

### West London Waste Authority update

1. **Background** – Following the January meeting of this Brent Committee the Chair wrote to the Director of the Authority raising a number of issues. The response of the Director is attached as Appendix One to this report.
2. **Introduction** – The Chair of the Committee contacted the Director of the Authority again in June inviting him to attend the July meeting to provide an update on progress since March. It is understood that the following points are of particular interest:-
  - How the changes you outlined have impacted on WLWA practices?
  - Detail of the new and revised processes in place?
  - Outcomes to date
  - What checks and balances have been put in place?
  - What impact all of this has had on the Authority's recent major procurement?
3. **New Officers of the Authority** – WLWA is a small single purpose local authority. To assist the Director in the operation and governance of the Authority, three part-time chief officers are employed. All of these officers are senior full time members of staff within one of the Authority's constituent boroughs. During the latter part of 2012 new officers were appointed to the posts of Treasurer and Chief Technical Advisor. The part time officers of the Authority are now:-
  - Clerk – Richard Gruet Assistant Director of Corporate Governance, Hounslow Council
  - Treasurer – Ian O'Donnell Executive Director Corporate Resources, Ealing Council
  - Chief Technical Advisor – Keith Townsend – Executive Director Environment & Customer Services Ealing CouncilWorking with the Director these officers have begun a thorough review of the Authority's governance arrangements and improvements to interfaces with the constituent boroughs.
4. **Establishment of Audit Committee** - A very significant step has been the establishment of an Audit Committee. The purpose of this Committee, which is scheduled to meet for the first time on 19th July, is to support the Authority members in their responsibilities for issues of risk control and governance. The Audit Committee will review the comprehensiveness of assurances provided to the Authority by the Treasurer and others by reviewing the reliability and integrity of their analysis. Councillor Mashari of Brent is a member of the Audit Committee. The Committee's work programme includes the review of statements of accounts, review of internal and external audit reports, review of the corporate risk register reports and preparation of the Annual Statement of Governance. The agenda reports for this Committee are available at this link:- <http://democraticservices.hounslow.gov.uk/ieListDocuments.aspx?MId=8105&x=1>
5. **New Code of Corporate Governance** – In December 2012 CIPFA working with Solace produced new guidance requiring local authorities to publish a code of corporate governance against which the authority would assess itself on annual basis. The Authority has used this new guidance to prepare the first code for the West London Waste Authority, assessing the six core principles of the new code for any local authority. The draft Code was reported to the Audit Committee on 19<sup>th</sup> July, including our action plan to address areas of weakness identified in corporate governance. Work is progressing on many of the internal procedures required which should be complete by the end of this year. A more long term project is to review and update the Joint Municipal Waste Management Strategy between the Authority and its six constituent boroughs. The existing strategy which dates from 2005/2006 contained eight key principles including recycling targets, diversion of waste from landfill targets, etc. With the excellent progress that the boroughs have made on improving recycling collections, and the completion of the residual waste services procurement project, most of the objectives in the existing Joint Waste Municipal Waste Management Strategy are now either in progress or complete. A joint Authority and borough workshop was held on Friday 21<sup>st</sup> June to begin

considering the requirements of the new strategy. Cllr Mashari and three Brent Officers attended this event. It is anticipated that the development of the new strategy will take some time, and whilst an interim business plan will be prepared for adoption by the Authority in September 2013, the new Joint Waste Management Strategy is being prepared for adoption by the new Authority administration in June 2014.

