |
| <b>Total</b>                              | <b>£610.1m</b>             | <b>£ 897.9m</b>             | <b>£1,508.0m</b> |

The inflated outturn forecast is within the range of £1.42 billion to 1.52 billion. As future estimates of inflation change, the budget figure will be amended.

## **7. 2021/22 AUDIT STRATEGY MEMORANDUM**

- 7.1. The External Audit Strategy Memorandum for the 2021/22 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).
- 7.2. The report identifies two significant risks for consideration during the audit: management override of controls and the valuation of property, plant and equipment. The auditor's approach to testing these risks is outlined in section 4 of the Memorandum.
- 7.3. In addition, the report outlines the approach that will be taken in relation to the inclusion of LondonEnergy Ltd.'s audited accounts within the Authority's group

financial statements, and also the approach to review the work of the Authority's external valuers on items such as property plant and equipment valuations and the valuation of the pension defined benefit liability.

- 7.4. 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.
- 7.5. 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.
- 7.6. Following a planning meeting with Mazars, the audit has now begun, and it is hoped that a meeting of the Audit Committee will be called as soon as is practically possible, in early 2024.

## **8. CONCLUSION**

- 8.1. This update indicates that the 2023/24 budget remains sufficiently robust to meet the cost of the Authority's waste disposal obligations in the current year and balances at 31 March 2024 are likely to be £9.583m higher than was assumed when the budget was set in February 2023. There is no certainty that any further balances will emerge in 2024/25 and the forecast levy for 2025/26 to 2026/27 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.
- 8.2. In February 2024 it will be necessary for Members to take decisions to ensure that the 2024/25 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 2024 to review the assumptions underpinning the 2024/25 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 2024/25 will be reported to the budget and levy setting meeting in February.

## **9. EQUALITIES IMPLICATIONS**

- 9.1. 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.

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

- 10.1. 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 09 February 2023 – Budget and Levy 2023/24  
2023/24 budgetary control working papers

### **Contact officer:**

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North London Waste Authority  
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## **APPENDIX A: FY23/24 FORECAST VS OCTOBER FORECAST COMMENTARY**

**Composting Waste Services (£0.069m):** Savings driven primarily by a reduction in the average unit rate charged for mixed organic waste, (20.2%) reduction from October forecast.

**Transfer Stations & Other Sites (£0.284m):** Favourable movement due the recalculation of the rent capitalisation of the Wembley transfer site and maintenance project delayed to next financial year.

**Materials Recovery Facility (MRF) Services (£0.95m):** Cost saving on mixed recycling due to a reduction in forecast volumes of (2,941) tonnes (2.4%).

**Corporate and other Support Service Costs (£0.125m):** Favourable movement due to a combination of factors such as delayed recruitment, recalculation of internal recharges and reduction on other expenditures (non-staffing and projects).

**Waste Prevention and Communications Programme £0.082m:** Adverse variance due to increased communication campaign expenditure, funded by the one-off Contamination fund received under sales of Recyclates.

**Reuse and Recycling Centres £0.248m:** Adverse variance against October forecast triggered by multiple factors: Residual waste tonnage increased by 836 tons, contributing to adverse variance of £0.057m against the October forecast. The cost of operating sites increased by 4.88% (£0.144m) and net recycling cost increased by £61k from which £15k relates to decrease in recyclables revenue.

**Sale of Recyclates (£0.152m):** Favourable movement due to an increase in the price per tonne for the onward sale of recyclates compared to October forecast, and one-off recycling contamination fund credit received which is being used for Waste Prevention and Communications Programme.

**Interest on balances (£0.158m):** Increases in interest rates have meant that interest receivable is forecast to increase.

## Table A1 2023/24 Forecast Outturn

Table A1 shows the variance between the October update, budget (excluding rebate) and the current forecast.

|  | 2023/24<br>Budget<br>Excl. Rebate<br>£'000 | 2023/24<br>October<br>Forecast<br>£'000 | 2023/24<br>Current<br>Forecast<br>£'000 | Variance to<br>October<br>Forecast<br>£'000 | Variance to<br>Budget<br>£'000 |
|--|--|---|---|---|--------------------------------|
| <b>Expenditure</b>                                       |  |   |   |   |                                |
| Main Waste Disposal Contract (ex RRC Waste)              | 43,859                                     | 43,908                                  | 43,908                                  | 0   | 49                             |
| Composting Waste Services                                | 2,314                                      | 2,124                                   | 2,055                                   | (69)  | (259)                          |
| MRF Services   | 12,633                                     | 12,503                                  | 12,408                                  | (95)  | (225)                          |
| Transfer Station and Other Sites                         | 4,625                                      | 3,721                                   | 3,437                                   | (284)                                       | (1,188)                        |
| Corporate and Other Support Service Costs                | 5,372                                      | 5,485                                   | 5,359                                   | (125)                                       | (13)                           |
| Waste Prevention and Communications Programme            | 833  | 916                                     | 998                                     | 82  | 165                            |
| Recycling Initiatives                                    | 287  | 200                                     | 201                                     | 1   | (86)                           |
| North London Heat and Power Project                      | 600  | 603                                     | 603                                     | (0)   | 3                              |
| Carbon Capture & Storage                                 | 1,054                                      | 1,424                                   | 1,424                                   | 0   | 370                            |
| Revenue Funding – Capital Programme                      | 10,868                                     | 7,260                                   | 7,286                                   | 26  | (3,582)                        |
|  | 82,445                                     | 78,144                                  | 77,679                                  | (465)                                       | (4,766)                        |
| <b>Reuse and Recycling Centres Expenditure</b>           |  |   |   |   |                                |
| Residual Waste Disposal                                  | 1,368                                      | 1,167                                   | 1,202                                   | 34  | (166)                          |
| Operating Costs  | 4,086                                      | 4,185                                   | 4,399                                   | 214   | 313                            |
|  | 5,454                                      | 5,352                                   | 5,601                                   | 248   | 147                            |
| <b>Income</b>  |  |   |   |   |                                |
| Rents  | (137)                                      | (137)                                   | (135)                                   | 2   | 2                              |
| Sale of Recyclates                                       | (5,299)                                    | (4,953)                                 | (5,106)                                 | (152)                                       | 193                            |
| Income from LEL  | 0  | (10,000)                                | (10,000)                                | 0   | (10,000)                       |
| Interest on Balances                                     | (40)                                       | (40)                                    | (198)                                   | (158)                                       | (158)                          |
| Miscellaneous Income                                     | 0  | (9)                                     | (9)                                     | 0   | (9)                            |
|  | (5,476)                                    | (15,139)                                | (15,448)                                | (309)                                       | (9,972)                        |
| Net Expenditure  | 82,423                                     | 68,357                                  | 67,832                                  | (525)                                       | (14,591)                       |
| Contingency  | 2,648                                      | 2,448                                   | 2,448                                   | (0)   | (200)                          |
| <b>Total Net Expenditure</b>                             | <b>85,071</b>                              | <b>70,806</b>                           | <b>70,280</b>                           | <b>(525)</b>                                | <b>(14,791)</b>                |
| <b>Financed By</b>                                       |  |   |   |   |                                |
| Use of Balances  | (10,439)                                   | (15,881)                                | (15,881)                                | (0)   | (5,442)                        |
| Charges to Boroughs (Non-household waste)                | (8,949)                                    | (8,778)                                 | (8,686)                                 | 92  | 263                            |
| Charges to Boroughs (Chargeable Household Waste)         | (1,815)                                    | (1,679)                                 | (1,629)                                 | 50  | 186                            |
| 2023/24 Levy - Base Element                              | (58,336)                                   | (58,136)                                | (58,136)                                | 0   | 200                            |
| - Base Element Rebate                                    | 0  | 10,000                                  | 10,000                                  | 0   | 10,000                         |
| - RRC Element  | (5,532)                                    | (5,532)                                 | (5,532)                                 | 0   | 0                              |
| Total Levy   | (63,868)                                   | (53,668)                                | (53,668)                                | 0   | 10,200                         |
| <b>Total Resources Available</b>                         | <b>(85,071)</b>                            | <b>(80,006)</b>                         | <b>(79,864)</b>                         | <b>142</b>                                  | <b>5,207</b>                   |
| <b>Estimated Additional Revenue Balances at 31 March</b> | <b>0</b>                                   | <b>(9,200)</b>                          | <b>(9,584)</b>                          | <b>(383)</b>                                | <b>(9,584)</b>                 |

