Herefordshire Council

AGENDA

Audit and Governance Committee

Date:	**Monday 29 September 2014**
Time:	**10.00 am**
Place:	**Grand Jury Room, Shire Hall, St. Peter's Square, Hereford, HR1 2HX**
Notes:	Please note the time, date and venue of the meeting. For any further information please contact: **Governance Services** Tel: 01432 260635 Email: emma.daly@herefordshire.gov.uk

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Agenda for the Meeting of the Audit and Governance Committee

Membership

Chairman	**Councillor JG Jarvis**
Vice-Chairman	**Councillor EMK Chave**
	Councillor CNH Attwood
	Councillor PGH Cutter
	Councillor MAF Hubbard
	Councillor TM James
	Councillor Brig P Jones CBE
	Councillor PJ McCaull
	Councillor NP Nenadich
	Councillor J Stone

AGENDA

The Public's Rights to Information and Attendance at Meetings

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- Inspect agenda and public reports at least five clear days before the date of the meeting.
- Inspect minutes of the Council and all Committees and Sub-Committees and written statements of decisions taken by the Cabinet or individual Cabinet Members for up to six years following a meeting.
- Inspect background papers used in the preparation of public reports for a period of up to four years from the date of the meeting. (A list of the background papers to a report is given at the end of each report). A background paper is a document on which the officer has relied in writing the report and which otherwise is not available to the public.
- Access to a public Register stating the names, addresses and wards of all Councillors with details of the membership of Cabinet and of all Committees and Sub-Committees.
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- Have access to a list specifying those powers on which the Council have delegated decision making to their officers identifying the officers concerned by title.
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Do not delay your vacation of the building by stopping or returning to collect coats or other personal belongings.

The Chairman or an attendee of the meeting must take the signing in sheet so it can be checked when everyone is at the assembly point.

HEREFORDSHIRE COUNCIL

MINUTES of the meeting of Audit and Governance Committee held at Town Hall Chamber, Town Hall, 10 St Owen Street, Hereford. HR1 2SP on Tuesday 9 September 2014 at 2.00 pm

Present: **Councillor JG Jarvis (Chairman)**
Councillor EMK Chave (Vice Chairman)

Councillors: CNH Attwood, WLS Bowen, PGH Cutter, Brig P Jones CBE, PJ McCaull, AJW Powers, J Stone and DB Wilcox

In attendance: **Councillors CM Bartrum and EPJ Harvey**

Officers: **Bill Norman (Assistant Director Governance), Phil Jones (Grant Thornton), Terry Tobin (Grant Thornton)**

12. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor MAF Hubbard and Councillor NP Nenadich.

13. NAMED SUBSTITUTES (IF ANY)

In accordance with paragraph 4.1.23 of the Council's Constitution, Councillor AJW Powers attended the meeting as a substitute Member for Councillor MAF Hubbard and Councillor DB Wilcox attended the meeting as a substitute Member for Councillor NP Nenadich.

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES

RESOLVED: That the minutes of the meeting held on 23 June 2014 be confirmed as a correct record and signed by the Chairman.

16. HEREFORDSHIRE COUNCIL PIDA INVESTIGATION: REVIEW OF CUSTOMER RELATIONSHIP MANAGER IMPLEMENTATION

External Auditors, Grant Thornton UK LLP, presented the findings of a recent Public Interest Disclosure Act (PIDA) investigation concerning the implementation of the council's IT based customer relationship management (CRM) system and an agreed management action plan as a result of its findings.

Grant Thornton looked at two broad areas in its investigation, procurement and implementation of the CRM system, and made the following key points from the report:

- The business case for the project was very ambitious and not fully owned by parts of the council.
- The estimated savings in the business case of £1.6million were not supported by robust analysis. However it is difficult for the exact savings to be calculated.
- There is no evidence to suggest the procurement was not carried out properly.

- The senior officers involved in the project are no longer employed by Herefordshire Council. Every co-operation has been given to the investigation by the current senior officers.
- The CRM system in place is reasonably effective. However, it does not deliver all that was envisaged. It does not extend to all areas of the council and its partners, and it does not join up customer data to give a proactive response system.
- The cost of the implementation was £1million, an underspend of £0.5million. It is difficult to gauge if this was value for money as, although the system is over engineered for its current use, the spend is not incommensurate with an IT system of this kind.
- When looking at why the system has not delivered, the following conclusions were made –
    - The world changed, for example the Primary Care Trust was abolished.
    - The impact of austerity on the authority.
    - Changes in senior management.
    - The model of required customer service changed.
    - Corporate changes were not recognised.
- An action plan has been written with 5 key points, all of which have been agreed by the management board.