- 6. Interim Head of Finance** – At a more operational level, an Interim Head of Finance has been appointed by the Authority. The officer was formally an Assistant Director with the London Borough of Richmond. She has been tasked with the improving the Authority's financial management systems including a complete review of the financial regulations for approval by the Treasurer and Members of the Authority. She has already instigated a number of actions as shown in Appendix Two. She will remain with the Authority until a new, full time Head of Finance and Performance can be recruited later this year.
- 7. Review of Finance Systems** - The Authority currently uses the Harrow SAP finance system; has a shared bank account and joint VAT registration with Harrow. The external auditors for the last two years have expressed their concerns about the shared bank account and the difficulties in reconciling and identifying separately the balances held on behalf of the Authority. SAP is currently accessed by Citrix and a combination of limited remote accessibility and internal controls which are inappropriate for the Authority's small finance team and make it unfit for purpose. The Treasurer has been instructed to explore the options of a new independent finance system for the Authority which would in addition require separate VAT registration and our own Bank Account. This will help to make finance processes more streamlined and information timelier. A report on the proposals will be brought back to the Authority later in the year.
- 8. Closure of Accounts 2012/13 and external audit** - The Authority's draft statement of accounts for 2012/13 were signed off by the Treasurer by 30<sup>th</sup> June. The final draft outturn is in line with projections during the final periods of 2012/13 against the revised budget. The Authority's external auditors Deloitte began their audit on 10<sup>th</sup> June including a risk-based inspection of the accounts and working papers. The audit visit was completed on programme. Whilst there are a number of non-material issues outstanding which are currently being resolved, it is anticipated that the final statements of accounts will be complete for approval at the Authority meeting in September.
- 9. Improved Transparency and Engagement with Borough Officers** - Both the new Treasurer and Chief Technical Advisor have been working with the Director to ensure that Boroughs are fully consulted and engaged in the work programme of the Authority. Bi-monthly meetings with borough technical and finance officers have been scheduled for the remainder of the year. The timetable for preparing Authority reports now includes, not only for early informal consultation through the afore mentioned meetings, but also for a consultation period during the detailed drafting of reports prior to finalising for publication. A joint Authority Borough workshop to prepare the new Joint Municipal Waste Management Strategy has taken place, and borough officers have also been fully engaged in two other important work streams for the Authority this year. The review of the Household Reuse and Recycling Centre provision across the whole of the Authority area has commenced, with a facilitated workshop to establish terms of reference prior to detailed analytical work to identify efficiencies and service improvements. Brent is represented on this group by Chris Whyte, Head of Recycling and Waste. The Authority needs to re-procure its organic waste treatment contracts and waste transport contracts for April 2014. These services have been excluded from the residual waste service procurement on the basis that market analysis suggests that more competitive prices can be obtained by separate tendering with specialist providers. Soft market testing was completed in early July; this was undertaken by a panel including both Authority and borough officers. Brent was represented on this panel by David Pietropaoli, Waste Policy Manager. There will be

ongoing opportunities for borough officers to contribute further to both of these projects including the tender evaluation.

**10. Outcomes to date** – Progress with a range of improvements to both the governance and operation of the Authority are shown in Appendix Two. The Director will be pleased to discuss any points of interest at the meeting.

**11. Residual Waste Procurement Update** – As the Scrutiny Committee members will be aware the Authority appointed Sita UK Ltd as the preferred bidder for the residual waste services procurement on the 26<sup>th</sup> April 2013. The appointment of Sita followed a two year competitive dialogue process which reflected best practice in procurement. The process adopted was guided by the Defra waste infrastructure development programme and the Authority used external legal, financial and technical advisors. PRINCE 2 project management methodology has been used as for the procurement. The Authority's Chief Technical Advisor acts as the Project Sponsor with the Director being the officer responsible for delivering the procurement. A Project Board has been established, with appropriate delegations from the Authority, to allow the procurement to be managed responsively. The Project Board includes representatives from the directors of environment and the directors of finance from the constituent boroughs. In the past, Brent directors have filled some of these roles though they are currently covered by directors from Richmond Council. This procurement has been successful and delivered a very competitive financial and environmental solution to the Authority and its constituent boroughs for a twenty-five year plus period. It guarantees that 96% of waste that cannot be recycled by the boroughs will be diverted from landfill through an energy recovery process. A new plant will be constructed by Sita at Avonmouth near Bristol, and waste will continue to be transported by rail from the Authority's existing Waste Transfer Stations. The contractual arrangements have contingency for waste growth and do not limit in any significant way the opportunities for boroughs to recycle and compost more of their waste streams. The procurement has not been effected by the other problems of the past twelve months. The procurement represents an example of good co-operation with the boroughs that will be adopted and used more widely in the future, although this needs to be appropriate to the scale of the project in question.