## TONNAGE FORECASTS

The tonnage in tables A2-A6 have been reviewed based on actual tonnage delivered in April to October 2023, and borough officers' own expectations for November 2023 to March 2024. Where officers are aware of planned service changes, these have been included in the forecast.

**Table A2 – 2023/24 residual waste tonnage forecast**

|                | <b>2023/24 Budget<br/>Tonnes</b> | <b>2023/24 Q2<br/>Forecast<br/>Tonnes</b> | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|----------------------------------|---|---|--------------------------|---------------------|
| Barnet         | 108,438                          | 106,869                                   | 105,382                                   | -1,487                   | -1.41               |
| Camden         | 69,561                           | 69,193                                    | 69,589                                    | +397                     | +0.57               |
| Enfield        | 85,020                           | 87,564                                    | 91,079                                    | +3,515                   | +3.86               |
| Hackney        | 84,137                           | 85,440                                    | 85,013                                    | -428                     | -0.50               |
| Haringey       | 69,697                           | 67,864                                    | 70,287                                    | +2,424                   | +3.45               |
| Islington      | 68,447                           | 68,512                                    | 68,279                                    | -232                     | -0.34               |
| Waltham Forest | 65,048                           | 64,425                                    | 65,965                                    | +1,540                   | +2.33               |
| <b>Total</b>   | <b>550,348</b>                   | <b>549,867</b>                            | <b>555,595</b>                            | <b>5,729</b>             | <b>+1.03</b>        |

**Table A3 – 2023/24 mixed organic waste tonnage forecast**

|                | <b>2023/24 Budget<br/>Tonnes</b> | <b>2023/24 Q2<br/>Forecast<br/>Tonnes</b> | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|----------------------------------|---|---|--------------------------|---------------------|
| Barnet         | 0                                | 0   | 0   | +0                       | N/A                 |
| Camden         | 0                                | 0   | 0   | +0                       | N/A                 |
| Enfield        | 0                                | 0   | 0   | +0                       | N/A                 |
| Hackney        | 0                                | 0   | 6   | +6                       | +100.00             |
| Haringey       | 192                              | 282                                       | 256                                       | -26                      | -10.32              |
| Islington      | 4,170                            | 3,652                                     | 4,232                                     | +580                     | +13.71              |
| Waltham Forest | 8,941                            | 8,721                                     | 8,882                                     | +161                     | +1.81               |
| <b>Total</b>   | <b>13,303</b>                    | <b>12,655</b>                             | <b>13,376</b>                             | <b>+721</b>              | <b>+5.39</b>        |

**Table A4 2023/24 Food waste tonnage forecast –**

|                | <b>2023/24 Budget<br/>Tonnes</b> | <b>2023/24 Q2<br/>Forecast<br/>Tonnes</b> | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|----------------------------------|---|---|--------------------------|---------------------|
| Barnet         | 0                                | 0   | 4   | +4                       | +100.00             |
| Camden         | 2,900                            | 2,816                                     | 3,080                                     | +265                     | +8.60               |
| Enfield        | 7,900                            | 7,082                                     | 6,951                                     | -131                     | -1.88               |
| Hackney        | 5,597                            | 4,888                                     | 4,777                                     | -111                     | -2.32               |
| Haringey       | 3,846                            | 3,486                                     | 3,421                                     | -64                      | -1.88               |
| Islington      | 0                                | 0   | 0   | +0                       | N/A                 |
| Waltham Forest | 492                              | 400                                       | 272                                       | -128                     | -47.16              |
| <b>Total</b>   | <b>20,735</b>                    | <b>18,671</b>                             | <b>18,506</b>                             | <b>-166</b>              | <b>-0.90</b>        |

**Table A5 – 2023/24 Garden waste tonnage forecast**

|                | <b>2023/24 Budget<br/>Tonnes</b> | <b>2023/24 Q2<br/>Forecast<br/>Tonnes</b> | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|----------------------------------|---|---|--------------------------|---------------------|
| Barnet         | 12,349                           | 12,618                                    | 12,621                                    | +3                       | +0.03               |
| Camden         | 1,793                            | 2,090                                     | 2,089                                     | -1                       | -0.06               |
| Enfield        | 6,900                            | 6,579                                     | 6,743                                     | +164                     | +2.43               |
| Hackney        | 2,681                            | 2,842                                     | 2,599                                     | -243                     | -9.36               |
| Haringey       | 2,579                            | 2,561                                     | 2,732                                     | +171                     | +6.25               |
| Islington      | 418                              | 551                                       | 706                                       | +155                     | +21.96              |
| Waltham Forest | 193                              | 467                                       | 585                                       | +118                     | +20.13              |
| <b>Total</b>   | <b>26,914</b>                    | <b>27,708</b>                             | <b>28,075</b>                             | <b>+366</b>              | <b>+1.30</b>        |