Grant Thornton UK LLP pointed out an error in their report. On page 9 the Annual Costs total figure should read £671,540 rather than £1,820,383. Grant Thornton confirmed that an amended version of the report would be sent to committee members as soon as possible.

Grant Thornton UK LLP confirmed the report and action plan has been shared with the complainant and that they are broadly satisfied with its content.

The following points were raised by members during the resulting discussion:

- Staff turnover has meant projects fail to continue or be driven through when staff leave. The driving factor needs to be projects rather than people.
- Contracts should have flexibility within them to enable the authority to cope when changes happen.
- With major projects the whole council needs to own the business case.
- What is being done to improve what is currently in place for CRM?
- Concerns were raised with the action plan. Members felt more details are needed to give assurance that the same mistakes will not happen again and that lessons have been learnt.

Following discussion from members, it was decided a Task and Finish Group should be created to scope and research work on governance structures, systems and procedures relating to procurement and projects. The membership of this group is to be confirmed at the briefing meeting on 23 September 2014 and circulated to all members prior to the next meeting on 29 September 2014.

The Assistant Director Governance pointed out that since the CRM implementation took place new senior officers are in post and now follow updated procedures. Members requested a report to the committee meeting on 26 November 2014 to give a perspective on what is done differently now and the current processes and procedures.

The Committee wished to commend the whistle blower for bringing the issue to the council's attention.

Resolved: That

(a) **The external audit report, including agreed management action plan, at Appendix 1 be noted.**
(b) **The Audit and Governance Committee form a Task and Finish Group to scope and research work on governance structures, systems and procedures relating to procurement and projects, to include matters such as avoiding over reliance on any individual and incorporating 'what if' challenges.**
(c) **The Assistant Director, Governance brings a report to the committee on 26 November 2014 explaining what is now done differently with major projects within the organisation since the CRM implementation.**

17. COMMUNITY GOVERNANCE REVIEW, ROSS-ON-WYE

The Assistant Director, Governance, presented a report following the Ross-on-Wye Community Governance Review. The principal recommendations were that Ross Rural Parish Council and Ross Town Council cease to exist and a new Ross-on-Wye Parish Council be formed all with effect from 1 April 2015.

Following the results of the consultation with Ross Rural Parish Council and Ross-on-Wye Town Council the Assistant Director, Governance, explained he had made an amendment to the recommendations as published in the agenda. He recommended that Point (n) be replaced with a recommendation that the new parish be represented by the councillors of Ross Rural Parish Council and Ross-on-Wye Town Council, as at 31 March 2015, for the period 1 April 2015 until the councillors for the new council, to be elected on 7 May 2015, come into office. As currently one councillor sits on both councils this will mean there will be 18 councillors representing the new parish for this period. Any councillor representing both councils on 31 March 2015 will only have one vote.

It was confirmed an effective date of 1 April 2015 is preferred as this ensures a consistent precept will be set for 2015/2016 for the whole of the new parish council's area. If the commencement date of the new council is later than 1 April 2015 there is a risk that different precepts could be charged. A precept can only be set once for the whole financial year.

For legal reasons, the name of the new council is recommended to be Ross-on-Wye Parish Council. However, it was confirmed the new council has the right to change its name and could change it to 'Town Council' if it so wished. If this were to happen the Chairman of the new council would have the right to be called Mayor.

It was pointed out that practical matters, such as staffing structure and financial issues, will need to be resolved by the new council. It would be very sensible if joint working between the two existing councils takes place prior to the commencement of the new council for practical arrangements to be discussed to ensure a smooth transfer. If any legal or administrative advice is required Legal and Governance Services at Herefordshire Council will provide this if requested.

Resolved: That

Audit and Governance Committee recommends to Council that with effect from 1 April 2015 ('the effective date'):

(a) **The existing parishes of Ross-on-Wye Rural and Ross-on-Wye Town shall be amalgamated to constitute a new parish;**
(b) **The new parish shall be known as 'Ross-on-Wye';**
(c) **The existing parishes of Ross-on-Wye Rural and Ross-on-Wye Town shall cease to exist;**

(d) The parish councils for the parishes of Ross-on-Wye Rural and Ross-on-Wye Town shall be dissolved;

(e) There shall be a parish council for the new parish of Ross-on-Wye;

(f) The name of that new council shall be 'Ross-on-Wye Parish Council';

(g) The first election of all parish councillors for the new parish of Ross-on-Wye shall be held on the ordinary day of election of councillors in 2015;

(h) The term of office of every parish councillor elected on the ordinary day of election of councillors in 2015 for the new parish of Ross-on-Wye shall be four years;

