

EAST LONDON WASTE AUTHORITY

DRAFT STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2011

East London Waste Authority
Statement of Accounts
For The Year Ended 31 March 2011

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PREFACE

This publication presents the Authority's Accounts for the year ended 31st March 2011. Its purpose is to give clear and concise information about the financial affairs of the Authority to both Members of the Authority and the Public.

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

EXPLANATORY FOREWORD

The accounts for 2010/11 are set out on the following pages and consist of:

- The Movement in Reserves Statement on pages 19 and 20 brings together all the movements in 2010/11 on these Balances.
- The Comprehensive Income and Expenditure Account on page 21 summarises the costs of the services provided by the Authority. It also shows how these costs are met from Service Income, Government Grants and the Levy Income.
- The Balance Sheet on page 22 is a summary of the Authority's financial position at 31st March 2011.
- The Cash Flow Statement on page 23 shows the total cash received by the Authority and how it was used.
- The Authority's Accounts are accompanied by explanatory notes.

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 – Based on International Financial Reporting Standards (IFRS), developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The Code constitutes "proper accounting practice" with which, by law, Local Authorities must comply. The 2010-11 Code incorporates the Accounts and Audit Regulations 2003. IFRS has introduced a number of accounting and reporting changes, which have been incorporated into the accounts and briefly explained within relevant sections of the Accounts.

The Finance Director's Statement starting on page 4 identifies the more significant matters included within the Authority's Accounts and provides a summary of the Authority's overall financial position.

Finance Director's Statement

Introduction

The East London Waste Authority (ELWA) was created by Regulations made under the Local Government Act 1985. From 1 April 1986, ELWA assumed responsibility for the disposal of waste arising in the area covered by the London Boroughs of Barking and Dagenham, Havering, Newham and Redbridge.

The Statement of Accounts on the following pages set out the Authority's financial position for the year to 31 March 2011. Further information on the nature and purposes of the Authority's expenditure is contained in the annual Revenue and Capital Budgets.

The introduction of International Financial Reporting Standards (IFRS) had a significant impact on the Authority's accounts for 2009/10 mainly with the recognition of Private Finance Initiative (PFI) assets on the balance sheet. This year, the changes continue with a new primary statement, called 'Movement in Reserves' and the expansion of the 'Comprehensive Income and Expenditure Statement' to include the reconciliations from the former 'Statement of Total Recognised Gains and Losses'. Other notes to the accounts have also been expanded upon and renamed. 2010/11 is the first year that the Statement of Accounts has been fully prepared against an IFRS based Code of Accounting Practice.

Income and Expenditure Account

The Authority's revised budget for 2010/11 projected that there would be a net deficit of £5.081 million which would require the use of Revenue reserves and the PFI contract reserve in order to ensure that a balanced budget was achieved. The Authority's final outturn position demonstrates an improvement from this revised budget, as a result of a reduction in the final net revenue expenditure position. This is summarised in the table below.

	<u>Original Budget (£'000)</u>	<u>Revised Budget (£'000)</u>	<u>Actual (£'000)</u>
Net Revenue Expenditure (inc. Contingency)	45,906	45,906	45,441
Levy Raised	-40,825	-40,825	-40,825
Balance before accountancy adjustments	5,081	5,081	4,616

As a result of the accounting adjustments that are required to be made under IFRS, the deficit for the year as shown in the Comprehensive Income and Expenditure Statement appears larger, at £6.050 million. The table on page 5 provides a reconciliation between this net deficit figure and the actual final outturn position shown above of £4.616 million.

Reconciliation of the Accounting Adjustments required under IFRS

	<u>Actual</u> <u>£'000</u>	<u>Actual</u> <u>£'000</u>
Balance before accountancy adjustments (see Note 17)		4,616
Accountancy adjustments		-225
Balance of net expenditure to be financed by reserves		4,391
<u>PFI contract accountancy adjustments</u> (see Note 23):		
Service Charge	-9,558	
Depreciation and Impairment of PFI assets	5,203	
Interest Payable on Finance Leases	6,014	1,659
Deficit for the year after PFI adjustments		6,050
<u>Movement between Revenue Reserve and Reserves</u>		
Net Transfer from PFI Contract Reserve		-3,103
Transfer from Capital Adjustment Account		-1,584
Accumulated Absences Account		-3
Transfer to Pensions Reserve		136
Net Effect on Revenue Reserve		1,496
Revenue Reserves Brought Forward		-8,103
Revenue Reserves Carried Forward		-6,607

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

Capital Programme/Borrowing Facilities

Since the introduction of the Prudential Code in 2004, the Authority can set its own capital spending limit as long as it is affordable, sustainable and prudent. The Local Government and Housing Act 1989 specifies that all new capital receipts generated from the sale of non-housing land, buildings and other assets are available to finance capital expenditure.

ELWA can borrow for any purpose for which it is legally entitled to incur expenditure. Loans can be raised for new capital requirements, to replace maturing debt and also to meet short-term revenue cash flow deficits. No capital expenditure or financing was incurred during 2010/11.

ELWA Operations

ELWA transferred its principal operations and contracts to Shanks Waste Services Limited as part of the 25-year IWMS Contract partly backed by PFI funding in December 2002. Since then ELWA's limited direct operational responsibilities have been in relation to its four closed landfill sites.

Local Government Pension Scheme (LGPS)

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

The results of the 2010 triennial actuarial valuation were used as part of the calculations for these accounts. The next valuation is due as at 31 March 2013.

As at 31 March 2011 the Authority's estimated liability for retirement benefits exceeded the value of assets by £391,000 (as at 31 March 2010 £990,000) when valued in accordance with the accounting standards. This is primarily due to assets growing more than expected and the liability valuation being lower than last year, partly due to a change in the use of indices as described below.

Changes to the LGPS

The Government has announced its plans to increase future pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). In the Pension Scheme disclosure it is assumed that the CPI will increase at a slower rate than the RPI and so pension increases and therefore the IAS 19 liabilities will be lower.

Future Outlook

The future outlook for the Authority is subject to a number of uncertain factors, for example changes in landfill tax, waste growth, inflation assumptions and the impact of new legislation. Whilst levy increases in recent years have accommodated spending pressures and exceeded the rate of inflation, the expenditure constraints faced by the constituent boroughs and Government pressure to minimise Council Tax increases mean that this may not be sustainable in future.

Conclusion

I would like to thank all the ELWA staff and the staff and colleagues in the four Constituent Councils for their continued support in the production of these Statement of Accounts.

G Pearce, BA, CPFA
Finance Director
26th September 2011

Annual Governance Statement

Introduction

Each year the Authority is required by regulation to produce a statement that details the framework for making decisions and controlling the resources of the Authority. The statement covers both the Authority's governance arrangements as well as internal control issues. This statement should enable stakeholders to have assurance that decisions are properly made and public money is being properly spent on citizens' behalf. The statement below complies with the Accounts and Audit Regulations 2003 as amended.

The purpose of the Governance Framework

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

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Authority's governance framework is established through its systems, processes, cultures and values. Its systems and controls are regularly reviewed to reflect changing needs. The local Code has been incorporated into the constitution as a single point of reference for the Authority's framework for its Governance arrangements.

Vision and Purpose

ELWA has the vision "To provide an effective and efficient waste management service that is environmentally acceptable and delivers services that local people value". This vision is supported by objectives and joint targets. The vision was adopted in consultation with stakeholders.

The Joint Waste Management Strategy sets out the Authority's strategic direction. It shows the integrated planning process that links the Strategy, the Authority's Vision, Aims and priorities together. The Strategy also outlines the actions to be taken to deliver on the strategic priorities. This is reviewed annually to identify new key actions to be considered in the service planning process. A range of performance indicators assists in the monitoring of activity.

The Joint Waste Management Strategy underpins the annual service delivery plans that are agreed by ELWA and the Contractor. These are required under the Integrated Waste Management Contract, which was established in 2002, at the commencement of the 25 year waste contract. These requirements are;

- The Overall Service Delivery Plan (OSDP) of ELWA Limited is a Plan that covers the 25 years of the Contract. This is a schedule to the Contract and is essentially the operational and technical proposal by Shanks Waste Services (SWS) to meet ELWA's requirements.
- The 3 or 5 Year Service Delivery Plan (SDP) follows a similar format to the OSDP but provides a greater level of detail. The first 5 Year SDP is also a schedule to the Contract. The second and subsequent 3 or 5

Year SDPs will be submitted for approval by ELWA in the future but must be prepared so that they are consistent with the OSDP.

- The Annual Budget and Service Delivery Plan (ABSDP) follows a similar format to the other SDPs but provides a greater level of detail, particularly in respect of financial matters. The first ABSDP, relating to the period up until 31st March 2003, was finalised and incorporated as a schedule to the Contract. In subsequent years, the ABSDP is normally considered in the Autumn prior to the commencement of the relevant financial year to which it relates. This will ensure that the levy report in February can fully reflect the likely expenditure commitments arising from the Contract

The Authority can apply various penalties under its IWMS contract if these Plans, once approved, are not adhered to and met. In extreme circumstances, the Authority could terminate the Contract.

The financial aspects of the ABSDP are important in the preparation of the ELWA levy. The SDP and WDP are important operationally and set out the arrangements dealing with Borough waste collections and the periods of construction and improvements to Civic Amenity sites.

It is recognised that the Authority cannot achieve its Vision alone. It needs to work in partnership with its four Constituent Boroughs, other agencies and the community to make this happen. An example of this partnership working includes the work undertaken with all partners for the improvement in the collection and sorting of dry recyclables.

Performance Management and Reporting

The performance management framework demonstrates how effective the actions being taken are and assists in monitoring progress in the way in which the Authority's strategies are translated into action plans. It also helps to identify if any risks are materialising when indicators do not show the level of progression anticipated.

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

The fundamentals of contractual performance management are embedded in the way the Authority operates. There is:

- A corporately defined process that ensures that Plans are linked to strategic aims;
- Mechanisms whereby performance is reported to Members and Officers.

However, within the Authority itself, it is recognised that improvements are required to formalise a performance management system for Authority Officers. This will ensure that each member of staff have clear and measurable objectives that are ultimately aligned to the strategic objectives of the Authority. This is a key improvement action for 2011/12.

Authority Constitution

This sets out the roles and responsibilities of Members and Officers. It provides details about how decisions are made and who can make them. It also contains the rules for managing our finances and resources effectively.

At the beginning of the 2010/11 financial year, Members approved new Governance arrangements and a new corporate structure. Emerging changes to our governance structure are presented at Authority meetings for approval. A revised Constitution has also been formally adopted. A copy of the Authority's constitution is on the Authority's website. This includes a clear reference to the scheme of delegation,

which outlines who is authorised to make particular decisions in particular areas. Clear rules regarding financial and contractual regulations are outlined within the Constitution as well.