**COUNCILLOR ALISON HOPKINS**  
**LIBERAL DEMOCRAT COUNCILLOR**  
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18<sup>th</sup> February 2013

Jim Brennan  
Director  
West London Waste Authority  
Pavilion AF  
Civic Centre  
Lampton Road  
Hounslow TW3 4DN

Dear Mr Brennan,

Following the meeting of Brent Council's Budget and Finance Overview and Scrutiny Committee on the 15<sup>th</sup> January 2013, I am writing to you to express our grave concerns at the financial crisis which has arisen at the West London Waste Authority. The Committee asked a number of serious and searching questions at that meeting, which we believe should be answered in full by the authority.

The unanticipated financial burden on all six member councils' budgets caused by the WLWA's failure comes at a time of particular hardship for us all. The £600,000 in year additional levy imposed on Brent will undoubtedly result in other services suffering.

The Committee's concerns are as follows:

1. What was the precise sequence of events which led to the unreported, unanticipated and unknown budget shortfall of £2.6 million, with the consequent levy of £3.6 million?
2. How long had these issues existed, and how confident is WLWA that finances were both properly reported and correctly monitored in previous years?
3. Why did the authority's internal processes not detect the grave structural failings in WLWA's financial management?
4. Why was the failing in accounting only discovered by a third party?
5. Why were there no safeguards in place to prevent occurrences such as the overpayment of invoices by £350,000?
6. Given that the failing was apparently institutional, what steps have been put in place to ensure all those involved do not do this again?
7. Why were individual member councils not formally informed of the problem as soon as it was discovered, and certainly once PWC were engaged?
8. Why was Brent Council's Budget and Finance Overview and Scrutiny Committee not told?

9. PWC's report was effectively a sample audit rather than a forensic examination. Given that it revealed serious overpayments and careless management of suppliers, how confident is WLWA that all monies have been recovered for both this and previous years?
  
10. Under what circumstances did the Financial Director leave the WLWA and what other sanctions were taken against responsible staff?

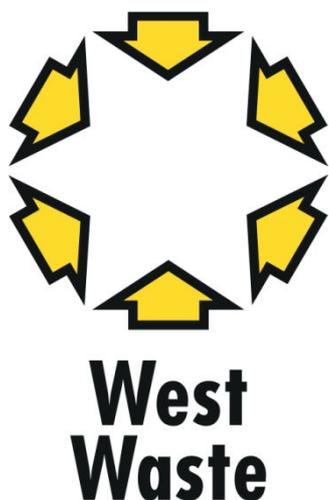
I would be grateful if you could respond to these points as a matter of urgency.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Alison Hopkins', written in a cursive style.

**Cllr. Alison Hopkins**  
**Chair, Budget and Finance Overview & Scrutiny Committee**  
**London Borough of Brent**

## Appendix One Word Version of my letter to Cllr Hopkins 11<sup>th</sup> March 2013



### West London Waste Authority

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Date: 11 March 2013

Your ref:

Cllr Alison Hopkins  
Chair, Budget and Finance Overview & Scrutiny  
Committee  
Brent Council  
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Middlesex  
HA9 9HD

Dear Councillor Hopkins

### West London Waste Authority

Thank you for your letter of 18<sup>th</sup> February expressing the concerns of your Scrutiny Committee at the financial management of this Authority. Before responding to the detailed points that you have raised on behalf of your Committee, I would like to stress that the raising of a supplementary levy was an act of last resort. The Authority fully understands the additional burden that this places on already stretched borough budgets and vigorous attempts were made to contain the pressure within the Authority's own budget. Unfortunately the Authority's traditional practice of using any anticipated surplus reserves (above £2m) to reduce the levy burden on the constituent boroughs made containment of the in year budget pressures impossible. My response is numbered to correspond to the points raised in your letter.

