

Annual Audit and Inspection Letter

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Merseyside Waste Disposal Authority

Audit 2005/06

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Key Messages

The outcome of the audit for 2005/06 was reported to Members of the Governance Committee in our Governance Report on 29 September 2006.

We gave an unqualified opinion on the authority's statements of accounts on 29 September 2006 and our first conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

We found that the Authority met the required standard for securing value for money. It performs well in monitoring and reviewing performance, risk management, financial management, and ensuring probity and propriety.

The Authority could do more to set review and implement objectives, ensure that services meet user needs, ensure data quality, manage and improve VFM, and to manage its asset base.

Our Governance Report concentrated on the value for money conclusions and the audit opinion at a high level. Other key messages for Members are highlighted here.

Waste Management inspection

We carried out an inspection of Waste Management which concluded that the Waste Disposal Authority (WDA) provides a one star (or fair) service that has promising prospects for improvement. The Authority is taking a proactive approach to managing waste in the sub-region and is taking steps to improve the value for money of services for local people. We found:

- improved levels of recycling, although targets are yet to be met.
- helpful staff and accessible services.
- there was significant investment in facilities, people and systems to drive forward the procurement programme for the future provision of waste management and treatment facilities which will reduce the damage to the environment.

Areas for improvement included

- the need to improve dialogue with local communities and the voluntary sector.
- Improving the approach to education and raising awareness about the environmental impact of rising waste and low recycling levels.

Procurement of waste disposal facilities

The Authority is working with partners to secure the procurement of waste disposal facilities for Merseyside into the future. The partnership has identified the procurement models and is committed to the significant financial costs of the project. The next critical phase of the procurement is the identification and agreement of potential sites for new facilities and the agreement of planning permission. The Authority will need to continue to work closely with partners to ensure the success of this phase of the project.

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The purpose of this letter

- 1 The purpose of this Annual Audit and Inspection Letter (letter) is to summarise the key issues arising from the work that we have carried out during the year. Although this letter is addressed to the members of the Authority, it is also intended to communicate the significant issues we have identified, in an accessible style, to key external stakeholders, including members of the public. The letter will be published on the Audit Commission website at www.audit-commission.gov.uk.
- 2 This letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.

The responsibilities of the auditor and the Authority

- 3 We have been appointed as the Authority's independent external auditors by the Audit Commission, the body responsible for appointing auditors to local public bodies in England.
- 4 As the Authority's external auditors, we have a broad remit covering financial and governance matters. We target our work on areas which involve significant amounts of public money and on the basis of our assessment of the key risks to the Authority achieving its objectives. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

The scope of our work

- 5 Our main responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we are required to review and report on:
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and
 - the Authority's accounts
- 6 We are also able to carry out inspections.
- 7 We reported the outcome of our audit work in our annual Governance Report to the Governance Committee on 29 September 2006. The annual governance report is a new requirement for auditors to communicate with 'those charged with governance' at the Authority, which in the case of the WDA is the Governance Committee. We do this so that there is a good understanding of the scope of our audit, the work we do and the conclusions we reach before we finalise our work.

Waste Management Inspection

- 8 We carried out an inspection of Waste Management in March 2006 which concluded that the Waste Disposal Authority (WDA) provides a one star or fair service that has promising prospects for improvement. The Authority is taking a proactive approach to managing waste in the sub-region and is taking steps to improve the value for money of services for local people.
- 9 The WDA provides an adequate service and performance has improved in recent years. However, the WDA faces a number of significant challenges as its performance in key areas is still relatively low. It does not yet achieve its statutory recycling target, nor is its contractor achieving the contractual recycling rates at the Household Waste Recycling centres. Waste reduction and reuse is not carried out in a structured or co-ordinated way.
- 10 The Authority's prospects for improvement are promising. The Authority is taking a robust approach to managing the future for waste in the sub-regions and decision making with partners is better. The Authority and the Merseyside Councils have taken the important step of agreeing a more environmentally sustainable tonnage based levy; district action plans have been ratified; an Outline Business Case for procurement for residual waste has been submitted to DEFRA. This focus needs to be maintained if improvements are to be achieved and sustained.
- 11 Further areas for improvement include user and community consultation. The Authority has demonstrated good examples of project based consultation and in terms of developing a longer term waste strategy and policy. It now needs to develop ongoing dialogue with the community in terms of continuous service design and development.