Codes of Conduct

Part E of the ELWA Constitution deals with the Codes of Conduct for Members and Employees. Each of ELWA's four Constituent Councils has adopted the mandatory provisions of the Model Code. ELWA is not required to adapt a Code of Conduct for its Members. However, the Members of the four Councils are bound by their respective Council Codes when they act on their official capacity for ELWA. A consolidated Code of Conduct for officers was approved in April 2010.

Risk Management

The Authority has embedded risk management processes throughout its structure. A Risk Management Policy and Strategy is agreed and reviewed by the ELWA Board and Authority on a regular basis.

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

Risks identification and management processes are also in place for projects, partnerships and contracts. Given the growing use of partnership working to deliver joined-up services and VFM, the processes of risk identification and management will need to reflect the greater number and complexity of such arrangements. The process of delivering these enhancements has already commenced with clarity achieved via, for example, contract variations.

Compliance with policies, laws and regulations

The constitution sets out the legal framework for making decisions and publishing them. The Authority has the following statutory officers; Head of Paid Service – Managing Director, Section 151 officer (Local Government Act 1972) – Finance Director, and Monitoring Officer – Legal Adviser each of whom has the power to refer matters to full Authority if a breach of regulation is possible. These officers form part of the Management Board. None of these officers have been required to use their powers during the year.

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

Counter Fraud including Whistle-blowing

The Authority has an agreed Anti Fraud & Corruption Strategy that is regularly reviewed to ensure it remains effective and adaptive to emerging issues and risks. Two key components that support this Strategy are:

- Whistle blowing arrangements that are available to the general public, employees, contractors and partners.
- Delivering a programme of anti fraud training and guidance, including a Fraud Response Plan to instill a culture and awareness that fraud will not be tolerated.

It is recognised that improvements could be made to making this information much more visible on the Authority's website and this is one of the agreed areas for improvement in 2011/12.

Complaints process

The Authority has a recognised complaints process, and aims to comply and conform to the complaints procedures operating in each of the four Constituent Councils.

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

Members of the public may also complain to the Local Government Ombudsman. The Authority has had no previous history of any such complaints.

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

Training and development

Members have a general programme to keep them up to date with changes and to supplement their training needs via their Constituent Councils. This is supplemented by formal and informal information about ELWA through briefings, workshops and conferences.

Training and development of staff continues via professional associations, conferences, seminars, courses run by Constituent Councils, on-line tuition and bespoke courses. These are related to the demands of new legislation and new system.

Communication and engagement

The Authority has a responsibility to communicate how to access basic services and information. The Authority's primary communication methods are comprehensive reporting, its website, leaflets and briefings for Constituent Councils. In respect to public and community information, the Authority and the Constituent Councils have combined with the main service provider to implement a 3 year Communications Strategy to drive through improvements in performance from the doorstep. User satisfaction surveys provide services with feedback on Authority performance, used to shape service delivery and policy.

Partnerships

The most significant partnerships for the Authority are with its four Constituent Boroughs and through the IWMS Contract with Shanks, East London.

There are sound governance arrangements in place for partnerships. They are implemented via regular formal meetings with Shanks including those at ELWA Limited and regular formal meetings with the Boroughs including those at the ELWA Management Board and Operational Management Group.

Review of effectiveness

ELWA has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Directors who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Auditor for the London Borough of Redbridge, and also by comments made by the external auditors and other review agencies and inspectorates.

During 2010/11, significant time and effort has been invested by ELWA, the Boroughs and the Service Provider in consulting and negotiating and specifying the medium term service delivery plans for the majority of ELWA's activities.

The 5 yearly and annual processes, conducted within a formal framework provided by the Integrated Waste Management Strategy and Contract, enforce a disciplined review of objectives and effectiveness.

Internal Audit

Internal Audit and External Audit operate a joint working arrangement to maximise the effectiveness of the audit scrutiny of the Authority. In accordance with the Audit Commission's Code of Audit Practice, the external auditors seek to place reliance upon Internal Audit's work in the assessment of risk, core accounting processes, and the effectiveness of internal control. An effective Internal Audit function is a core part of the Authority's arrangements to ensure the proper conduct of its financial affairs. Internal Audit priorities are risk based and agreed with the Finance Director, following consultation with the Management Board and External Audit as part of the annual planning process.

The Chief Auditor for the London Borough of Redbridge is authorised to complete a programme of audit reviews within the Authority. To assist in the accomplishment of this programme, the Financial Regulations of the Authority give authority for Internal Auditors to have full, free and unrestricted access to all Authority assets, records, documents, correspondence and personnel for the purposes of that audit. Recommendations arising from the work of both internal and external auditors are discussed and agreed with management, including acceptable timescales for their implementation. The Chief Auditor for the London Borough of Redbridge reports on the outcomes of the annual programme of audit work to Members and management.

Governance and internal control issues requiring improvement

Areas for development that have been identified within the Annual Governance Statement are listed below together with the improvements made during the year and those planned to be delivered in 2011/12.

- Contract Management

Hand-held devices have now been implemented which should improve the consistency of information between inspection records and data held by ELWA and the constituent councils. The revised arrangements need to be embedded during 2011/12 to ensure that they deliver the outcomes required.

- Performance Monitoring

Develop an internal performance management system so as to ensure that Authority Officers have clear, measurable objectives, which are aligned to the overall strategic objectives of the Authority.

- Business Continuity Planning

Strengthen our governance arrangements further by documenting and testing a business continuity plan so that it is clear how ELWA are able to continue to function in the advent of a significant risk or incident occurring.

- Improved communication of key ELWA documents

Continue to review how improvements can be made to the ELWA website so that key stakeholders can easily access key documents such as the Authority's whistle blowing policy.

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We propose over the coming year to take steps to confirm and implement the above matters to embed the new arrangements. We are satisfied that these steps will continue ELWA's satisfactory performance and national standing

Signed:

.....

Paul Taylor (Managing Director)

.....

(Chairman)

Date:

Annual Governance Statement Action Plan 2011/12

Number	Area to develop	Ongoing Action	Timescales	Lead Officer
1	Contract Management	Hand-held devices have now been implemented. Regular reviews of information quality and governance issues will be undertaken by ELWA	March 2012	Head of Operations
2	Performance Monitoring	The building of performance management framework is a key action for the Managing Director for 2011/12 and this will commence shortly.	December 2011	Managing Director
3	Business Continuity Planning	Documentation of business continuity plan is about to commence which shall enable a testing of the plan to be completed by the end of the Autumn.	October 2011	Managing Director
4	Improved communication of key ELWA documents	Initial review of accessibility of key documents on the ELWA website prior to undertaking a refresh exercise.	September 2011	Managing Director

Statement of Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Finance Director;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the Statement of Accounts.

The Managing Director's Responsibilities

The Managing Director is responsible for: -

- maintaining effective financial controls and for securing the accuracy and integrity of financial information and systems operating within their department;
- complying with any procedural instructions issued by the Finance Director ; and
- preparing the Annual Governance Statement.

The Finance Director's Responsibilities

The Finance Director is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('IFRS'), is required to give a true and fair view of the financial position of the Authority as at the 31 March 2011 and its income and expenditure for the year ending 31 March 2011.

In preparing this Statement of Accounts, the Finance Director confirms that he has:

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with the Code of Practice
- kept proper accounting records which were up to date,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

East London Waste Authority
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I certify that the Statement of Accounts presents a true and fair view of the Authority's income and expenditure for the year ending 31 March 2011 and the Authority's financial position as at 31 March 2011.

G Pearce, BA, CPFA
Finance Director
26th September 2011

Independent auditor's report to the Members of East London Waste Authority

We have audited the financial statements of East London Waste Authority for the year ended 31 March 2011 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet as at the end of the period, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom supported by the Best Value Accounting Code of Practice 2010/11.

Respective responsibilities of the Finance Director and Auditors

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 14 and 15, the Finance Director is responsible for the preparation of the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11 and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for East London Waste Authority's members as a body in accordance with the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and the Finance Director's Statement to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Authority's affairs as at 31 March 2011 and of the Authority income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice 2010/11.

Opinion on other matters

In our opinion, the information given in the explanatory foreword and the content of the Finance Director's Statement for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the governance statement on which we report to you if, in our opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Ciaran McLaughlin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

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

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, East London Waste Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

We certify that we have completed the audit of the Authority accounts of East London Waste Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Ciaran McLaughlin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus and (Deficit) on the Provision of Service line shows the true economic cost of providing the Authority's service, more details of which are shown in the Comprehensive Income and Expenditure Statement.

2010/11 Movement

	Earmarked Capital Reserve £000	Earmarked PFI Contract Reserve £000	Earmarked Revenue Reserve £000	Total Earmarked Reserves £000	Revenue Reserve Balance £000	Total Usable Reserves £000	Capital Adjustment Account £000	Revaluation Reserve £000	Pension Reserve £000	Accumulated Absences Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010	-400	-10,767	0	-11,167	-8,103	-19,270	12,244	-2,278	990	0	10,956	-8,314
Movement in Reserves during 2010/2011												
(Surplus) or Deficit on the provision of services	0	0	0	0	6,050	6,050	0	0	0	0	0	6,050
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	-463	0	-463	-463
Total Comprehensive Income and Expenditure	0	0	0	0	6,050	6,050	0	0	-463	0	-463	5,587
Adjustment between accounting basis and funding basis under regulations (Note 5)	0	0	0	0	-1,451	-1,451	1,584	0	-136	3	1,451	0
Net Increase / Decrease before Transfers to Earmarked Reserves	0	0	0	0	4,599	4,599	1,584	0	-599	3	988	5,587
Transfers to / From Earmarked Reserves (Note 6)	0	3,103	-30	3,073	-3,103	-30	0	0	0	0	0	-30
(Increase) / Decrease in 2010/11	0	3,103	-30	3,073	1,496	4,569	1,584	0	-599	3	988	5,557
Balance at 31 March 2011 carried forward	-400	-7664	-30	-8,094	-6,607	-14,701	13,828	-2,278	391	3	11,944	-2,757

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2009/10 Movement

	Earmarked Capital Reserve £000	Earmarked PFI Contract Reserve £000	Earmarked Revenue Reserve £000	Total Earmarked Reserves £000	Revenue Reserve Balance £000	Total Usable Reserves £000	Capital Adjustment Account £000	Revaluation Reserve £000	Pension Reserve £000	Accumulated Absences Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2009 carried forward	-400	-13,535	0	-13,935	-10,157	-24,092	7,806	0	429	0	8,235	-15,857
Movement in Reserves during 2009/10												
(Surplus) or Deficit on the provision of services	0	0	0	0	9,293	9,293	0	0	0	0	0	9,293
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	-2,278	528	0	-1,750	-1,750
Total Comprehensive Income and Expenditure	0	0	0	0	9,293	9,293	0	-2,278	528	0	-1,750	7,543
Adjustment between accounting basis and funding basis under regulations (Note 5)	0	0	0	0	-4,471	-4,471	4,438	0	33	0	4,471	0
Net Increase / Decrease before Transfers to Earmarked Reserves	0	0	0	0	4,822	4,822	4,438	-2,278	561	0	2,721	7,543
Transfers to / From Earmarked Reserves (Note 6)	0	2,768	0	2,768	-2,768	0	0	0	0	0	0	0
(Increase) / Decrease in 2009/10	0	2,768	0	2,768	2,054	4,822	4,438	-2,278	561	0	2,721	7,543
Balance at 31 March 2010 carried forward	-400	-10,767	0	-11,167	-8,103	-19,270	12,244	-2,278	990	0	10,956	-8,314

Comprehensive Income and Expenditure Statement

This statement summarises the resources that have been generated and consumed in providing services and managing the Authority during the year. It includes all day-to-day expenses and related income on an accruals basis.