1. The sequence of events is set out below:

**January 2012** – In year financial monitoring for 2011/12 forecasts a £2.8m underspend in 2011/12. Based on this projection, the Authority commits £2.8m of the anticipated surplus reserves to support the 2012/13 budget and reduces the fixed cost levy budget by £1m for 2012/13. This is a net saving of £3.8m for the boroughs in 2012/13.

**March 2012** - Additional Harrow shared officer financial support put in place to support Authority's in-house finance team to address capacity issues with the residual waste procurement that led to a failure to publish 2011/12 accounts on time.

**June 2012** – Revised finance team complete 2011/12 accounts. This identifies the errors in the previous year's financial monitoring; with revised forecast of a projected underspend of £500k (later revised to £200k) rather than £2.8m underspend. Interim Treasurer appoints PwC to review financial position of the Authority. Potential overspend for 2012/3 identified as £0.5m, but always seen as a high risk estimate i.e. no other pressures arising, existing or new.

**July 2012** – PwC review completed and presented to a special meeting of the Authority. Budget problem of £1.116m reported for 2012/13; made up of errors in budget setting and new, in year pressures relating to changes in application of landfill tax to sorting of mixed waste. Recovery Plan identified to address predicted overspends. The Assistant Director (Resources), the Authority's accountant leaves. The Interim Treasurer becomes more involved in day to day work of the Authority's finance team.

**September 2012** – Reported anticipated overspend in year of £0.9m, including reduced effectiveness of the Recovery Plan to £0.7m

**External Audit and Publication of 2011/12 accounts** - Since September progress made by the Authority's finance team, supported by Harrow officers, with the implementation of the recommendations in the PwC report, but further work still required to complete. The external audit of the Authority's 2011/12 Accounts was completed on time and an unqualified opinion issued.

**October 2012** - Whilst residual waste tonnage arisings are down by about 5% in year, there had been an increase of almost 9.5% in tonnages of CA sites, the costs of which are met from the Fixed Cost Levy (FCL). In addition, the changes to the interpretation of the landfilling of fines (from May) and the doubling of the cost of disposal of wood waste created additional pressures on the already under provided Authority FCL budget. Whilst a number of the actions in the Recovery Plan have been delivered including the reduction in costs of mattress recycling, rents and rates for the Authority sites, etc. Other actions, such as the introduction of charging for DIY waste have not yet delivered the income projected. Unfortunately, as more detailed work on the budget was completed significant omissions in budget provision were identified and these effectively reduced the benefit of the Recovery Plan to approximately £200k. Therefore, in addition to the £1m reduction in the budget, there were budget omissions of £410k as well as the £1m further pressure on the HRRCs.

The projected out turn position reported to the Authority, based on the half year position, was an over spend of £2.66m. This was considered an accurate estimate based on detailed analysis, but did not allow any contingency for new pressures that may develop in the second half of the year for which there are effectively no reserves. The Authority therefore agreed to call for a supplementary levy of £3.6m to cover the estimated overspend and provide in year reserves should other pressures arise. This is almost equivalent to the level of reserves erroneously committed to support the FCL budget this year and the unsustainable budget reduction of £1m to the FCL. The Authority issued a levy notice on the Boroughs on 4<sup>th</sup> November detailing the actual costs to individual boroughs based on Council Tax Base. It is proposed to collect the levy in January, February and March 2013.