**Table A6 – 2023/24 MDR tonnage forecast**

|                | <b>2023/24 Budget<br/>Tonnes</b> | <b>2023/24 Q2<br/>Forecast<br/>Tonnes</b> | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|----------------------------------|---|---|--------------------------|---------------------|
| Barnet         | 26,553                           | 25,759                                    | 25,446                                    | -312                     | -1.23               |
| Camden         | 15,546                           | 15,362                                    | 15,114                                    | -247                     | -1.64               |
| Enfield        | 20,000                           | 17,616                                    | 17,411                                    | -205                     | -1.18               |
| Hackney        | 18,386                           | 17,505                                    | 17,337                                    | -168                     | -0.97               |
| Haringey       | 18,459                           | 16,865                                    | 16,673                                    | -191                     | -1.15               |
| Islington      | 14,539                           | 14,245                                    | 14,177                                    | -68                      | -0.48               |
| Waltham Forest | 18,198                           | 18,015                                    | 16,266                                    | -1,749                   | -10.75              |
| <b>Total</b>   | <b>131,681</b>                   | <b>125,366</b>                            | <b>122,425</b>                            | <b>-2,941</b>            | <b>-2.40</b>        |

**Table A7 – Non-household waste Charges by Borough**

|                | <b>2023/24<br/>Budget<br/>Estimate<br/>£'000</b> | <b>2023/24<br/>Current<br/>Forecast<br/>£'000</b> | <b>Repayment<br/>due (to) / from<br/>borough<br/>£'000</b> |
|----------------|--|---|--|
| Barnet         | 1,289  | 1,045   | (244)  |
| Camden*        | 1,773  | 2,391   | 618  |
| Enfield        | 1,025  | 923   | (102)  |
| Hackney*       | 2,244  | 1,860   | (384)  |
| Haringey *     | 323  | 322   | (1)  |
| Islington *    | 2,130  | 1,991   | (140)  |
| Waltham Forest | 165  | 154   | (11)   |
| <b>Total</b>   | <b>8,949</b>                                     | <b>8,686</b>                                      | <b>(263)</b>   |

\* Including income from non-household recyclable wastes.

**Table A8 – Chargeable household waste charges by borough**

|                | <b>2023/24<br/>Budget<br/>Estimate<br/>£'000</b> | <b>2023/24<br/>Current<br/>Forecast<br/>£'000</b> | <b>Repayment<br/>due (to) /<br/>from borough<br/>£'000</b> |
|----------------|--|---|--|
| Barnet         | 245  | 212   | (33)   |
| Camden*        | 125  | 75  | (50)   |
| Enfield        | 158  | 146   | (12)   |
| Hackney*       | 653  | 595   | (59)   |
| Haringey *     | 291  | 275   | (16)   |
| Islington *    | 342  | 326   | (16)   |
| Waltham Forest | 0  | 0   | 0  |
| <b>Total</b>   | <b>1,815</b>                                     | <b>1,629</b>                                      | <b>(186)</b>   |

\* Including income from non-household recyclable wastes.

### Table A9 - RRC Balances available at year end

Re-use and Recycling Centre (RRCs) Balances at 31 March 2023 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.

Balances with brackets at 31 March 2024 indicate an estimate of balances owed to the borough by the Authority and balances without brackets are a balance owed by the borough to the Authority.

|                | Revised RRC<br>Balances at 1<br>April 2023 | Total<br>Operating<br>Costs –<br>2023/24<br>Original<br>Budget | Total<br>Operating<br>Costs -<br>2023/24<br>Current<br>Forecast | Change in<br>2023/24<br>Total<br>Operating<br>Costs | Estimated<br>RRC Balances<br>at 31 March<br>2024<br>(Column 1<br>plus 4) |
|----------------|--|--|---|---|--|
|                | 1  | 2  | 3   | 4   |  |
|                | £'000                                      | £'000  | £'000   | £'000   | £'000  |
| Barnet         | 13   | 1,131  | 1,299   | 168   | 181  |
| Camden         | (35)                                       | 735  | 766   | 32  | (3)  |
| Enfield*       | (36)                                       | 308  | 254   | (54)  | (90)   |
| Hackney        | (12)                                       | 255  | 238   | (17)  | (29)   |
| Haringey       | (7)  | 714  | 837   | 123   | 116  |
| Islington      | (12)                                       | 819  | 842   | 23  | 11   |
| Waltham Forest | (66)                                       | 1,570  | 1,462   | (108)   | (174)  |
| <b>Total</b>   | <b>(154)</b>                               | <b>5,532</b>   | <b>5,698</b>  | <b>166</b>  | <b>12</b>  |

### Table A10 - Base levy balances by borough

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.

Balances with brackets at 31 March 2024 indicate an estimate of balances owed to the borough by the Authority.

|                | Revised<br>balance at<br>1 April<br>2023 | 2023/24<br>Budget<br>Levy Costs | 2023/24<br>Levy Costs<br>Current<br>Forecast | Forecast<br>Change in<br>2023/24<br>Levy Costs | Estimated<br>Balance at<br>31 March<br>2024<br>(Column 1<br>plus 4) |
|----------------|--|---------------------------------|--|--|---|
|                | 1  | 2                               | 3  | 4  |   |
|                | £'000                                    | £'000                           | £'000  | £'000  | £'000   |
| Barnet         | (1,249)                                  | 9,642                           | 8,622  | (1,020)  | (2,268)   |
| Camden         | (934)                                    | 6,601                           | 5,488  | (1,113)  | (2,047)   |
| Enfield        | (603)                                    | 8,493                           | 8,255  | (237)  | (841)   |
| Hackney        | (586)                                    | 5,748                           | 5,509  | (240)  | (825)   |
| Haringey       | (733)                                    | 6,202                           | 5,593  | (609)  | (1,342)   |
| Islington      | (391)                                    | 4,679                           | 4,244  | (435)  | (826)   |
| Waltham Forest | (792)                                    | 6,770                           | 6,117  | (653)  | (1,445)   |
| <b>Total</b>   | <b>(5,288)</b>                           | <b>48,136</b>                   | <b>43,828</b>                                | <b>(4,307)</b>                                 | <b>(9,595)</b>  |