2009/10			2010/11			
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
446		446	Supplies and Services	454		454
40,380		40,380	Service Charges (Note 23)	40,758		40,758
766		766	Employee and Support Services	951		951
96		96	Premises Related Expenditure	83		83
1		1	Transport Related Expenditure	2		2
5,680		5,680	Depreciation and Impairment of Fixed Assets (Note 8)	5,203		5,203
904		904	Third Party Payments	1,016		1,016
	3,051	-3,051	Commercial Waste Charges		2,819	-2,819
	4,181	-4,181	PFI Grants (Note 20)		4,014	-4,014
	343	-343	Other Income		507	-507
48,273	7,575	40,698	Cost of Services	48,467	7,340	41,127
7,677	422	7,255	Financing and investment income and Expenditure (Note 7)	6,169	421	5,748
55,950	7,997	47,953	Net Operating Expenditure	54,636	7,761	46,875
	38,660	-38,660	Income from Levy		40,825	-40,825
55,950	46,657	9,293	(Surplus) or Deficit on provision of services	54,636	48,586	6,050
		-2,278	Surplus or deficit on revaluation of Property, plant and equipment assets (Note 8)			0
		528	Actuarial gains / losses on pension assets / Liabilities (Note 24)			-463
		-1,750	Other Comprehensive Income and Expenditure			-463
		7,543	Total Comprehensive Income and Expenditure			5,587

Balance Sheet

The Balance Sheet shows the value as at the 31 March 2011 of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital and repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1 April 2009 £000	31 March 2010 £000		Notes	31 March 2011 £000
97,560	94,158	Property, Plant & Equipment	8	88,955
2,619	283	Long Term Investments	25	133
100,179	94,441	Long Term Assets		89,088
23,051	21,231	Short Term Investments	25	16,978
3,574	1,796	Short term Debtors	10	3,226
0	934	Cash and Cash Equivalents	11	11
26,625	23,961	Current Assets		20,215
-11	0	Cash and Cash Equivalents	25	0
-29	-29	Short Term Borrowing	25	-151
-4,886	-4,641	Short Term Creditors	12	-5,243
-4,926	-4,670	Current Liabilities		-5,394
-1,610	-1,610	Long Term Borrowing	25	-1,488
-103,982	-102,818	PFI Finance Lease Liability	23	-99,273
		<i>Other Long Term Liabilities:</i>		
-429	-990	Pension Liability	24	-391
-106,021	-105,418	Long Term Liabilities		-101,152
15,857	8,314	Net Assets		2,757
24,092	19,270	Usable Reserves	13	14,701
-8,235	-10,956	Unusable Reserves	14	-11,944
15,857	8,314	Total Reserves		2,757

G Pearce, BA, CPFA
Finance Director
26th September 2011

Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Authority during the reporting period. The Statement shows how the Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

2009/10 £000		2010/11 £000
9,293	Net (surplus) or deficit on the provisions of services	6,050
-3,956	Adjustments to net surplus or deficit on the provision of services for non- cash movements	-4,915
-7,384	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	-2,916
-2,047	Net cash flows from Operating Activities (Note 15)	-1,781
	Investing Activities :	
2,336	<i>Movement in long term investments</i>	150
656	Financing activities (Note 16)	708
945	Net increase and decrease in cash and cash equivalents	-923
-11	Cash and cash equivalents at the beginning of the reporting period	934
934	Cash and cash equivalents at the end of the reporting period (Note 11)	11

Statement of Accounting Policies

1. General Principles

The general principles adopted in compiling the Accounts are consistent with the Code of Practice on Local Authority Accounting in the United Kingdom 2010-11 - based on International Financial Reporting Standards (IFRS), developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of Non Current Assets in accordance with the IFRS.

The Balance Sheet comprises the balances, after eliminating inter-account balances, of all the services of the Authority.

2. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. The Authority's bank overdraft is presented as part of cash and cash equivalents on the face of the balance sheet as the amounts are an integral part of an authority's cash management.

Cash equivalents are investments that having originally been invested for no longer than three months are repayable on demand or readily convertible to known amounts of cash with insignificant risk of change in value. Fixed term deposits, excluding overnight deposits, are not considered to be readily convertible since they only become repayable at the point of maturity and cannot be traded or redeemed without penalty. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

3. Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the Authority's financial performance.

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

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

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

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

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5. Employee benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. The benefits are charged on an accruals basis to the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Comprehensive Income and Expenditure Account balance to be charged with the amount payable by the Authority to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the Pension Fund and pensioners and any such amounts payable but unpaid at the year-end.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

6. Pension Provision

As part of the terms and conditions of employment of its officers, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

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

Employees' and employers' contributions are paid into the LGPS. Employers' contribution rates are advised by the LPFA Fund's Actuary, Barnett Waddingham LLP, with the intention of balancing the pension liabilities with investment assets over time. Additional pension liabilities resulting from early retirements are met by the Authority's Income and Expenditure Account and not by the Pension Fund. The Authority is

required to account for pension costs in accordance with IAS 19 and to recognise in the accounts accrued benefits payments at the time that the employees earn their future benefit entitlements.

This has the following effect on the results of the current and prior period:

- the overall amount to be met from the levy has remained unchanged, but the costs disclosed for services after the replacement of actual employer's contributions by current service costs are £46,000 higher (£33,000 higher in 2009/10).
- Pension costs have reduced by £136,000, primarily owing to the effect of the change in indices used for increasing future pensions in line with inflation, as described in the Finance Director's Statement.
- The liability in the balance sheet has reduced and reported net worth of the Authority is now £391,000. (£990,000 in 2009/10).

7. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

8. Loans and Receivables

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

9. Interests in Companies and Other Entities

The Authority annually reviews the extent to which other entities (over which the Authority has a material interest) need to be consolidated into Group Accounts. In consolidating the accounts, all transactions and balances between the Authority and the subsidiary would be eliminated in full.

10. Leases

The Authority as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the Authority are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Authority at the end of the lease period).

A prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Leases

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

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

11. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an

insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Authority settles the obligation.

Contingent Liabilities

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

Contingent Assets

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

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

12. Accruals of expenditure and income

The Accounts have been prepared on the normal accruals basis whereby activity is accounted for in the year that it takes place, not when cash payments are made or received. Debtors and creditors are included in the balance sheet in respect of goods supplied and services rendered but not paid for at 31 March 2011.

When debts may not be settled, the balance of the debtor is written down and a charge made to revenue for the income that might not be recovered.

13. Property, Plant and Equipment

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised provided that the fixed asset yields benefits to the Authority and the service it provides for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged direct to the Income and Expenditure Account.

Under the adaptation to International Financial Reporting Interpretations Committee (IFRIC) 12, a PFI asset should initially be recorded as both an asset and liability at the present value of the minimum lease payments, which is equal to the cost of the assets constructed in a PFI scheme.

Fixed assets have been valued by the waste management contractor, who has current and expert knowledge of the assets in question. The last revaluation was carried out on a replacement cost basis in 2009/10. Fixed assets are classified into the groupings required by the 2010-11 Code of Practice on Local Authority Accounting. Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value in existing use.

Revaluations of fixed assets are planned at five yearly intervals, although material changes to assets' valuations will be adjusted in the interim period, as they occur. Properties regarded by the Authority as operational were valued on the basis of open market value for their existing use, or where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost (DRC).

Properties regarded by the Authority as non-operational have been valued on the basis of open market value.

Any surpluses arising from movements in the general level of prices will be credited to the Revaluation Reserve. Any deficit will be debited to the Revaluation Reserve where a credit balance exists for that specific asset, otherwise the debit will be reflected in the Income & Expenditure Account and reversed out in the Statement of the Movement on the Revenue Reserve Balance. A review, including an assessment for impairment, is carried out each year to assess material changes to the value or useful life of fixed assets. Where the impairment is due to a clear loss of economic benefit, IFRS requires that the loss is charged to the Income and Expenditure Account and reversed out in the Statement of the Movement on Revenue Reserve Balance.

The Authority holds four closed landfill sites. Historically, the Authority has valued these landfill sites at £nil to reflect the fact that each site requires significant remediation to restore its economic use to anything other than its current use.

The Authority is aware that as the sites are eventually restored, there will be an increased value for this land. However, it is important to note that at present no planning permission has been granted for any site.

Therefore, as there has been no change, or expected change, to the two principal factors that have historically influenced that valuation, namely economic use and the need for costly remediation action; the Authority has taken a prudent view and maintained the £nil valuation for 2010/11. This approach will continue to be reviewed on a year by year basis.

14. Depreciation

Depreciation is provided for on all fixed assets with a finite useful life (which can be determined at the time of acquisition or revaluation).

- Operational assets are depreciated on a straight-line basis over a maximum period of 25 years.
- Newly acquired assets are not depreciated until the following year.
- Depreciation is provided on assets in the year of disposal.

Depreciation is calculated using the straight-line method.

15. Charges to Revenue

External interest payable (charged on an accruals basis) is charged to the Income and Expenditure Account.

Amounts set aside from revenue for the repayment of external loans to finance capital expenditure or as transfers to other reserves are excluded from the Income and Expenditure Account and disclosed separately on the Movement in Reserves Statement.

16. Value Added Tax

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

17. Reserves

- A Capital Reserve exists primarily to enable expenditure to be financed without the need to borrow or use capital receipts.