**November 2012** – Budget forecasting based on period 7 confirms the projected overspend to be £2.6m.

**January 2013** – Budget forecasting for period 9 projects out turn on FCL to be an overspend of £2.67m.

2. The problems with financial monitoring developed during 2011/12, and are linked to both the change in the levy mechanism (adopted for the first time that year), and pressure on resources in the finance team due to the residual waste services procurement. There is no evidence of incorrect monitoring in previous years.
3. Neither the Authority's internal processes nor external checks picked up the problem straight away, however it was an internal review which uncovered the failings in financial monitoring as detailed above, but not until some four months after the budget for 2012/13 had been set based on erroneous financial projections.
4. The Authority has reviewed the structure and staffing of the finance team. Before the error in financial monitoring in 2011/12 had been discovered the Authority in (March 2012) introduced a shared officer arrangement with Harrow to replace an interim finance officer. It was this new finance team that discovered the error as part of the year end accounting process. The Assistant Director (Resources), the Authority's internal lead financial officer left in July. A new Treasurer was appointed in December 2012, and there is an on-going review of all of the Authority's financial monitoring processes by the Treasurer and a new Interim Head of Finance. Any further changes to finance systems will be reported to the Authority. PwC were appointed by the Treasurer to investigate and give an independent review of the Authority's financial management systems. They did not undertake a full accounting audit; this was done as a matter of routine external audit in the summer of 2012 by Deloitte. The outcome of the Deloitte audit was reported to the Authority on 21<sup>st</sup> December 2012. Their report is available on this link <http://democraticservices.hounslow.gov.uk/mgConvert2PDF.aspx?ID=76436>
5. Overpayment of an invoice for £354,191.67 to McGovern Haulage Ltd had already been picked up and remedied by the Authority before the PwC review. Further safeguards have been introduced to reduce the risk of overpayments occurring in the future.
6. See response to 4 above
7. As explained in paragraph 4 above, the errors in financial monitoring were discovered by the in house team at the end of May 2012. PwC were appointed on 12<sup>th</sup> June 2012 and the matter reported to the Authority meeting on 22<sup>nd</sup> June. The papers for this meeting were published on 14<sup>th</sup> June, and copies sent to senior officers of the boroughs.
8. The Authority is fully committed to the borough scrutiny process as a partner authority and as well as providing information, officers would be happy to attend a Scrutiny Committee if requested.
9. It is acknowledged that the PwC report was not a forensic examination of the Authority's financial systems. The scope of PwC's engagement is set out in their report (available on this link <http://democraticservices.hounslow.gov.uk/mgConvert2PDF.aspx?ID=72680> ). Essentially they were engaged to undertake a review of the outturn position and budget setting to help the Authority understand variances from budget and prior year in the outturn position for 2011/12 to inform the budget setting process for 2012/13. Whilst the PwC report identified some issues and made some recommendations with respect to overpayments to and management of suppliers, they did not identify any unrecovered amounts from previous years. The PwC recommendations in this area have now all been addressed.

10. The officers of the Authority undertook a review of the finance team last summer when these problems were discovered. A confidential report was considered and agreed by the Authority and the agreed actions implemented. There is an on-going review of the Authority's finance team and working processes which is being led by the Authority's new Treasurer and the Authority will be receiving regular reports on progress.

If you require any further information please do not hesitate to contact me

Yours sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'J' and 'B' followed by a horizontal line extending to the right.