(i) The existing Ross Rural East and Ross Rural West wards of the parish of Ross-on-Wye Rural; and the existing Ross-on-Wye East and Ross-on-Wye West wards of the parish of Ross-on-Wye Town, shall all be abolished;

(j) The number of parish councillors to be elected for the new parish of Ross-on-Wye shall be eighteen;

(k) The new parish of Ross-on-Wye shall be divided into three wards which shall be named: Ross-on-Wye East, Ross-on-Wye North, and Ross-on-Wye West; and shall comprise the respective areas of the district wards bearing the same names;

(l) The number of parish councillors to be elected for each ward in the new parish of Ross-on-Wye shall be six;

(m) All the land, property, rights and liabilities of Ross-on-Wye Rural Parish Council and Ross-on-Wye Town Council shall transfer from those councils to the new Ross-on-Wye Parish Council;

(n) From the effective date until the councillors to be elected to the new parish council come into office, the new parish shall be represented by those persons who were councillors for Ross-on-Wye Rural Parish Council and/or Ross-on-Wye Town Council on the 31 March 2015 provided that any person who was a councillor for both of those councils on that date shall have only one vote on the new Ross-on-Wye Parish Council.

(o) That no recommendations be made to the Electoral Commission to request consequential alterations be made to any electoral areas of the County of Herefordshire District Council;

(p) The Assistant Director, Governance be given delegated authority to execute The County of Herefordshire District Council (Reorganisation of Community Governance) (Ross-on-Wye) Order 2014 ('the Reorganisation Order') (to be substantially in the form set out in Annex 3 to this report, subject to any necessary typographical and/or technical amendments) and publicise the outcome of the community governance review in accordance with section 96 of the Local Government and Public Involvement in Health Act 2007; and

(q) The Electoral Registration Officer be requested to commence preparatory electoral administrative work from 15 October 2014 as a consequence of the above changes; and that the Reorganisation Order shall have effect from that date for those purposes.

The meeting ended at 3.33 pm **CHAIRMAN**

Herefordshire Council

MEETING	**Audit and Governance Committee**
MEETING DATE:	**29 September 2014**
TITLE OF REPORT:	**Progress Report on 2014/15 Internal Audit Plan**
REPORT BY:	**Internal Audit - South West Audit Partnership**

Classification

Open

Wards Affected

County-wide

Purpose

The purpose of this Internal Audit Report is to update Members on the progress of internal audit work and to bring to their attention any key internal control issues arising from work recently completed.

The attached report (Appendix A) is a summary of the activity completed at 31 August 2014 for the 2014/15 audit plan.

Recommendation

That subject to any comments the Committee wishes to make, the report be noted.

Alternative Options

1 This report is for information and therefore alternative options are not applicable.

Reasons for Recommendations

2 To ensure compliance with good practice as set out in the Public Sector Internal Audit Standards (PSIAS).

Key Considerations

3 See Appendix A.

Further information on the subject of this report is available from
Jacqui Gooding - Audit Manager (SWAP) on Tel: 01432 260294 or 07872500675

Community Impact

4 The report does not impact on this area.

Equality and Human Rights

5 The report does not impact on this area.

Financial Implications

6 There are no financial implications.

Legal Implications

7 There are no legal implications.

Risk Management

8 There is a risk that the level of work required to give an opinion on the Council's systems of Internal Control is not achieved. This is mitigated by the regular active management and monitoring of progress against the agreed internal audit plan.

Consultees

9 The Chief Financial Officer (Section 151 Officer) was consulted in the drafting of this report.

10 Appendices

Appendix A - SWAP Plan Progress Report 2014/15

Appendix B - 2014/15 Annual Plan Progress

Appendix C - Audit Framework Definitions

Background Papers

- None identified.

Further information on the subject of this report is available from
Jacqui Gooding - Audit Manager (SWAP) on Tel: 01432 260294 or 07872500675

SWAP
SOUTH WEST AUDIT PARTNERSHIP
Delivering Audit Excellence

Herefordshire Council

Report of Internal Audit Activity

Plan Progress 2014-15 up to 31st August 2014

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

Contents

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Our audit activity is split between:

- **Operational Audit**
- **School Themes**
- **Governance Audit**
- **Key Control Audit**
- **IT Audit**
- **Grants**
- **Other Reviews**

Role of Internal Audit

The Internal Audit service for Herefordshire Council is provided by South West Audit Partnership Limited (SWAP). SWAP is a Local Authority controlled Company. SWAP has adopted and works to the Standards of the Institute of Internal Auditors, further guided by interpretation provided by the Public Sector Internal Audit Standards (PSIAS), and also follows the CIPFA Code of Practice for Internal Audit. The Partnership is also guided by the Internal Audit Charter approved by the Audit and Governance Committee at its meeting on 23rd June 2014.