- The Pension Reserve has been set up as part of the requirement to comply with IAS 19, Accounting for Pension Costs. It represents the actuarially calculated deficit between the value of all pension liabilities and the assets held by the London Pensions Fund Authority (LPFA) as at the 31 March 2011. The deficit also includes the difference between the cost of statutorily required payments to the LPFA and the IAS 19 accounting cost charged to the Net Cost of Services in the Income and Expenditure Account. Further information relating to the Net Pension Liability is shown in Note 24 to the Accounts.
- The PFI Contract Reserve has been set up in pursuance of the Authority's agreed policy to match income and expenditure in respect of the IWMS/PFI Contract over its 25 year duration from December 2002. The reserve will ensure a smoother levy profile by avoiding exceptional levy increases especially in years when, under the terms of the IWMS/PFI Contract, the cost is expected to be subject to significant stepped increases to meet higher recycling and recovery targets.
- The Capital Adjustment Account is a non-cash backed reserve, which represents amounts set aside from revenue resources and capital receipts to finance expenditure on fixed assets and also for the repayment of external loans and certain other capital financing transactions.
- From the 1 April 2007, the Authority is required to record unrealised revaluation gains and losses arising from holding fixed assets in a designated Revaluation Reserve. The reserve is matched by fixed assets within the Balance Sheet and therefore not available to finance expenditure.
- Under IFRS, an Accumulated Absences Reserve has been set up to account for untaken leave balances outstanding as at the 31 March 2011.

18. Disposal of Assets

Income from the disposal of fixed assets is credited to the Usable Capital Receipts Reserves and can be wholly used to finance capital expenditure. The balance on this Reserve was £nil as at 31st March 2010 and 2011.

19. Inventory

The Authority holds no stocks or work in progress. The cost of all materials is charged to the Income and Expenditure Account when they are purchased.

20. Redemption of Debt

ELWA's Treasury Management function is administered by the London Borough of Redbridge on behalf of ELWA. The Local Government and Housing Act 1989 requires that a Minimum Revenue Provision be charged to the Revenue Reserve and set aside for the repayment of debt.

21. Financial Relationship Between The Authority And Constituent Councils

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

22. Government Grants and Contributions

Government Grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

23. Landfill Allowances

In accordance with CIPFA's Code of Practice on Local Authority Accounting Bulletin 64, there is a requirement with effect from 1 April 2005 to account for Landfill Allowances at the lower of cost and net realisable value. Any surpluses or deficits arising from the Landfill Allowances Trading Scheme (LATS) are taken to the specific, earmarked LATS Reserve.

Under the scheme, the Authority receives annual allowances from DEFRA for landfilling Biodegradable Municipal Waste (BMW). Each allowance received represents grant income, while each tonne of BMW landfilled incurs a liability to DEFRA. Any unused allowances are carried forward as an Authority asset. These transactions are reflected in the Comprehensive Income and Expenditure Account and Balance Sheet at the rate of £nil per tonne as at 31 March 2011. This is in line with the position as at 31 March 2010.

ELWA has no arrangement to trade the surplus allowances by the target year and therefore has written down the value of the surplus allowances to zero because they have no value.

24. Long Term Contracts/Private Finance Initiative

In December 2002, the Authority entered into a PFI contract. PFI contracts are agreements to receive services where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor.

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

The fixed assets associated with the contract have been recognised in the Authority's balance sheet at fair value, and the assets will be revalued and depreciated in line with the Authority's policies for the accounting of fixed assets.

The annual amounts payable to the PFI operator are analysed into three elements: -

- The value of services received during the year, which is charged to the Income and Expenditure Account;
- An interest charge of 5.99% reflecting the implicit rate of interest on the finance lease on the outstanding balance sheet liability, which is charged to the Income and Expenditure Account; and
- The payment towards the liability, which writes down the liability in the Balance Sheet.

25. Financial Instruments

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

a) Financial Assets

Financial assets are classified into two types:

- (i) Loans and receivables - assets that have a fixed or determinable payment, but are not quoted in an active market.

(ii) Available for Sale Assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and receivables are initially measured at fair value and carried in the Balance Sheet at amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For loans that the Authority has made, the amount in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement. Where financial assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

(b) Financial Liabilities

Financial liabilities are initially measured at fair value and subsequently carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement. Costs associated with the arrangement of borrowing have been identified and assessed as immaterial.

Borrowings and investments are undertaken and accounted for in accordance with the Authority's Treasury Management Policy and Treasury Management Strategy.

26. Interest on Balances.

Cash balances, not required for immediate use, are invested in accordance with the Authority's Annual Investment Strategy. Interest earned on the Authority's balances is credited to the Income and Expenditure Account.

27. Financial Relationships with Companies and other Organisations

In accordance with IAS 24 local authorities are required to prepare a full set of group Statement of Accounts where they have material interests in subsidiaries, associates and joint ventures. This also includes consideration of interests in other statutory bodies. The Authority does have a financial relationship with some bodies and this is explained in Notes 21 and 23 to the Accounts.

Notes to the Statement of Accounts

1. Adoption of New Accounting Standards and IFRS

• Accounting Standards that have been issued but have not yet been adopted

The only Accounting Standard that has been issued but not adopted is FRS 30, Heritage Assets. This has no effect on the Authority Balance Sheet.

• First Time Adoption of IFRS

In 2009/10, the Statement of Accounts adopted the IFRS approach in order to bring the PFI asset on the balance sheet. IFRS also requires changes to the Statement of Accounts in 09/10 and 10/11 where Government grants are held but not used. As the Authority holds no grants that have been unused at year-end, no adjustments are required to be shown. Therefore the only first time adoption of IFRS impacts is upon Accumulating Compensated Absences.

Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. The most significant benefit covered by this heading is holiday pay. Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required. The Government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

There are no accumulating compensated absences as at the end of 2009/10 and therefore there was no requirement to restate the 2009/10 financial statements.

2. Critical Judgements in applying Accounting Policies

In applying the accounting policies set out in the Statement of Accounting Policies section of the Statement of Accounts, the Authority has had to make certain judgments about complex transactions or those involving uncertainty about future events. The only critical judgement made in the Statement of Accounts is as follows.

There is a degree of uncertainty about future levels of Government funding for Local Government. The Authority is funded by a levy on the four Constituent Boroughs. The agreements in place with the Constituent Boroughs stipulate payment of the levy. However, the Constituent Boroughs are subject to pressures that will impose constraints on future levy increases. This in turn limits the Authority's capacity to increase the Levy to fund its commitments.

3. Assumptions made about the future and other major sources of estimation uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance Initiative	The PFI contract costs are based on estimation over a period of 25 years. The assumptions made at the beginning of the contract will differ from the original estimate.	The value of the service for each year is charged to Income and Expenditure thus writing down the liability. An increase or decrease in cost will therefore affect the liability.
Pensions	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirements ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the present value of the pension's total obligation can be measured. For instance a 0.1% decrease in the discount rate assumption would result in the total obligation increasing by £46,000. However, the assumptions interact in complex ways. The Authority's actuaries use their experience to make the necessary adjustments accordingly.

This list does not include assets and liabilities that are carried at fair value based on a recently observed market price.

4. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Finance Director on 30 June 2011. Events taking place after this date are not reflected in the Statement of Accounts or notes. Where events taking place before this date provide information about conditions existing at 31 March 2011, the figures in the Statement of Accounts and notes have been adjusted in all material respects to reflect the impact of this information.

The Statement of Accounts have not been adjusted for the following events which took place after 31 March 2011 as they provide information that is relevant to an understanding of the Authority's financial position but do not relate to the conditions at that date:

During 2010/11, the Authority agreed to allow Shanks to dispose of its Class 'B' and 'C' shares in ELWA Limited. The agreement was linked to Shanks agreeing to changes in performance targets around landfill diversion. A change to the contract of this magnitude meant that Shanks needed approval from their funders. Therefore, it was also agreed that if funders' agreement was not received by 31st March 2011, Shanks would make a payment of £500,000 to ELWA. Funders' agreement was not received by the 31st March and a payment of £500,000 was made to the Authority in May 2011.

In May 2011, a review identified that a sub-contractor had incorrectly categorized landfill waste as having been recycled. The financial consequence of this is that ELWA has potentially overpaid recycling credits.

It is currently estimated that this error inflated recycling performance in 2010/11 by 4%, which equates to an overpayment of approximately £300,000. ELWA is currently in discussion to agree a suitable refund of these monies.

5. Adjustment between accounting basis and funding basis under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Authority in the year in accordance with proper accounting practice in order to calculate the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2010/11

	Usable Reserves				
	Revenue Reserve Balance £000	Capital Reserve £000	PFI Contract Reserve £000	Revenue Reserve Resource £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of Charges for depreciation and impairment of non-current assets	-5,203				5,203
Statutory provision for the financing of capital investment	3,545				-3,545
Capital charges	74				-74
Total Adjustments primarily involving the Capital Adjustment Account	-1,584				1,584
Adjustment primarily involving the Pension Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 24)	136				-136
Adjustments primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	-3				3
Total Adjustments	-1,451	0	0	0	1,451

2009/10 Comparative Figures

Usable Reserves

	Revenue Reserve Balance £000	Capital Reserve £000	PFI Contract Reserve £000	Revenue Reserve Resource £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:					
Reversal of Charges for depreciation and impairment of non-current assets	-5,680				5,680
Statutory provision for the financing of capital investment	1,164				-1,164
Capital charges	78				-78
Total Adjustments primarily involving the Capital Adjustment Account	-4,438				4,438
Adjustment primarily involving the Pension Reserve:					
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 24)	-33				33
Adjustments primarily involving the Accumulated Absences Account:					
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	0				0
Total Adjustments	-4,471	0	0	0	4,471

6. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Revenue Reserve balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Revenue Reserve expenditure in 2010 / 11.