Jim Brennan  
Director, WLWA

## Appendix Two

Clerk - Item	Description	Progress	By whom	When
1	Set up of Audit Committee	Terms of reference and proposal to set up an Audit Committee to provide greater oversight of financial and governance matters	Interim Head of Finance	Complete
2	Meetings with internal and external audit held	<ul style="list-style-type: none"> <li>• Internal audit plan for 2013-14 agreed</li> <li>• The overtime IA reported to June meeting.</li> <li>• Income and expenditure review – Audit Committee 19<sup>th</sup> July</li> <li>• Contract Audit complete report to September meeting</li> </ul>	Interim Head of Finance	Contract Audit started with final report due in July 2013.  External Audit starts on 10 June 2013
3	Petty Cash	Now fully reconciled and new procedures put in place to ensure regular reconciliation	Interim head of Finance	28 Feb 2013
4	Procurement card	Procurement card now available at HQ on trial basis to reduce the need for Petty Cash and to make it easier to purchase <ul style="list-style-type: none"> <li>• spare parts for plant/machinery online</li> <li>• road tax for vehicles</li> <li>• travel tickets</li> <li>• stationery and other small value items where an invoice would be costly to process.</li> </ul>	Resources Manager	16 April 2013
5	Overtime – Internal Audit Report	New approval processes and monitoring put in place with effect from 1 March 2013.	Director	Update report to be discussed at Audit Committee on 19 July 2013.

6	Recruitment/Agency staff	New approval process for the recruitment of both permanent and agency staff. This requires the approval of the Treasurer and Director. Agency staff will be agreed for no longer than 12 weeks, after which point there will be an automatic review.	Director	Ongoing
7	Purchase Orders	All purchase orders are reviewed by the Interim Head of Finance and where appropriate challenged. Investigating the possibility of more staff having access to SAP for improved accountability.	Interim Head of Finance	Ongoing
8	Payment of invoices	Improvements to checking processes have been put in place – particularly around transport and disposal invoices.	Interim Head of Finance	31 March 2013
9	New chart of accounts for 2013-14	This is now agreed and is in place to take effect from 1 April 2013. The new structure will provide greater transparency of the transport and disposal costs which represent the Authority's largest area of expenditure.	Interim Head of Finance	31 March 2013
10	Financial Regulations	These were last reviewed in 2001. This will be completed and submitted to the Authority or proposed Audit Committee for adoption by September 2013.	Interim Head of Finance	Sept 2013
11	Job Descriptions	A review of all job descriptions within the finance team is taking place with revisions to those of the Head of Finance and Performance together with the Senior Accountant.	Interim Head of Finance	Complete.
12	Whistle Blowing	Draft policy in place for	Director	July 2013

	Policy	adoption at the earliest opportunity. Currently in consultation with the unions.		
13	Payroll	Improved payroll information secured to enable better budget monitoring moving forward.	Interim Head of Finance	Feb 2013
14	Sickness management	Improved reporting format now in place and monthly meetings held with managers to discuss progress made since last meeting. Training sessions undertaken for managers with second one planned to include union representatives.	Director	Ongoing
15	Debtors	Monthly review now undertaken by Interim Head of Finance. As a result there has had to be some write off of debt. New process put in place to credit check customers prior to allowing them to open an account.	Interim Head of Finance	Ongoing
16	Creditors	New supplier form put in place to ensure that they are bona fide companies and we have full contact details.	Interim Head of Finance	Ongoing
17	PAYT reconciliation between income and expenditure	Regular monitoring and reporting to Boroughs	Interim Head of Finance 2013	Ongoing
18	New computerized accounts system for the Authority	Project plan to be prepared and identification of appropriate system	Interim Head of Finance	August 2013
19	Code of Governance	Draft prepared for discussion at Audit Committee and then to be agreed at September 2013 meeting alongside Annual Governance Statement	Interim Head of Finance	July 2013

20	Single Status	HR support recruited and project plan agreed by WLWA.	HR support and Finance	September 2013
21	HR Policies	HR support developing policies to be agreed with unions. A project plan agreed for delivery by December 2013 of a complete suite (approx 60 policies)	HR support and Finance	December 2013
22	Consultation on restructure of finance and admin teams	Consultation completed in May 2013 with implementation from 3 June 2013	Director and Interim Head of Finance	Complete
23	Key performance indicators	An initial draft of KPI for the Authority has been prepared with further work to be undertaken. To be shared with the authority in September 2013	Interim Head of Finance	September 2013