\*Balances include the £10m rebate

**APPENDIX B: TABLE B1 – 2023/24 & 2024/25 COMPARISON**

|  | <b>2023/24<br/>Budget<br/>Excl. Rebate<br/>£'000</b> | <b>2024/25<br/>Current<br/>Forecast<br/>£'000</b> | <b>Variance<br/>£'000</b> |
|--|--|---|---------------------------|
| <b>Expenditure</b>                                       |  |   |                           |
| Main Waste Disposal Contract (ex RRC Waste)              | 43,859   | 46,680  | 2,821                     |
| Composting Waste Services                                | 2,314  | 2,090   | (224)                     |
| MRF Services   | 12,633   | 12,731  | 98                        |
| Transfer Station and Other Sites                         | 4,625  | 5,409   | 784                       |
| Corporate and Other Support Service Costs                | 5,372  | 6,183   | 811                       |
| Waste Prevention and Communications Programme            | 833  | 820   | (13)                      |
| Recycling Initiatives                                    | 287  | 207   | (80)                      |
| North London Heat and Power Project                      | 600  | 633   | 33                        |
| Carbon Capture & Storage                                 | 1,054  | 1,479   | 425                       |
| Revenue Funding – Capital Programme                      | 10,868   | 14,631  | 3,763                     |
|  | <b>82,445</b>  | <b>90,863</b>                                     | <b>8,418</b>              |
| <b>Reuse and Recycling Centres Expenditure</b>           |  |   |                           |
| Residual Waste Disposal                                  | 1,368  | 1,255   | (113)                     |
| Operating Costs  | 4,086  | 4,614   | 528                       |
|  | <b>5,454</b>   | <b>5,869</b>                                      | <b>415</b>                |
| <b>Income</b>  |  |   |                           |
| Rents  | (137)  | (141)   | (4)                       |
| Sale of Recyclates                                       | (5,299)  | (4,477)   | 822                       |
| Income from LEL  | 0  | 0   | 0                         |
| Interest on Balances                                     | (40)   | (198)   | (158)                     |
| Miscellaneous Income                                     | 0  | 0   | 0                         |
|  | <b>(5,476)</b>                                       | <b>(4,816)</b>                                    | <b>660</b>                |
| Net Expenditure  | 82,423   | 91,916  | 9,493                     |
| Contingency  | 2,648  | 2,838   | 190                       |
| <b>Total Net Expenditure</b>                             | <b>85,071</b>  | <b>94,754</b>                                     | <b>9,683</b>              |
|  |  | 9,683   |                           |
| <b>Financed By</b>                                       |  |   |                           |
| Use of Balances  | (10,439)   | (9,583)   | 856                       |
| Charges to Boroughs (Non-household waste)                | (8,949)  | (10,438)  | (1,489)                   |
| Charges to Boroughs (Chargeable Household Waste)         | (1,815)  | (1,950)   | (135)                     |
| 2023/24 Levy - Base Element                              | (58,336)   | (66,903)  | (8,567)                   |
| - Base Element Rebate                                    | 0  | 0   | 0                         |
| - RRC Element  | (5,532)  | (5,881)   | (349)                     |
| Total Levy   | (63,868)   | (72,784)  | (8,916)                   |
| <b>Total Resources Available</b>                         | <b>(85,071)</b>                                      | <b>(94,754)</b>                                   | <b>(9,683)</b>            |
| <b>Estimated Additional Revenue Balances at 31 March</b> | <b>0</b>   | <b>(0)</b>  | <b>(0)</b>                |



**Table B2 – 2024/25 residual waste tonnage forecast**

|                | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>2024/25<br/>Revised<br/>Budget<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|---|--|--------------------------|---------------------|
| Barnet         | 105,382                                   | 106,269  | +887                     | +0.84               |
| Camden         | 69,589                                    | 69,937   | +348                     | +0.50               |
| Enfield        | 91,079                                    | 91,079   | +0                       | +0.00               |
| Hackney        | 85,013                                    | 85,013   | +0                       | +0.00               |
| Haringey       | 70,287                                    | 70,264   | -24                      | -0.03               |
| Islington      | 68,279                                    | 68,279   | +0                       | +0.00               |
| Waltham Forest | 65,965                                    | 64,460   | -1,505                   | -2.28               |
| <b>Total</b>   | <b>555,595</b>                            | <b>555,302</b>                                   | <b>-294</b>              | <b>-0.05</b>        |

**Table B3 – 2024/25 mixed organic waste tonnage forecast**

|                | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>2024/25<br/>Revised<br/>Budget<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|---|--|--------------------------|---------------------|
| Barnet         | 0   | 0  | +0                       | +0.00               |
| Camden         | 0   | 0  | +0                       | +0.00               |
| Enfield        | 0   | 0  | +0                       | +0.00               |
| Hackney        | 6   | 0  | -6                       | -100.00             |
| Haringey       | 256                                       | 246  | -10                      | -3.77               |
| Islington      | 4,232                                     | 4,232  | +0                       | +0.00               |
| Waltham Forest | 8,882                                     | 4,377  | -4,506                   | -50.73              |
| <b>Total</b>   | <b>13,376</b>                             | <b>8,855</b>                                     | <b>-4,521</b>            | <b>-33.80</b>       |

**Table B4 2024/25 Food waste tonnage forecast**

|                | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>2024/25<br/>Revised<br/>Budget<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|---|--|--------------------------|---------------------|
| Barnet         | 4   | 0  | -4                       | -100.00             |
| Camden         | 3,080                                     | 3,111  | +31                      | +1.00               |
| Enfield        | 6,951                                     | 6,951  | +0                       | +0.00               |
| Hackney        | 4,777                                     | 4,777  | +0                       | +0.00               |
| Haringey       | 3,421                                     | 3,546  | +124                     | +3.64               |
| Islington      | 0   | 0  | +0                       | +0.00               |
| Waltham Forest | 272                                       | 1,905  | +1,633                   | +600.57             |
| <b>Total</b>   | <b>18,506</b>                             | <b>20,290</b>                                    | <b>1,785</b>             | <b>+9.64</b>        |

**Table B5 – 2024/25 Garden waste tonnage forecast**

|                | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>2024/25<br/>Revised<br/>Budget<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|---|--|--------------------------|---------------------|
| Barnet         | 12,621                                    | 12,618   | -3                       | -0.03               |
| Camden         | 2,089                                     | 2,090  | +1                       | +0.06               |
| Enfield        | 6,743                                     | 6,743  | +0                       | +0.00               |
| Hackney        | 2,599                                     | 2,599  | +0                       | +0.00               |
| Haringey       | 2,732                                     | 2,732  | +0                       | +0.00               |
| Islington      | 706                                       | 706  | +0                       | +0.00               |
| Waltham Forest | 585                                       | 4,569  | +3,984                   | +680.99             |
| <b>Total</b>   | <b>28,075</b>                             | <b>32,056</b>                                    | <b>3,982</b>             | <b>+14.18</b>       |