	Balance at 1 April 2009 £000	Transfers Out 2009/10 £000	Transfers in 2009/10 £000	Balance at 31 March 2010 £000	Transfers Out 2010/11 £000	Transfers in 2010/11 £000	Balance at 31 March 2011 £000
Revenue Reserve:							
PFI Contract Reserve	-13,535	6,949	-4,181	-10,767	7,117	-4,014	-7,664
Revenue Reserve Resource	0	0	0	0	0	-30	-30
Capital Reserve	-400	0	0	-400	0	0	-400
Total	-13,935	6,949	-4,181	-11,167	7,117	-4,044	-8,094

7. Financing and Investment Income and Expenditure

2009/10 £000		2010/11 £000
7,645	Interest payable and similar charges	6,169
32	Pensions interest cost and expected return on pensions assets	-151
-63	Impairment of Investment (recovered)/charged	0
-359	Interest receivables and similar income	-270
7,255	Total	5,748

8. Property, Plant and Equipment

Movements on Balances

a) Movements in 2010/11:

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Total Property, Plant and Equipment £000	PFI Assets included in Property, Plant and Equipment £000
Cost or Valuation				
At 1 April 2010	93,550	11,930	105,480	105,480
At 31 March 2011	93,550	11,930	105,480	105,480
Accumulated Depreciation and Impairment				
At 1 April 2010	10,005	1,317	11,322	11,322
Depreciation charge	4,618	585	5,203	5,203
At 31 March 2011	14,623	1,902	16,525	16,525
Net Book Value				
At 31 March 2010	83,545	10,613	94,158	94,158
At 31 March 2011	78,927	10,028	88,955	88,955

b) Comparative Movements in 2009/2010:

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Total Property, Plant and Equipment £000	PFI Assets included in Property, Plant and Equipment £000
Cost or Valuation				
At 1 April 2009 (restated)	91,591	11,611	103,202	103,202
Revaluation increases / (decreases) recognised in the Surplus (Deficit) on the provision of services	1,959	319	2,278	2,278
At 31 March 2010:	93,550	11,930	105,480	105,480
Accumulated Depreciation and Impairment				
At 1 April 2009 (restated)	5,007	635	5,642	5,642
Depreciation charge	4,618	585	5,203	5,203
Impairment losses recognised in the Surplus/Deficit on the provision of services	380	97	477	477
At 31 March 2010	10,005	1,317	11,322	11,322

c) Revaluations

- The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All valuations are carried out by specialists for waste management in the market. In estimating fair value, regard has been had to the nature of the asset and its use, location and size and depreciated replacement cost of the asset.

	Land and Buildings £000	Vehicles, Plant, Furniture and Equipment £000	Total £000
Carried at historical cost	86,584	10,976	97,560
Valued at fair value as at:			
31 March 2009	86,584	10,976	97,560
31 March 2010	83,545	10,613	94,158
31 March 2011	78,927	10,028	88,955
Total Cost and Valuation	78,927	10,028	88,955

9. Investments

- a) The Authority owns 1,500,000 £1 shares partly paid (0.1p per share) in Aveley Methane Limited, whose principal activity is the utilisation of landfill gas including electricity generation under the Government's Non Fossil Fuel Obligation. Aveley Methane Limited is regarded by the Authority as an authorised company for the purposes of the Local Authority (Companies) Order 1995. The investment was transferred at nil value to the Authority as successor to the Greater London Council. This shareholding represents a holding of almost 50% of the total share capital of Aveley Methane Limited and the Authority would be required to meet any request for uncalled share capital that Aveley Methane Limited might make. The Authority's interest in Aveley Methane Limited is an important part of the management of its closed landfill site at Aveley 1.

The estimated net liabilities of Aveley Methane Limited as at 31 March 2011 were £84,333 (restated 2009/10, £41,966). The estimated loss before taxation for the period ended 31 March 2011 was £42,367 (restated 2009/10 £51,346). The figures are based on unaudited Statement of Accounts.

Copies of the Statement of Accounts of Aveley Methane Limited can be obtained from Novera Energy Europe Limited, Mill Lane, Wingerworth, Chesterfield Derbyshire S42 6NG.

- b) Until 23rd December 2002, the Authority owned 100% of the share capital of ELWA Limited, its Local Authority Waste Disposal Company (LAWDC). As part of the IWMS/PFI Contract, the Authority transferred all its equity shareholding to Shanks Waste Services Limited on 23rd December 2002.

Following the transfer, the Authority owns 19 Class 'A' non-equity, voting shares in ELWA Limited with a nominal value of £0.01p each. ELWA Limited commenced trading on 24th December 2002 and its principal activity is the operation of waste disposal services for ELWA. The net liabilities of ELWA Limited as at 31 March 2011 were £8,509,000 (2009/10: Net liabilities £7,560,000 Restated). The loss

after taxation for the year ended 31 March 2011 was £949,000 (2009/10: Loss after taxation £1,757,000). The 2010/11 figures are based on unaudited Statement of Accounts.

During 2010/11, Shanks Waste Services Limited sold its shareholding in ELWA Limited to the John Laing Group.

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

- c) In the opinion of the Directors, the investments in Aveley Methane Limited and ELWA Limited are not material interests for the purposes of Group Accounts as defined in the Code of Practice on Local Authority Accounting (2010/11) and therefore, there is no requirement to produce Group Accounts.
- d) Cash investments are managed by the London Borough of Redbridge and held in cash deposits on behalf of the Authority in accordance with the Authority's Treasury Management Strategy. Note 26 shows further details.

In 2008, following the collapse of some banks, Heritable Bank went into administration and the Authority had to recognise an impairment based on it recovering 80p in the pound; the total amount to be received was estimated to be between 70% and 80% of the claim including interest.

Following the reassessment of the value of amount recoverable as at 31 March 2011 and complying with the latest CIPFA - Local Authority Accounting Panel (LAAP) guidance, bulletin 82, it is also recommended that the following CIPFA repayment schedule is used to estimate the recoverable amount at 31 March 2011. The schedule is based on expected total dividends of 84.98% of the claim. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012.

During 2009/10 Ernst & Young LLP, the administrators of Heritable Bank, reassessed the amount recovered by creditors and dividends and expected it to be not less than 84.98p in the pound. This figure still stands.

CIPFA Repayment Schedule

Date	Repayment	Date	Repayment
April 2011	6.25%	April 2012	5%
July 2011	5%	July 2012	5%
October 2011	5%	October 2012	3.65%
January 2012	5%		

10. Debtors

	31 March 2010	31 March 2011
	£000	£000
Central Government Bodies	556	1,509
Other Local Authorities	1,198	1,214
Other entities and individuals	42	503
Total	1,796	3,226

11. Cash and Cash Equivalent

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

	31 March 2010 £000	31 March 2011 £000
Bank current accounts	-9	-2
Short term deposits with building societies	943	13
Total Cash and Cash Equivalents	934	11

12. Creditors

	31 March 2010 £000	31 March 2011 £000
Central Government Bodies	0	38
Other Local Authorities	471	625
Other entities and individuals	4,170	4,580
Total	4,641	5,243

13. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movement in Reserves Statement and note 5 and 6.

14. Unusable Reserves

	31 March 2010 £000		31 March 2011 £000
-2,278	Revaluation Reserve		-2,278
12,244	Capital Adjustment Account		13,828
990	Pensions Reserve		391
0	Accumulated Absences Account		3
10,956	Total Unusable Reserves		11,944

a) Revaluation Reserve

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

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

- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 2009/10, the year that the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisitions, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement. In the early years of the PFI, the capital element of the Unitary Charge, which dictates the MRP charge, is less than the depreciation on the assets. This will even out over the life of the PFI, however as a result for the early years this will result in the Capital Adjustment Account showing a debit balance.

2009/10 £000		2010/11 £000
7,806	Balance at 1 April	12,244
	<i>Capital financing applied in the year:</i>	
4,438	Capital grants and contributions credited to Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,584
<hr/> 12,244	Balance at 31 March	<hr/> 13,828

c) Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2009/10 £000		2010/11 £000
429	Balance at 1 April	990
528	Actuarial gains or losses on pensions assets and liabilities	-463
33	Employer's pensions contributions and direct payments to pensionable payable in the year	-136
<hr/> 990	Balance at 31 March	<hr/> 391

d) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise in the Revenue Reserve Balance from accruing for compensated absence earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the Revenue Reserve Balance is neutralised by transfers to or from the Account.

2009/10 £000		2010/11 £000
0	Balance at 1 April	0
0	Amounts accrued at the end of the current year by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accrual basis is different from remuneration chargeable in the year in accordance with statutory requirements	3
0	Balance at 31 March	3

15. Cash Flow Statement – Operating Activities

The cash flows for operating activities include the following items:

2009/10 £000		2010/11 £000
Cash Outflows		
877	Cash paid to and on behalf of Employees	1,042
7,645	Loan interest paid	6,169
41,953	Other operating costs	42,428
50,475		49,639
Cash Inflows		
38,660	Levy receipts	40,825
4,181	Other government grants	4,014
4,897	Cash received for goods and services	2,781
690	Interest received from investments	238
48,428		47,858
-2,047	Net cash flows from operating activities	-1781

16. Cash Flow Statement – Financing Activities

2009/10 £000		2010/11 £000
1,820	Net decrease/ (increase) in Short Term Investments	4,253
-1,164	Cash payments for the reduction of the outstanding liabilities relating to the finance leases on balance sheet PFI contracts	-3,545
<hr/>		
656	Net cash flows from financing activities	708

17. Amounts reported for resource allocation decisions

The analysis of income and expenditure on the face of the Comprehensive Income and Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocation are taken by the Authority on the basis of budget reports prepared on a different basis from the accounting policies used in the Statement of Accounts. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- The cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Authority recorded in the budget reports for the year is as follows:

Income and Expenditure	09/10 £000	10/11 £000
Fees, charges & other service income	-3,753	-3,383
Total Income	-3,753	-3,383
<hr/>		
Employee expenses	408	577
Other services expenses	51,010	52,261
Total Expenditure	51,418	52,838
<hr/>		
Net Expenditure	47,665	49,455
PFI Grant Received	-4,181	-4,014
Levy Received	-38,660	-40,825
Net expenditure in the Authority Analysis	4,824	4,616

Reconciliation of Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statements

This reconciliation shows how the figures in the analysis of income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2009 / 10 £000	2010/11 £000
Expenditure shown in the Authority Outturn Report	47,665	49,455
Grant and Levy Received	-42,841	-44,839
Net expenditure in the Authority Analysis	4,824	4,616
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	46,058	45,796
	50,882	50,412
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	-10,184	-9,285
Cost of Services in Comprehensive Income and Expenditure Statement	40,698	41,127

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of Authority income and expenditure relate to a subjective analysis of the Surplus or Deficit on the provision of services included in the Comprehensive Income and Expenditure Statement.