Use of resources

Value for money conclusion

- 12 The Value for Money conclusion is a new requirement for 2006. We are required by the Code of Audit Practice to issue a conclusion on whether we are satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion and requires us to review evidence that is relevant to the Authority's corporate performance management and financial management arrangements.
- 13 The VFM conclusion is reached by assessing whether the Authority meets 12 specific criteria set by the Audit Commission, including:
 - monitoring and scrutiny of performance;
 - maintaining a sound system of internal control;
 - managing its significant business risks;
 - managing and improving value for money;

- ensuring that it's spending matches its available resources;
 - managing performance against budgets; and
 - promoting and ensuring probity and propriety in the conduct of its business.
- 14 We concluded that the Authority has adequate arrangements in place in relation to all the above criteria and an unqualified value for money conclusion was issued. In a number of areas it performs well including: monitoring and reviewing performance; risk management; financial management, and ensuring probity and propriety.
- 15 There are some areas where there remains scope for improvement, these are summarised below:
- Setting reviewing and implementing objectives - our recent Inspection highlighted a number of strengths but target setting needs to be more robust.
 - Ensuring that services meet user needs - the Authority has engaged with users and stakeholders on key issues but could improve its arrangements for using consultation to influence on-going service delivery and improvement.
 - Ensure data quality - the good procedures already in place for ensuring data quality would be strengthened by developing an overarching data quality strategy and by building data quality requirements into the performance management framework .
 - Manage and improve VFM - the authority's arrangements for ensuring it delivers value for money would be strengthened by better use of comparative data. This would help the Authority to understand any differences and use the information to review cost-effectiveness and demonstrate value for money.
 - Management of asset base - the arrangements for managing the asset base can be developed by making the links to policy and strategy more explicit

Strategic Waste Procurement

- 16 MWDA has developed a Joint Municipal Waste Management Strategy (JMWMS) with its partners in Merseyside. The strategy recognises that the current waste disposal contracts are coming to an end in 2008, that the landscape of waste disposal has changed and that it will continue to change. The strategy has been developed partially in response to the increasingly stringent targets for waste minimisation, landfill and recycling that the WDA and Merseyside has to work to achieve.
- 17 MWDA is working as a part of the Mersey Waste Partnership to procure new waste management contracts that will enable Merseyside to meet the statutory demands for reducing waste which goes to landfill and for increasing recycling. The District Councils are key players in the Waste Disposal partnership and while MWDA takes a lead it is developing the approach to waste disposal solutions alongside its partners.

- 18 A PFI proposal has been submitted to assist in the funding of the new facilities that will be required to support the JMWMS. We have already reviewed the outline business case and have agreed that there is potential for the project to be treated as 'off balance sheet' in accounting terms. Final approval by the project review group (a cross departmental government decision making group) is expected in November.
- 19 A significant challenge facing the Authority and its partners will be in identifying potential sites for new waste disposal and recycling facilities and then in securing planning permission from those authorities. The WDA and partners have an agreed strategy for the planning stage. It will be critical to the project to ensure that the partnership continues to work together through the site identification and planning approval stages, particularly as this will also impact on support from DEFRA.
- 20 This waste procurement is the most important project that the WDA will take part in. The way it is working with partners to ensure they are bought in to decisions provides a good framework for ensuring the success of the project. It will be important to maintain the strength of the partnership and to encourage ownership from key partners when the project reaches the potentially difficult site selection and planning permission stages. We will continue to work alongside the Authority as it proceeds with this strategically significant procurement.