**Table B6 – 2024/25 MDR tonnage forecast**

|                | <b>2023/24 Q3<br/>Forecast<br/>Tonnes</b> | <b>2024/25<br/>Revised<br/>Budget<br/>Tonnes</b> | <b>Change<br/>Tonnes</b> | <b>Change<br/>%</b> |
|----------------|---|--|--------------------------|---------------------|
| Barnet         | 25,446                                    | 25,759   | +312                     | +1.23               |
| Camden         | 15,114                                    | 15,362   | +247                     | +1.64               |
| Enfield        | 17,411                                    | 17,411   | +0                       | +0.00               |
| Hackney        | 17,337                                    | 17,337   | +0                       | +0.00               |
| Haringey       | 16,673                                    | 16,985   | +311                     | +1.87               |
| Islington      | 14,177                                    | 14,245   | +68                      | +0.48               |
| Waltham Forest | 16,266                                    | 16,266   | +0                       | +0.00               |
| <b>Total</b>   | <b>122,425</b>                            | <b>123,364</b>                                   | <b>939</b>               | <b>+0.77</b>        |

**Table B7 – 2024/25 Non-household waste Charges by Borough**

|                 | <b>2024/25<br/>Estimated<br/>Tonnes</b> | <b>2024/25<br/>Estimated<br/>Cost<br/>£'000</b> |
|-----------------|---|---|
| Barnet*         | 10,363                                  | 1,270   |
| Camden*         | 25,973                                  | 2,855   |
| Enfield         | 9,017                                   | 1,124   |
| Hackney*        | 19,700                                  | 2,234   |
| Haringey *      | 3,435                                   | 386   |
| Islington *     | 20,626                                  | 2,383   |
| Waltham Forest* | 1,558                                   | 186   |
| <b>Total</b>    | <b>90,672</b>                           | <b>10,438</b>                                   |

**Table B8 – 2024/25 Chargeable household waste charges by borough**

|                  | <b>2024/25<br/>Estimated<br/>Tonnes</b> | <b>2024/25<br/>Estimated<br/>Cost<br/>£'000</b> |
|------------------|---|---|
| Barnet           | 2,074                                   | 259   |
| Camden           | 820                                     | 90  |
| Enfield          | 1,429                                   | 178   |
| Hackney          | 6,386                                   | 713   |
| Haringey         | 2,881                                   | 328   |
| Islington        | 3,547                                   | 382   |
| Waltham Forest * | 0                                       | 0   |
| <b>Total</b>     | <b>17,137</b>                           | <b>1,950</b>                                    |

**Table B9 – 2024/25 RRC**

|                | <b>Forecast<br/>RRC<br/>Balances at<br/>1 April 2024<br/>£'000</b> | <b>2024/25<br/>Estimated<br/>costs<br/>£'000</b> | <b>2024/25<br/>Estimated<br/>Levy<br/>£'000</b> |
|----------------|--|--|---|
| Barnet         | 181  | 1,350  | 1,531   |
| Camden         | (3)  | 737  | 734   |
| Enfield*       | (90)   | 264  | 174   |
| Hackney        | (29)   | 261  | 232   |
| Haringey       | 116  | 904  | 1,020   |
| Islington      | 11   | 892  | 903   |
| Waltham Forest | (174)  | 1,461  | 1,287   |
| <b>Total</b>   | <b>12</b>  | <b>5,869</b>                                     | <b>5,881</b>                                    |

**Table B10 2024/25 Base Levy**

|                | <b>Forecast<br/>Balances at<br/>1 April 2024<br/>£'000</b> | <b>2024/25<br/>Estimated Levy<br/>Requirement<br/>£'000</b> | <b>2024/25<br/>Estimated<br/>Levy<br/>£'000</b> |
|----------------|--|---|---|
| Barnet         | (2,268)  | 15,896  | 13,628  |
| Camden         | (2,047)  | 8,006   | 5,959   |
| Enfield        | (841)  | 13,053  | 12,212  |
| Hackney        | (825)  | 10,256  | 9,431   |
| Haringey       | (1,342)  | 10,488  | 9,146   |
| Islington      | (826)  | 8,131   | 7,305   |
| Waltham Forest | (1,445)  | 10,669  | 9,224   |
| <b>Total</b>   | <b>(9,595)</b>   | <b>76,499</b>   | <b>66,904</b>                                   |

## APPENDIX C: TABLE C1 – 2025/26 & 2026/27 Budget Forecast

|  | 2025/26<br>Current<br>Forecast<br>£'000 | 2026/27<br>Current<br>Forecast<br>£'000 |
|--|---|---|
| <b>Expenditure</b>                                       |   |   |
| Main Waste Disposal Contract (ex RRC Waste)              | 47,847                                  | 49,043                                  |
| Composting Waste Services                                | 2,135                                   | 2,181                                   |
| MRF Services   | 12,991                                  | 13,256                                  |
| Transfer Station and Other Sites                         | 5,467                                   | 5,604                                   |
| Corporate and Other Support Service Costs                | 6,279                                   | 6,436                                   |
| Waste Prevention and Communications Programme            | 841                                     | 862                                     |
| Recycling Initiatives                                    | 212                                     | 218                                     |
| North London Heat and Power Project                      | 649                                     | 666                                     |
| Carbon Capture & Storage                                 | 2,091                                   | 1,261                                   |
| Revenue Funding – Capital Programme                      | 14,947                                  | 14,827                                  |
|  | 93,460                                  | 94,354                                  |
| <b>Reuse and Recycling Centres Expenditure</b>           |   |   |
| Residual Waste Disposal                                  | 1,286                                   | 1,318                                   |
| Operating Costs  | 4,730                                   | 4,848                                   |
|  | 6,016                                   | 6,166                                   |
| <b>Income</b>  |   |   |
| Rents  | (144)                                   | (148)                                   |
| Sale of Recyclates                                       | (4,566)                                 | (4,658)                                 |
| Income from LEL  | 0                                       | 0                                       |
| Interest on Balances                                     | (203)                                   | (208)                                   |
| Miscellaneous Income                                     | 0                                       | 0                                       |
|  | (4,914)                                 | (5,014)                                 |
| Net Expenditure  | 94,561                                  | 95,507                                  |
| Contingency  | 2,891                                   | 2,910                                   |
| <b>Total Net Expenditure</b>                             | <b>97,453</b>                           | <b>98,417</b>                           |
|  | 2.8%                                    | 1.0%                                    |
| <b>Financed By</b>                                       |   |   |
| Use of Balances  | 0                                       | 0                                       |
| Charges to Boroughs (Non-household waste)                | (10,749)                                | (10,828)                                |
| Charges to Boroughs (Chargeable Household Waste)         | (2,007)                                 | (2,023)                                 |
| 2023/24 Levy - Base Element                              | (78,680)                                | (79,400)                                |
| - Base Element Rebate                                    | 0                                       | 0                                       |
| - RRC Element  | (6,016)                                 | (6,166)                                 |
| Total Levy   | (84,696)                                | (85,566)                                |
| <b>Total Resources Available</b>                         | <b>(97,453)</b>                         | <b>(98,417)</b>                         |
| <b>Estimated Additional Revenue Balances at 31 March</b> | <b>(0)</b>                              | <b>(0)</b>                              |