2010/11

	Authority Analysis	Amounts not reported to Management for decision making	Amounts not included	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-3,129	-197	0	-3,326	-151	-3,477
Interest and investment income	-254	-16	270	0	-270	-270
Income from Levy	-40,825	0	40,825	0	-40,825	-40,825
Government grants and contribution	-4,014	0	0	-4,014	0	-4,014
Total Income	-48,222	-213	41,095	-7,340	-41,246	-48,586
Employee and Support Services expenses	933	18	0	951	0	951
Other service expenses	51,750	40,788	-50,225	42,313	0	42,313
Depreciation, amortisation and impairment	0	5,203	0	5203	0	5203
Interest payments	155	0	-155	0	6,169	6,169
Total Expenditure	52,838	46,009	-50,380	48,467	6,169	54,636
Surplus or deficit in the provision of services	4,616	45,796	-9,285	41,127	-35,077	6,050

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2009/10
Comparative Figures

	Authority Analysis	Amounts not reported to Management for decision making	Amounts not included	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	-3,394	0	0	-3,394	-63	-3,457
Interest and investment income	-359	0	359	0	-359	-359
Income from Levy	-38,660	0	38,660	0	-38,660	-38,660
Government grants and contribution	-4,181	0	0	-4,181	0	-4,181
Total Income	-46,594	0	39,019	-7,575	-39,082	-46,657
Employee and Support Services expenses	766	0	0	766	0	766
Other service expenses	50,497	40,378	-49,048	41,827	32	41,859
Depreciation, amortisation and impairment	0	5,680	0	5,680	0	5,680
Interest payments	155	0	-155	0	7,645	7,645
Total Expenditure	51,418	46,058	-49,203	48,273	7,677	55,950
Surplus or deficit in the provision of services	4,824	46,058	-10,184	40,698	-31,405	9,293

18. Officers' Remuneration

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

	Salary, Fees and Allowances £	Bonuses £	Expenses and Allowances £	Compensation for loss of office £	Pension Contribution £	Total £
Executive Director	39,485		92	53,612	10,809	103,998
Managing Director	56,371		6,154		15,322	77,847
Head of Operations	72,825				13,100	85,925
	168,681	0	6,246	53,612	39,231	267,770

The Executive Director left the Authority in August 2010. A new post of Managing Director was established and filled in August 2010. The compensation for loss of office amount is in respect of the redundancy payment for the Executive Director.

The number of employees including Senior Officers whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were :

Remuneration Band	2009/10 Number of employees	2010/11 Number of employees
£50,000 - £54,999	1	1
£55,000 - £59,999		1
£60,000 - £64,999		
£65,000 - £69,999	1	
£70,000 - £74,999		1
£75,000 - £79,999		
£80,000 - £84,999		
£85,000 - £89,999		
£90,000 - £94,999	1	1
	3	4

19. External Audit Costs

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

	2009/10 £000	2010/11 £000
Fees payable to PricewaterhouseCoopers LLP with regard to external audit services carried out by the appointed auditor for the year - accounts	28	25
Fees in respect of specific work – use of resources	10	10
Total	38	35

20. Grant Income

The Authority credited the following grants to the Comprehensive Income and Expenditure Statement in 2010/11:

	2009/10 £000	2010/11 £000
PFI Grant	4,181	4,014
Total	4,181	4,014

21. Related Party Transactions

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

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

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

	<u>2009/10</u>		<u>2010/11</u>	
	<u>Exp</u> <u>£'000</u>	<u>Inc</u> <u>£'000</u>	<u>Exp</u> <u>£'000</u>	<u>Inc</u> <u>£'000</u>
London Boroughs of:				
Barking and Dagenham	603	-7,464	770	-7,716
Havering	404	-11,007	405	-11,285
Newham	186	-12,166	286	-13,366
Redbridge	420	-11,074	438	-11,288
Aveley Methane Limited	0	0	0	0
ELWA Limited	49,034	-338	49,086	-310

Members of the Authority and Chief Officers

The following Members and Officers have made declarations of their interest in the following organisations, which arise from official Authority Appointments.

Membership of Other Organisations

Paul Martin Taylor	– Director of Aveley Methane Limited
Mark Ash	– Director of Aveley Methane Limited
Councillor I Corbett	– Director of ELWA Limited

22. Capital Expenditure and Capital Financing

The Authority incurred no new capital expenditure during the year ended 31 March 2011.

23. Private Finance Initiatives and Similar Contracts

The IWMS/PFI Contract, which commenced on 24th December 2002, is for 25 years. ELWA Limited is implementing a capital investment programme of more than £100 million in new waste management facilities over the life of the contract. The designing, building, alteration, financing and operation of the waste management facilities required for provision of the IWMS together with any associated risks, will be the responsibility of ELWA Limited.

The Government will provide PFI grant funding based upon a National Credit Approval of £47 million, equivalent to approximately £85 million over 25 years. The Government has advised that the annual PFI grant will now be paid on an annuity basis rather than the declining balance basis with a final payment made in 2026/27. The overall total grant in cash terms will be the same, however, the payment profile has changed.

The main impact of this is in the short term in that for the next three years the Authority will receive additional PFI grant of approximately £870,000 as follows:

	£
2011/12	137,682
2012/13	291,825
2013/14	439,802

SORP 2010/11 requires the application of International Financial Reporting Standards for PFI; specifically IFRIC 12 Service Concession Arrangements. The contract complies with the criteria detailed in IFRIC 12, and therefore the relevant accounting guidance has been applied as outlined in the Authority's Accounting Policies as detailed on page 32.

a) Future Contractual Obligations

The Authority makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed. Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability / performance deductions) are as follows:

	Payment for Services £000	Reimbursement of Capital Expenditure £000	Interest £000	Total £000
Payable in 2011 / 12	34,935	3,734	5,802	44,471
Payable within 2 to 5 years	144,887	17,263	20,908	183,058
Payable within 6 to 10 years	192,506	27,397	19,533	239,436
Payable within 11 to 15 years	209,337	35,256	10,744	255,337
Payable within 16 to 20 years	73,828	15,623	1,082	90,533
Total	655,493	99,273	58,069	812,835

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows.

b) PFI Finance Liability

	2009/10 £000	2010/11 £000
Balance outstanding at start of the year	103,982	102,818
Payments during the year	-1,164	-3,545
Balance outstanding at year-end	102,818	99,273

c) Service Charges

The Unitary Charge payment to the contractor has to reflect the total payment as a charge to the Income & Expenditure Account. This treatment needs to be reversed to reflect the application of the IFRC 12 based accounting treatment for the PFI. The Accounting Standard requires that the service, interest and infrastructure elements of the Unitary Charge are separated. The service and interest elements should be expensed to the operating/revenue account.

	2009/10	2010/11
	£'000	£'000
Payments to Shanks East London	49,034	50,317
Capital Repayment	-1,164	-3,545
Interest Payable	-7,490	-6,014
Service Charges	40,380	40,758

24. Defined Benefit Pension Schemes

Transaction Relating to Post Employment Benefits

The Authority recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against the levy is based on the cash payable in the year, so the real cost of post employment/retirement benefit is reversed out of the Revenue Reserve via the Movement in Reserves Statement.

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The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Revenue Reserve Balance via the movement in Reserves Statement during the year:

	2009/10 £'000	2010/11 £'000
Comprehensive Income and Expenditure Statement		
<i>Cost of Services:</i>		
• Current Service Cost	45	75
• Past Service Costs / Gain	0	-182
<i>Financing and Investment Income and Expenditure:</i>		
• Interest Cost	55	130
• Expected return on scheme assets	-23	-99
Total Post Employment Benefit charged to the Surplus or Deficit on the provision of Services	77	-76
<i>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:</i>		
• Actuarial gains and losses	528	-463
Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement	605	-539
<i>Movement in Reserve Statement:</i>		
• Reversal of net charges made to the Surplus or Deficit on the provision of Services for post employment benefits in accordance with the code	-33	136
	572	-403
Actual amount charged against the Revenue Reserve Balance for pensions in the year:		
• Employer's contributions payable to scheme	44	60
• Actuarial gains and losses	528	-463
	572	-403

The capitalised gain from the change in pension increase policy from RPI to CPI is calculated at £182,000.

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £42,000 (31 March 2010 loss £505,000).

Assets and Liabilities in Relation to Post-employment Benefits

The underlying assets and liabilities attributable to the Authority with the London Pensions Fund Authority (LPFA) as at 31 March 2011 are as follows:

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

	Funded Liabilities	
	Local Government Pension Scheme	
	£000	
	2009/10	2010/11
Opening Balance at 1 April	771	1,482
Current Service Cost	45	75
Interest Cost	55	130
Contributions by scheme participants	18	20
Actuarial gains and losses	612	362
Benefits paid	-19	199
Past Service Costs / (Gains)	0	-182
Closing Balance at 31 March	1,482	2,086

(ii) Reconciliation of fair value of the scheme (plan) assets:

	Funded Assets	
	Local Government Pension Scheme	
	£000	
	2009/10	2010/11
Opening Balance at 1 April	342	492
Expected Rate of Return	23	99
Actuarial gains and losses	84	825
Employer contributions	44	60
Contributions by scheme participants	18	20
Benefits paid	-19	199
Closing Balance at 31 March	492	1,695

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

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

The actual return on scheme assets in the year was £103,000 (2009/ 10 £106,000).

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(iii) Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present Value of Defined Benefits Obligation	-740	-711	-771	-1,482	-2,086
Fair value of Employer Assets	376	380	342	492	1,695
Total	-364	-331	-429	-990	-391

With effect from 1 April 2007 the Authority became an employer. On 1 June 2007 five staff were transferred from the Constituent Councils to the Authority with initially three staff electing to join the LPFA. Membership as at the 31 March 2011 consists of four active members and two pensioners. One of whom retired during the 2010/11 financial year.

The liabilities show the underlying commitments that the Authority has in the long run to pay post employment (retirement) benefits. The net pension liability of £391,000 (£990,000 2009/10) has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. The deficit in respect of LPFA Fund liabilities will be made good by increased contributions to the LPFA Fund over the remaining working life of the employees (i.e. before payments fall due), as assessed by the scheme actuary.

The projected employer contributions for the year to 31 March 2012 are £62,000.

(iv) Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Liabilities have been assessed by Barnett Waddingham LLP, an independent firm of actuaries, who use a roll forward approach, based on the results of the last full valuation of the LPFA Fund as at 1 April 2010, and adjusting for known membership and scheme changes where applicable.

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The principal assumptions used by the LPFA actuary have been:

	2009/10	2010/11
Long term expected rate of return on assets in the scheme:	6.8%	6.7%
Equity Investments	7.5%	7.4%
Target Return On Funds	4.5%	4.5%
Alternative Assets	6.5%	6.4%
Cash	3.0%	3.0%
Corporate Bonds	5.5%	5.5%
Mortality assumptions		
<i>Longevity at 65 for current pensioners:</i>		
Men	19.6	22.9
Women	22.5	25
<i>Longevity at 65 for future pensioners:</i>		
Men	20.7	24.8
Women	23.6	26.9
Financial Assumptions:		
Rate of Inflation RPI (CPI)	3.9%	3.5% (2.7%)
Rate of increase in salaries	5.4%	4.5%
Rate of increase in pensions	3.9%	2.7%
Rate for discounting scheme liabilities	5.5%	5.5%
Take up of option to convert annual pension into retirement lump sum	0	0

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

Assets	31 March 2010 %	31 March 2010 £'000	31 March 2011 %	31 March 2011 £'000
Equities	70	344	69	1,170
Target Return Funds	10	49	12	203
Property	14	69	14	237
Cash	5	25	3	51
Corporate Bond	1	5	2	34
Total	100	492	100	1,695

(v) History of Experience Gains and Losses

The actuarial gains and losses identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, at 31 March 2011. The table below shows the changes in actuarial deficits or surpluses that arise because either actual experience or events have not been exactly the same as the assumptions adopted at the previous valuation (experience gains and losses) or the actuarial assumptions have changed.