Financial position

- 21 The Authority is in a financially healthy position. The general reserves increased from £4.8m at the start of the year to £9.4m at the end of the year. The main reason for this was that there was a £5m underspend compared with levy income for the year.
- 22 The main reason for the underspending was that at the time the budget and levy was set the accounting treatment of landfill allowances was not clear, so a very prudent approach was adopted. During the year when the actual accounting treatment of landfill became clear the Authority's prudent approach enabled it to save £2.7m. The other significant savings in the year came from a reduction in the total amount of waste collected (£1.1m) and a reduction in waste arisings in the recycling contract (£1.2m). These reductions in waste tonnages were unexpected and it will be important for the Authority to understand whether they represent an unusual change or whether they reflect a longer term pattern when planning for waste disposal and the levy in the future.
- 23 The balances set aside have been divided between £1.5m earmarked to meet advisor costs for the Contracts Procurement, £2.6m to meet future Landfill Allowances Trading Scheme (LATS) liabilities, and unallocated reserves of £5.3m. The latter is available to support unexpected contingencies. The Authority is now aware of a likely contractual claim which could significantly reduce unallocated reserves, a contingent liability was included in the statements of accounts to reflect the possible claim. In addition, an increase in the cost of advisors is anticipated in the sum of £1m. The Authority's half-year budget review suggests there will be a surplus of £1m for the current year which would provide further support for these potential costs.

- 24 A waste management model has been created covering the period 2007/2008 to 2033/2034 which incorporates the implementation of the Joint Municipal Waste Management Strategy for Merseyside. The model shows that the total revenue costs for that period amount to £3.3 billion with capital expenditure in the order of £0.4 billion. The model reveals two years where there are significant peaks in terms of revenue expenditure. These peak years 2010/2011 and 2013/2014 correspond to the Recovery Contract processes being introduced.
- 25 In order to eliminate a very significant impact affect on future levies in the peak years a sinking fund has been established with significant contributions commencing in 2007/2008. This has resulted in levy projections of 15.4% in the first seven years, 4% in year 8 and inflationary increases thereafter. This proposal has been accepted by the District Councils. MWDA has given a commitment to the Districts to keep them fully involved in the implementation of the waste management strategy at all stages.

Best Value and Data Quality

- 26 We carried out a review of your Best Value Performance Plan and your arrangements for ensuring the Performance Indicator information was accurate. The BVPP meets all the statutory requirements and goes a long way further in providing information on the strategic management of the organisation.
- 27 We used the Audit Commission's new Data Quality approach to the review of performance information. The management arrangements for ensuring the quality of performance information are assessed as meeting the requirements, and are therefore adequate. There is scope for strengthening the arrangements with the introduction of a strategy to underpin the production and quality of data across the Authority's activities.
- 28 Our detailed review of selected performance indicators revealed that they had been calculated in accordance with the guidance. We have not qualified any of the performance information.

The audit of the accounts

- 29 We gave an unqualified opinion on the Authority's financial statements on 29 September 2006 in advance of the deadline of 30 September.
- 30 The accounts presented for audit were available on time and there were no other significant issues which required a report to the Authority in relation to the accounting statements or the underlying systems that were also reviewed.
- 31 For the first time the Authority was required to complete a return for Government to support the preparation of the Whole of Government Accounts (WGA). We reviewed the WGA submission and were able to confirm to DCLG that it was in line with the accounts.

Closing remarks

- 32 This letter has been discussed and agreed with the Director of Waste Disposal and the Clerk. A copy of the letter will be presented at the Authority in the near future, and copies will be provided to all Authority members.
- 33 Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Authority during the year. These are listed in the following table.

Table 1

Report	Issued
Audit Plan	March 2005
Waste Disposal Inspection report	April 2006
Annual Governance Report including opinion on accounts and VFM conclusion.	September 2006
Annual Audit and Inspection Letter	November 2006
Final accounts memo	November 2006

I would like to take this opportunity to thank the Authority for its assistance and co-operation during the course of the audit.

Judith Tench
District Auditor and Relationship Manager

November 2006