# Audit Strategy Memorandum

North London Waste Authority

Year ended 31 March 2022



# Contents

- 01** Engagement and responsibilities summary
- 02** Your audit engagement team
- 03** Audit scope, approach and timeline
- 04** Significant risks and other key judgement areas
- 05** Value for Money
- 06** Fees for audit and other services
- 07** Our commitment to independence
- 08** Materiality and misstatements

Appendix – Key communication points

This document is to be regarded as confidential to North London Waste Authority. It has been prepared for the sole use of the Audit Committee as the appropriate sub-committee charged with governance. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

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

3 November 2023

Dear Audit Committee Members

## **Audit Strategy Memorandum – Year ended 31 March 2022**

We are pleased to present our Audit Strategy Memorandum for North London Waste Authority (the Authority) for the year ended 31 March 2022. The purpose of this document is to summarise our audit approach, highlight 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 8 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. Our detailed planning procedures are in progress and if we identify any new risks we will reporting them to the Committee. This document also contains an appendix that outlines our key communications with you during the course of the audit,

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 me on .

Yours faithfully



Suresh Patel, Partner - Mazars LLP

Mazars LLP – 30 Old Bailey, London, EC4M 7AU

Tel: 020 7063 4000 – Fax: 020 7063 4001 – [www.mazars.co.uk](http://www.mazars.co.uk)

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We are registered to carry on audit work in the UK by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at [www.auditregister.org.uk](http://www.auditregister.org.uk) under reference number C001139861. VAT number: 839 8356 73

Mazars LLP  
30 Old Bailey  
London  
EC4M 7AU

# 01

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 2022. 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.psa.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 it is appropriate for the Authority to prepare its 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.



### 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.



### 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.

### 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.



### 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.

Engagement and responsibilities summary

Your audit engagement team

Audit scope, approach and timeline

Significant risks and key judgement areas

Value for money

Fees for audit and other services

Our commitment to independence

Materiality and misstatements

Appendices


# 02

Section 02:

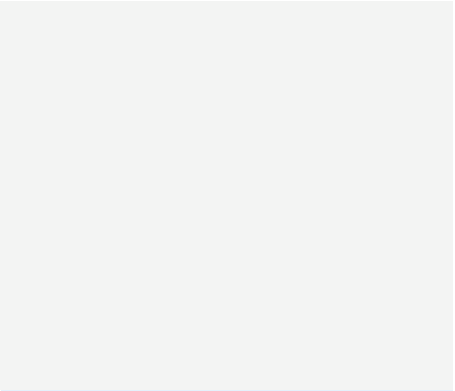
**Your audit engagement team**

# 2. Your audit engagement team

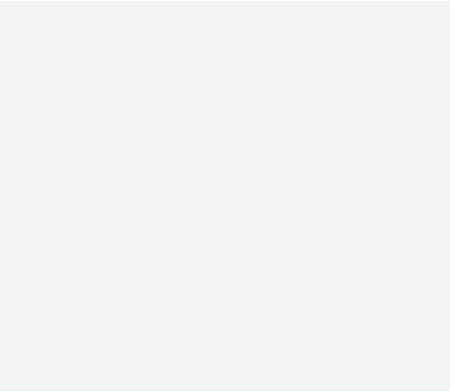
We have made a change to your engagement team for the 2021/22 accounts audit. Suresh Patel remains as your engagement partner but Tom Greensill comes in as your audit manager. Tom will be supported by Katie O’Leary.



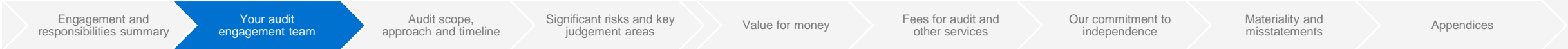
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# 03

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.

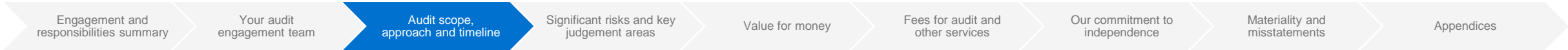
## Audit approach

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 of tests of details (of classes of transactions, account balances, and disclosures), and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which takes 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.

Our audit will be planned and performed so as 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

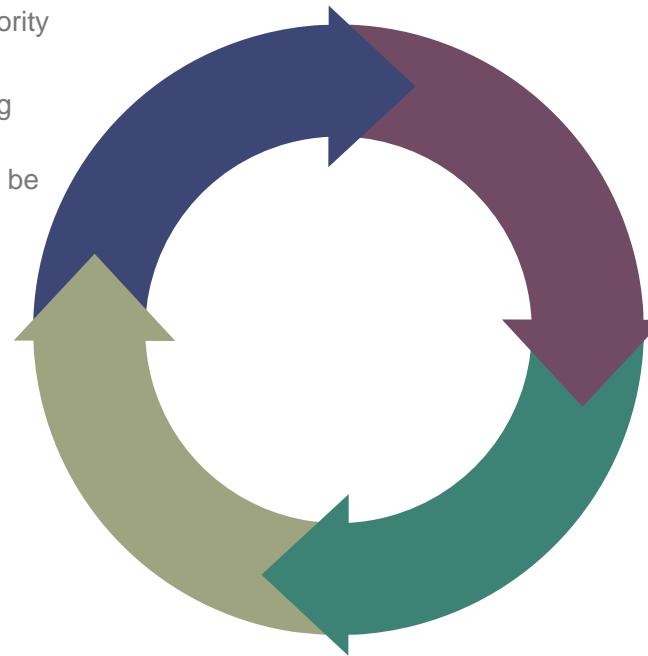
We include a provisional timeline which we have discussed with the Director of Corporate Services.