	2007 / 08 £'000	2008 / 09 £'000	2009 / 10 £'000	2010 / 11 £'000
Difference between the expected and actual return on assets	-50	-114	84	825
Experience gains and losses on liabilities	-16	0	0	-421
Changes in assumptions underlying the present value of scheme liabilities	142	61	-612	59
Actuarial gains / (losses) in pension scheme	76	-53	-528	463

	2007 / 08 %	2008 / 09 %	2009 / 10 %	2010 / 11 %
Experience adjustment as a percentage of plan liabilities	-2.3	0.0	0.0	-20.2
Experience adjustment as a percentage of assets	-13.2	-33.3	17.1	48.7

This is the impact of the liabilities of actual experience differing from the assumptions, such as pension increases and salary increases differing from those assumed, and unexpected membership movements. Between valuations, when the roll forward method is used, this item will be small as it is assumed that most experience items are in line with the assumptions. Every three years the Actuary undertakes a formal actuarial valuation, which will take into account experience over the previous three years. IAS19 figures will be updated to reflect the most recent

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actuarial valuation and, as a consequence, most experience gains and losses appear in the accounting year following completion of the formal valuation.

25. Financial Instruments

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

	Long-Term		Current	
	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000
Cash at Bank				
Loans and Receivables	0	0	934	11
Total Cash at Bank	0	0	934	11
Investments				
Loans and receivables	283	133	21,231	16,978
Total Investments	283	133	21,231	16,978
Debtors				
Loans and receivables	0	0	1,796	3,226
Total Debtors	0	0	1,796	3,226
Borrowings				
Financial liabilities at amortised cost	-1,610	-1,488	-29	-151
Total Borrowings	-1,610	-1,488	-29	-151
PFI and finance lease liabilities	-102,818	-99,273	0	0
Total other long term liabilities	-102,818	-99,273	0	0
Creditors				
Financial Liabilities at amortised cost	0	0	-4,641	-5,243
Total Creditors	0	0	-4,641	-5,243

Income, Expense, Gains and Losses

	2009/10					2010/11				
	Financial Liabilities measured at amortised Cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through profit and loss £000	Total £000	Financial Liabilities measured at amortised Cost £000	Financial Assets: Loans and Receivables £000	Financial Assets: Available for sale £000	Assets and Liabilities at Fair Value through profit and loss £000	Total £000
Interest expense	7,645	0	0	0	7,645	6,169	0	0	0	6,169
Impairment losses	0	-63	0	0	-63	0	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	7,645	-63	0	0	7,582	6,169	0	0	0	6,169
Interest Income	0	-359	0	0	-359	0	-270	0	0	-270
Total expense in Surplus or Deficit on the Provision of Services	0	-359	0	0	-359	0	-270	0	0	-270
Net (gain) / loss for the year	7,645	-422	0	0	7,223	6,169	-270	0	0	5,899

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, assuming the following assumptions:

- Estimated ranges of interest rates at 31 March 2011 are 2.89% to 7.00% for loans from the PWLB.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.

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The fair values calculated are as follows:

	31 March 2010		31 March 2011	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Financial Liabilities				
Long-term creditors				
Public Works Loan Board	1,639	2,542	1,639	2,549
Short-term				
Creditors	4,641	4,641	5,243	5,243

	31 March 2010		31 March 2011	
	Carrying amount £000	Fair Value £000	Carrying amount £000	Fair Value £000
Loans and Receivables				
Long-term debtors				
Cash Investments	283	283	133	133
Short-term				
Debtors	1,796	1,796	3,226	3,226
Cash at bank	934	934	11	11
Cash Investments	21,231	21,297	16,978	16,978
Total Short Term	23,961	24,027	20,215	20,215

The fair value of outstanding long term debts as at 31 March 2011 is £2.5million. (31 March 2010 was £2.5 million). This is higher than the book value due to the changes in market factors since the original borrowing was made. The Authority has pledged no collateral in respect of repayment of any loan to another entity.

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

As at 31st March 2011 the Authority had not entered into any financial guarantees.

26. Nature and Extent of Risks arising from Financial Instruments

Overall Procedures for Managing Risk

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund its services. The procedures for risk management in relation to key financial instruments are set out through the legal framework detailed within the Local Government Act 2003 and associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance. Overall, the Authority is required to manage risk in the following ways: -

- By formally adopting the requirements of the Code of Practice;

- By approving annually in advance Prudential Indicators for the following three years limiting:
 - The Authority's overall borrowing;
 - Maximum and minimum exposure to fixed and variable interest rates;
 - Maximum and minimum debt repayment profile;
 - Maximum annual exposure to investments maturing beyond a year.

In order to comply with the requirement that the Authority is required to set a balanced budget (Local Government Finance Act 1992) the above is required to be reported at the same time as the levy setting meeting. The annual treasury management strategy outlines the detailed approach to managing risk in relation to financial instrument exposure. Actual performance is compared to the strategy and reported annually to Members.

In accordance with Standing Orders, the Finance Director is responsible for all of the Authority's banking, borrowing and investment activities. Under the Authority's existing service level arrangements, the London Borough of Redbridge administers the treasury management function on behalf of ELWA. The policies and detailed guidance in the form of Treasury Management Practices (TMPs) are managed on a day to day basis by the London Borough of Redbridge. The TMPs are reviewed at regular intervals. ELWA receives reports and monitors the treasury management performance of the London Borough of Redbridge on a regular basis

The Authority's activities expose it to a variety of financial risks:

- Credit risk - the possibility that other parties might fail to pay amounts due to the Authority.
- Liquidity Risk – the possibility that the Authority might not have funds available to meet its commitments to make payments.
- Refinancing and Maturity Risk – the possibility that the Authority might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well credit exposures to debtors

Credit risk arising from deposits with Banks and Financial Institutions

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Authority's credit criteria, which are restricted to the upper end of the independent credit rating criteria. In addition, investment values are set taking into account the institutions' credit rating and the duration of lending. The Authority has also set limits as to the maximum percentage of the investment portfolio, that can be placed with any one class of institution and this is monitored on a daily basis. All transactions in relation to deposits were in line with the Authority's approved credit ratings.

The Annual Investment Strategy requires the Authority to maintain a counterparty list that follows the criteria set out in the Treasury Management Practices. Creditworthiness is assessed by the use of credit ratings provided by Fitch, Moody's and Standard & Poor's to assess an

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institution's long and short-term financial strength along with its individual and support ratings. Other information provided by Brokers, Advisers and financial and economic reports are also collated and assessed and then used to produce a matrix to monitor each individual institution against the Authority's criteria.

Any counterparty whose ratings fall to the extent that they no longer meet the credit criteria are immediately removed from the lending list. Only highly rated counterparties may be included on the lending list such as:

- UK Banks supported by the UK government; Foreign Banks that meet specified credit criteria;
- Building Societies with assets in excess of £3billion;
- AAA rated Money Market Funds;
- UK Government (Debt Management Office and Gilts);
- Other Local Authorities

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies of £17 million cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. A risk of irrecoverability applies to all of the Authority's deposits; there was no evidence at the 31 March 2011 that this was likely to crystallise.

In addition, the diversification of investments also provides additional security. The maximum percentages of the investment portfolio, which may be invested in each class of assets, are detailed below: -

Asset Class Percentages		
Type of Asset	% Of Total Investment as set by 2010/11 Treasury Management Strategy %	% Of Total Investment as at 31st March 2011. %
UK Government and Local Authorities	100	18
Banks- Specified	100	51
Money Market Funds – Specified	75	0
Building Societies - Specified	50	29
Monetary Institutions outside Europe – Specified	0	0
Unspecified Investments – including un-rated Building Societies	50	2
Non UK Government and Supranational Bonds	15	0

The asset class percentages are well within the Upper limits prescribed in the Authority's Treasury Management Strategy for 2010/11.

The boundary is set at £5 million for long-term investments as specified in the Authority's Treasury Management Strategy. The Authority currently has no investments for longer than one year, other than the Heritable Bank deposit described below.

The above breakdown includes the remaining recoverable deposit of £351,229 in Heritable Bank which was placed into administration in 2008/09 (see Note 9).

The original deposit was £1 million. The total impairment of the investment from 2008/09 to 2010/11 is £270,788. Principle recovered totals £377,981 and £150,519 interest has been received. Following recent advice from Ernst and Young LLP, the minimum expected dividend on the claim is now 84.98%. The minimum amount of repayment due on the principle is £351,229. The recoverable interest receivable from 2011/12 to 2012/13 is estimated to be £16,874.

No breaches of the Authority's counter-party criteria occurred during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Credit risk arising from Authority's exposure from other debtors

There has been no provision for bad debtors as at 31 March 2010, or 31st March 2011, as all outstanding debtors are expected to pay.

No credit limits were exceeded during the reporting period and the Authority does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Invoiced payments for services are either required in advance or due at the time the service is provided. As at 31 March 2011, approximately £425,000 (£527,000 as at 31 March 2010) is due to the Authority from its debtors, who are mainly other Local Authorities, the total being past its due date. The past due but not impaired amount can be analysed by age as follows:

<u>Invoiced Payments for Services</u>	31 March 2010 £000	31 March 2011 £000
Less than three months	425	309
Four to six months	0	174
Seven months to one year	0	0
One to two years	0	44
	425	527

Liquidity Risk

The Authority manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a comprehensive cash flow management system, as required by the Code of Practice. This seeks to ensure that cash is available when it is needed.

The Authority has ready access to the Public Works Loans Board (PWLB). The PWLB provides access to longer- term funds and acts as lender of last resort to authorities. Therefore there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. As at 31st March 2011, all of the Authority's outstanding loans were with PWLB.

Through the Local Government Finance Act 1992, the Authority is required to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is no significant risk that the Authority will be unable to raise finance to meet its commitments.

The Authority manages its day-to-day liquidity position through: -

- The setting of Prudential Indicators, associated strategies and practices;

- The cash flow management procedures;
- The use of deposits and call funds

Refinancing and Maturity Risk

The Authority's approved Treasury and Investment strategies are set to avoid the risk of refinancing on unfavourable terms. London Borough of Redbridge's Treasury team, on behalf of ELWA, address the operational risks within approved parameters. These include: -

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or rescheduling existing debt;
- Monitoring the maturity of investments to ensure that there is sufficient liquidity available for the Authority's day-to-day cash flow needs, and the spread of long term investments provides stability of maturities and returns in relation to long term cash flow needs; and
- On a short-term basis internal balances are available to finance should market interest rates be unfavourable at the time of refinancing.

The maturity analysis for borrowing is as follows:

Renewal Period	Market Loans Outstanding as at 31 st March 2011 £000's	Limit of projected Fixed rate Borrowing %	% of Total Borrowing 31 st March 2011 %	% of Total Borrowing 31 st March 2010 %
Less than one Year	150	25	9	2
Between one and two years	0	40	0	7
Between two and five years	239	60	15	15
Between five and ten years	0	80	0	0
More than 10 Years	1,250	100	76	76
Total	1,639		100	100

Market Risk

The Authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at fixed rates – the fair value of the liabilities will fall.
- Investments at fixed rates – the fair value of the assets will fall.
- Borrowing at variable rates – the interest expense charged to the Surplus and Deficit on the provision of services will rise
- Investments at variable rates – the interest income credited to the Surplus and Deficit on the Provision of Services will rise

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus and Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivables on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services and affect the Revenue Reserve Balance.

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

- Setting a maximum for Authority's borrowings at variable rates. For 2010/11 all the Authority's borrowings were at fixed rates.
- Prudent borrowing and repayments arrangements, by limiting the net annual repayment of debt to the outstanding debt.

The Authority, through the L B of Redbridge Treasury Management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to monitor performance throughout the year. This allows any adverse changes to be responded to and accommodated quickly.

According to this assessment strategy, at 31 March 2011, if discount rates had been 1% higher with all other variables held constant, the financial effect would be:

	£000
Decrease in fair value of long term fixed rate investments assets – No impact on Other Comprehensive Income and Expenditure	0
Decrease in fair value of fixed rate borrowings liabilities - No impact on Other Comprehensive Income and Expenditure	201

As at 31 March 2011 the Authority holds no variable interest rate investments or borrowings and therefore there is no predicted impact for this on the Comprehensive Income and Expenditure Account.

The impact of a 1% fall in discount rates would be as above but with the movements being reversed. These assumptions are based on the same methodology as used in the Note 25 – Fair Values of Assets and Liabilities.

Price and Foreign Exchange Risks

The Authority does not invest in equity shares and therefore is not exposed to losses arising from movement in the price of shares. The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

Glossary

Actuary

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

Actuarial Valuation

Every three years the Actuary reviews the assets and liabilities of the Pension Fund and reports to the Authority on the fund's financial position and recommended employers' contribution rates.

Appropriation

The transfer of ownership of an asset, from one Service to another, at an agreed (usually market or outstanding debt) value.

Accruals

The amounts by which receipts or payments are increased in order to record the full income and expenditure incurred in an accounting period.

Amortisation

The writing off of a charge or loan balance over a period of time.

Approved Investments

These are investments that Local Authorities are permitted to make using their unapplied Capital and Revenue Funds. These investments must be in sterling and normally consist of deposits with Banks, Building Societies, and other financial institutions. Such investments are treated as neither revenue nor capital expenditure.

Balance Sheet (Statement of Financial Position)

A statement of all the assets, liabilities and other balances of the Authority at the end of an accounting period.

Budget

A forecast of future expenditure plans for the Authority. Detailed revenue budgets are prepared each year and it is on the basis of these figures that the Council Tax is set. Budgets are revised towards the year-end to take account of inflation, changes in patterns of services, and other factors.

Capital Charge

A depreciation charge to Service Revenue Accounts to reflect the cost of fixed assets used in the provision of the service.

Capital Expenditure

Expenditure on the acquisition of fixed assets or expenditure that adds to the value of an existing fixed asset.

Capital Adjustment Account

Represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

Capital Receipt

Income received from the sale of a capital asset such as land or buildings.

Carrying Value (Book Value)

For Financial Instruments, this value is the amount to be recognised on the Balance Sheet. Financial Assets and Liabilities need to be recognised in the Balance Sheet at fair value or at amortised cost.

Cash

Comprises cash on hand and demand deposits.

Cash equivalents

Are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows

Are inflows and outflows of cash and cash equivalents.

Collateral

Assets pledged by a borrower to secure a loan.

Comprehensive Income and Expenditure Statement

A Statement showing the Income and Expenditure of the Authority's services during the year. It demonstrates how costs have been financed from the Levy and shows income from services provided.

Contingent Liability

A possible liability to future expenditure at the Balance Sheet date dependant upon the outcome of uncertain events.

Credit Ratings for Investments

A scoring system used by credit rating agencies such as Fitch, Moody's and Standard and Poor's to indicate the credit worthiness and other factors of Governments, Banks, Building Society's, and other financial Institutions.

Creditors

Amount of money owed by the Authority for goods and services received.

Curtailement

For a defined benefit pension scheme, an event that reduces the expected years of future service of employees or for a number of employees, the accrual of defined benefit for some or all of their entitlement. Examples include: -

- Termination of employees' services earlier than expected (for example as a result of discontinued operations); and
- Termination of, or amendments, to the terms of a defined benefit scheme, so that some or all future services by current employees no longer qualify for benefits or will qualify for reduced benefits.

Debtors

Amount of money owed to the Authority by individuals and organisations.

Deferred Capital Receipts

The balance of outstanding mortgages granted to purchasers of council houses.

Deferred Liabilities

These are creditor balances repayable after one year.

Defined Benefit Scheme

A pension scheme that defines the benefits independently of the contributions payable. Benefits are not directly related to the investments of the Pension Fund.

Depreciation

A Provision made in the accounts to reflect the value of assets used during the year. Depreciation forms part of the capital charge made to Service Revenue Accounts.

Earmarked Reserves

Amounts set aside for a specific purpose to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.

Fair Value

The amount that an asset can be exchanged or a liability settled between knowledgeable and willing parties in an arms length transaction.

Finance Lease

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Financial Instruments Adjustment Account (FIAA)

Provides a balancing mechanism between the different rates at which gains and losses are recognised under the CIPFA Code of Practice and are required by Statute to be met from the Revenue Reserve.

Financing activities

Are activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

Revenue Reserve

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

General Fund Working Balance

Revenue Funds that are uncommitted and available to support general funding pressures not otherwise specifically covered by planned budget or earmarked reserves.

Government and Other Capital Contributions Deferred

Capital Grants received which will be credited to revenue in future years in line with depreciation for related fixed assets.

Historic Cost

The actual cost of an asset in terms of past consideration as opposed to its current value.

Impairment

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

Intangible Fixed Assets

Non-financial fixed assets that do not have physical substance but are identifiable and controlled by the Authority, for example purchased software licences.

Investing activities

Are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

Minimum Revenue Provision (MRP)

The amount that has to be charged to revenue to provide for the redemption of debt.

Net Book Value

The amount at which fixed assets are included in the Balance Sheet after depreciation has been provided for.

Net Current Replacement Cost

The current cost of replacing or recreating an asset in its existing use adjusted for the notional depreciation required to reflect the asset's existing condition and remaining useful life.

Net Realisable Value

The open market value of the asset less the expenses to be incurred in realising the asset.

Non Current Assets (Tangible Fixed Assets)

Tangible Assets that yield benefits to the Local Authority and the services it provides for a period of more than one year.

Non-Operational Assets

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of its services. Examples are investments and surplus properties.

Operating activities

Are the activities of the entity that are not investing or financing activities.

Operating Lease

A lease other than a finance lease, i.e. a lease that permits the use of the asset without substantially transferring the risks and rewards of ownership.

Operational Assets

Fixed assets held, occupied, used or consumed by the Authority in the direct delivery of its service.

Other Comprehensive Income and Expenditure

Comprises items of expense and income (including reclassification adjustments) that are not recognised in the Surplus or Deficit on the Provision of Services as required or permitted by the Code. Examples include changes in revaluation surplus; actuarial gains and losses on defined benefit plans; and gains and losses on remeasuring available-for-sale financial assets.

Other Comprehensive Income

A Statement bringing together all the gains and losses of the Authority.

Outturn

The actual level of expenditure and income for the year.

Post Balance Sheet Events

Those events that relate to the accounting year, both favourable and unfavourable, which occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the Director of Finance and Resources.

Private Finance Initiative

A Central Government initiative whereby contracts are let to private sector suppliers for both services and capital investment in return for a unitary payment, which may be reduced if performance targets are not met.

Projected Unit Method

Actuarial valuation method whose key feature is to assess future service cost; the Actuary calculates the employer's contribution rate, which will meet the cost of benefits accruing in the year after the valuation date. This method is considered appropriate for a Pension Fund open to new members.

Provisions

Amounts set aside for liabilities and losses, which are certain or very likely to occur but where the exact amount or timing of the payment are uncertain.

Public Works Loans Board (PWLB)

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

Reclassification adjustments

Are amounts reclassified to Surplus or Deficit on the Provision of Services in the current period that were recognised in Other Comprehensive Income and Expenditure in the current or previous periods.

Registered Social Landlord

A not for profit organisation that owns and manages homes.

Reserves

Amounts set aside that do not fall within the definition of a provision, to fund items of anticipated expenditure. These include general reserves or balances, which every Authority must maintain as a matter of prudence.

Revaluation Reserve

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

Revenue Expenditure

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

Revenue Support Grant

Grant paid by the Central Government to Local Authorities. This grant is not attributable to specific services.

Statement of Movement on its General Fund Balance

A Statement that sets out reconciliation between the statutory provisions that specify the net expenditure that needs to be taken into account when setting local taxes and the Income and Expenditure Account.

Surplus or Deficit on the Provision of Services

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

Support Services

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

Total Comprehensive Income and Expenditure

Comprises all components of Surplus or Deficit on the Provision of Services and of Other Comprehensive Income and Expenditure.

Abbreviations used in Accounts

AGS	Annual Governance Statement
BVACOP	Best Value Accounting Code of Practice
CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government
CODE	Code of practice on local authority accounting
ELWA	East London Waste Authority
FIAA	Financial Instruments Adjustments Account
FRS	Financial Reporting Standard
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
LBR	London Borough of Redbridge
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
MRP	Minimum Revenue Provision
PFI	Private Finance Initiative
PWLB	Public Works Loans Board
SORP	Statement of Recommended Practice
SSAP	Statement of Standard Accounting Practice
STRGL	Statement of Recognised Gains and Losses