## Planning – October 2023

- 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 audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

## Completion - January 2024

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

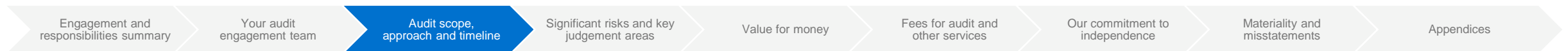


## Interim - October 2023

- Documenting systems and controls
- Performing walkthroughs
- Documenting our understanding of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary

## Fieldwork – November 2023

- Receiving and reviewing 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

## Group audit approach

The Authority’s group structure for 2021/22 has not changed from the prior year. LondonEnergy Limited (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 |
|----------------------|---------------------|------------------|---------------------|---------|
| LondonEnergy Limited | Yes                 | No               | Full Audit          | BDO     |



### 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 controls evaluation procedures.

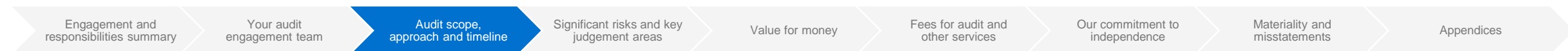
#### Service Organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the [Council] 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. We have not identified any relevant service organisations.

#### 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 expert   |
|---|---|--|
| Defined benefit liability   | Barnett Waddingham<br><i>(London Pension Fund Authority - LPFA)</i> | 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 valuation                                 | 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.  |
| 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).<br><br>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. |





# 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

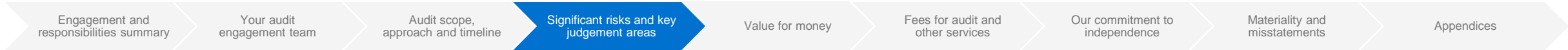
An enhanced risk is an area of higher assessed risk of material misstatement (‘RMM’) at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

- 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.



# 4. Significant risks and other key judgement areas

## Summary risk assessment

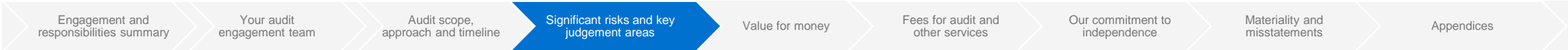
The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Authority. We have summarised our audit response to these risks on the next page.



### Significant Risks

- 1 Management override of controls
- 2 Valuation of property, plant and equipment

Key: ● Significant risk ● Enhanced risk/ significant management judgement



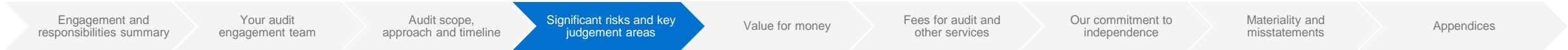
# 4. Significant risks and other key judgement areas

## 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

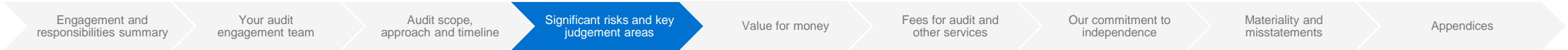
|   | Description   | Fraud | Error | Judgement | Planned response  |
|---|---|-------|-------|-----------|---|
| 1 | <p><b>Management override of controls</b></p> <p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management 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.</p> | ●     | ○     | ○         | <p>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.</p> <p>We will address the risk through performing audit procedures, covering a range of areas including (but not limited to):</p> <ul style="list-style-type: none"> <li>• accounting estimates included in the financial statements for evidence of management bias;</li> <li>• any significant transactions outside the normal course of business; and</li> <li>• a sample of journals and other adjustments recorded in the general ledger in preparing the financial statements that meet our specified risk criteria.</li> </ul> |



# 4. Significant risks and other key judgement areas

## Significant risks

|   | Description  | Fraud | Error | Judgement | Planned response  |
|---|--|-------|-------|-----------|---|
| 2 | <p><b>Property, plant and equipment (PPE) valuation</b></p> <p>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.</p> <p>The draft accounts show Land and buildings with a value of £167m and assets under construction at £85m. Land and buildings primarily being made up of the Edmonton EcoPark and Pinkham Way and Hornsey Street sites (valued on DRC basis), and Assets Under Construction relating almost entirely to the North London Heat and Power Project.</p> <p>These are revalued by external valuation expert.</p> <p>Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.</p> | ○     | ●     | ●         | <p>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.</p> <p>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.</p> <p>In addition, for those assets which have been revalued during the year we will:</p> <ul style="list-style-type: none"> <li>• Assess the valuer’s qualifications;</li> <li>• Assess the valuer’s objectivity and independence;</li> <li>• Review the methodology used;</li> <li>• Perform testing of the associated underlying data and assumptions; and</li> <li>• Follow up on the recommendations we made in the prior year audit conclusion report regarding PPE valuations.</li> </ul> |



# 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) 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.

In line with 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 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.



|                                     |   |
|-------------------------------------|---|
| <b>Planning and risk assessment</b> | <p>Obtaining an understanding of the Authority's arrangements for each specified reporting criteria. Relevant information sources will include:</p> <ul style="list-style-type: none"> <li>• NAO guidance and supporting information</li> <li>• Information from internal and external sources including regulators</li> <li>• Knowledge from previous audits and other audit work undertaken in the year</li> <li>• Interviews and discussions with staff and members</li> </ul> |
|-------------------------------------|---|

|  |  |
|--|--|
| <b>Additional risk-based procedures and evaluation</b> | <p>Where our planning work identifies risks of significant weaknesses, we will undertake additional procedures to determine whether there is a significant weakness.</p> |
|--|--|

|                  |  |
|------------------|--|
| <b>Reporting</b> | <p>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.</p> <p>Our commentary will also highlight:</p> <ul style="list-style-type: none"> <li>• Significant weaknesses identified and our recommendations for improvement</li> <li>• Emerging issues or other matters that do not represent significant weaknesses but still require attention from the Authority.</li> </ul> |
|------------------|--|

### Status of the VFM work

At the time of drafting this document we have yet to complete our planning and risk assessment work. We will report the results of our planning and risk assessment work to the next Audit Committee. We had no matters to follow up from the prior year.

# 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 include below our current view on the audit fee for 2021/22 and include as a comparison the fees that we agreed with the Director of Corporate Services for the 2020/21 audit.

| Area of work   | 2021/22 Proposed Fee | 2020/21 Actual Fee |
|--|----------------------|--------------------|
| Code Audit Work (Scale fee)  | £14,068              | £14,068            |
| Scale fee variations:  |                      |                    |
| - Increased regulatory requirements (Note 1)                       | £6,195               | £5,900             |
| - Correspondence from members of the public (Note 2)               | TBC                  | £1,470             |
| - Group accounts (Note 3)  | £5,250               | £5,000             |
| - Code changes to value for money (Note 4)                         | £6,000-£11,000       | £6,000             |
| - Non-current asset valuations expert and additional work (Note 5) | £2,000-5,000         | £5,750             |
| - Revised auditing standard on accounting estimates (Note 6)       | £2,200-£4,000        | £2,200             |
| <b>TOTAL FEES</b>  | <b>TBC</b>           | <b>£40,488</b>     |

#### 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 additional 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.
5. In 2020/21 we engaged our valuation experts as part of auditing the valuation of PPE.
6. 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.

# 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:

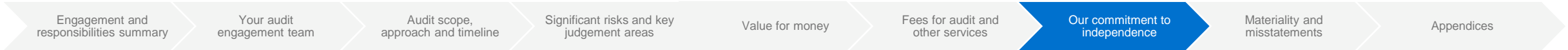
- All partners and staff are required to complete an annual independence declaration;
- All new partners and staff are required to complete an independence confirmation and also complete computer based ethical training;
- Rotation policies covering audit engagement partners and other key members of the 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 Patel in the first instance.

Prior to the provision of any non-audit services Suresh Patel 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 £'000s | Authority Initial threshold £'000s |
|--|--------------------------------|------------------------------------|
| Overall materiality                            | 1,657                          | 1,218                              |
| Performance materiality                        | 1,326                          | 974                                |
| Trivial threshold for errors to be reported to | 50                             | 37                                 |

## 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;
- Recognise 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.

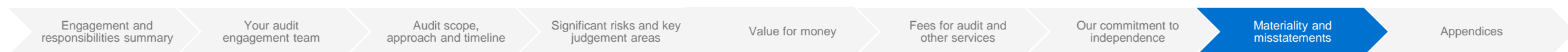
Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and 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 provisional materiality is set based on a benchmark of Gross Revenue Expenditure. 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 2021/22 accounts the overall materiality for the year ended 31 March 2022 is £1,657k for the Group accounts (£1,436k in 2020-21) and £1,218k (£1,129k in 2020-21) 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 consistent with the percentage applied in the prior year audit. In 2021-22, the performance materiality for the Authority is £974k (£904k in 2020-21), and for the group is £1,326k (£1,149k in 2020-21).

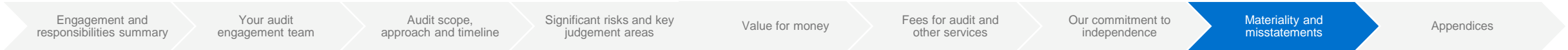
## Misstatements

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 £50k for the Group and £37k 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 Patel.

## 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).





## 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.

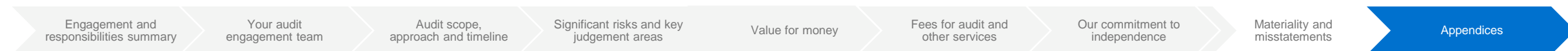
## Key communication points at the planning stage as included in this Audit Strategy Memorandum

- 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.

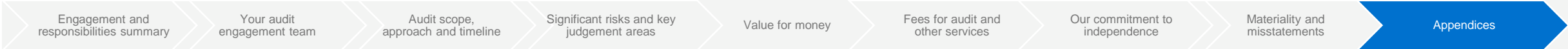




# Appendix: Key communication points

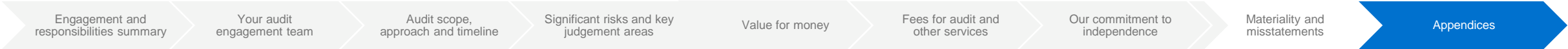
ISA (UK) 260 'Communication with Those Charged with Governance', ISA (UK) 265 'Communicating Deficiencies In Internal Control To Those Charged With Governance And Management' and other ISAs (UK) specifically require us to communicate the following:

| 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: <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion;</li> <li>• The effect of uncorrected misstatements related to prior periods;</li> <li>• A request that any uncorrected misstatement is corrected; and</li> <li>• In writing, corrected misstatements that are significant.</li> </ul>   | Audit Completion Report   |
| With respect to fraud communications: <ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity;</li> <li>• Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and</li> <li>• A discussion of any other matters related to fraud.</li> </ul> | Audit Completion Report and discussion at Audit Committee.<br>Audit Planning and Clearance meetings |



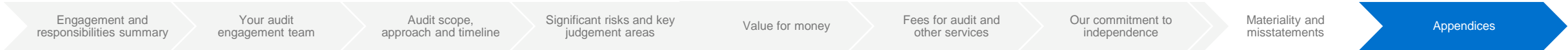
# Appendix: Key communication points

| Required communication  | Where addressed                |
|---|--------------------------------|
| <p>Significant matters arising during the audit in connection with the entity’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management;</li> <li>• Inappropriate authorisation and approval of transactions;</li> <li>• Disagreement over disclosures;</li> <li>• Non-compliance with laws and regulations; and</li> <li>• Difficulty in identifying the party that ultimately controls the entity.</li> </ul>   | <p>Audit Completion Report</p> |
| <p>Significant findings from the audit including:</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;</li> <li>• Significant difficulties, if any, encountered during the audit;</li> <li>• Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management;</li> <li>• Written representations that we are seeking;</li> <li>• Expected modifications to the audit report; and</li> <li>• 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.</li> </ul> | <p>Audit Completion Report</p> |
| <p>Significant deficiencies in internal controls identified during the audit.</p>   | <p>Audit Completion Report</p> |
| <p>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.</p>  | <p>Audit Completion Report</p> |



# Appendix: Key communication points

| Required communication  | Where addressed  |
|---|--|
| <p>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.</p>   | <p>Audit Completion Report and the Audit Committee meetings</p>                |
| <p>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:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty;</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and</li> <li>• The adequacy of related disclosures in the financial statements.</li> </ul> | <p>Audit Completion Report</p>   |
| <p>Reporting on the valuation methods applied to the various items in the consolidated financial statements including any impact of changes of such methods</p>   | <p>Audit Completion Report</p>   |
| <p>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.</p>   | <p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p> |
| <p>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</p>  | <p>Audit Strategy Memorandum and/or Audit Completion Report as appropriate</p> |
| <p>Indication of whether all requested explanations and documents were provided by the entity</p>   | <p>Audit Completion Report</p>   |



# Suresh Patel, Partner

## Mazars

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.