Internal Audit provides an independent and objective opinion on the Authority's control environment by evaluating its effectiveness. Primarily the work includes:

- Operational Audit Reviews
- School Themes
- Cross Cutting Governance Audits
- Annual Review of Key Financial System Controls
- IT Audits
- Grants
- Other Special or Unplanned Reviews

Overview of Internal Audit Activity

Internal Audit work is largely driven by an Annual Audit Plan. This is approved by the Chief Financial Officer (Section 151 Officer) following consultation with the Senior Management Team. This year's (2014/15) Plan was presented to this Committee on 23rd June 2014.

Audit assignments are undertaken in accordance with this Plan to assess current levels of governance, control and risk.

These are actions that we have identified as being high priority or corporate risks that have been assessed as "Very High" or "High" and that we believe should be brought to the attention of the Audit Committee '

Report on Significant Findings/Risk

Appendix B is a summary of the Annual Plan for 2014/15 – a list of all audits as agreed in the Annual Audit Plan 2014/15. It is important that Members are aware of the status of audits as this information helps them place reliance on the work of Internal Audit and its ability to complete the plan as agreed.

Where a review has a status of 'Final' and has been assessed as 'Partial' or 'No Assurance', I will provide further detail to inform Members of the key issues identified.

For the audits completed to report stage no audits have been assessed as 'Partial' or 'No Assurance'.

For Operational Reviews an assessment on the management of each risk is included in the report. Any risks where the auditor's assessment of risk to the organisation is "Very High" or "High" will be reported to the Audit Committee. No risks have been assessed as Very High or High.

Completed Audit Assignments in the Period

Audit Plan Progress

The summary of the Annual Plan for 2014/15 (Appendix B) highlights progress to date. Based on the findings of each review, an overall control assurance is offered. For a summary of Control Assurance Definitions, Categorisation of Recommendations and Risk Levels, please refer to Appendix 'C'.

As can be seen from Appendix 'B', the following audits have been progressed to date:

Operational:

- In Progress, 3 Reviews
- In Development, 2 Reviews

Governance, Fraud and Corruption:

- Complete, 2 Reviews – (1 Reasonable, 1 Non-Opinion)
- Discussion Document , 1 Review
- In Progress, 1 Review
- Not Started, 2 Reviews

Follow Up Reviews: (Non-Opinion)

- Complete, 1 Review
- Draft, 1 Review
- In Progress, 2 Reviews

School Themes –: Prevention of Fraud

- Not Started, 1 Review
-

Key Control:

- Discussion Document, 2 Reviews

Completed Audit Assignments in the Period

Audit Plan Progress

ICT Reviews:

- In Progress, 1 Review

Grants:

- Complete, 2 Claims, 1 Grant Sign Off

Special Reviews

Unplanned work, special reviews or projects carried out on a responsive basis are requested by the Chief Financial Officer (Section 151 Officer).

A review to look at the processes, roles and responsibilities for school maintenance is currently in progress.

We keep our audit plans under regular review, so as to ensure we are auditing the right things at the right time.

Future Planned Work

As new and emerging risks are identified, any changes to the plan will be subject to the agreement of the Chief Financial Officer. Members will note that the Special Review is an additional audit to the plan and in agreement with the Chief Financial Officer an audit of equivalent days will be removed from the plan.

Conclusion

SWAP has appointed two new members of staff to the team who are currently receiving ongoing training. The three existing members of the team have made a positive start to the audit plan and have received training in the use of MKinsight – the audit management system used by SWAP.

Steady progress has been made against the 2014/15 plan. All quarter 1 work agreed before the Council joined SWAP is at report stage with the exception of User Access Management. This audit will look at access controls for Payroll and Accounts Payable as well as the centralised activities provided by Hoople ICT, e.g. data base administrator access as well as system administrator and user access controls. Hoople ICT has recently been operating without an agreed SLA; however the SLA has now been agreed.

This has meant that Hoople ICT are having to cost up resources, rather than work off a tariff basis, and has meant delays in obtaining access to the centralised activities. We took this issue to the client, and a date of the 22nd August was agreed to start the fieldwork in Hoople ICT – this has resulted in the delay in the completion of this audit.

Most of the quarter 2 audits are in progress with only three not started. The school theme review has been delayed because of the school summer break, but visits have been booked now that the Schools have returned.

There are no significant findings or high corporate risks to report at this time but I will update the Committee if this changes.

Appendix B

Herefordshire Council 2014-15 Audit Plan

Audit Type	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						5	4	3	2	1
Key Control	Payroll 2014-15	1	Discussion Document	Reasonable	0	0	0	0	0	0
Key Control	Accounts Payable 2014-15	1	Discussion Document	Reasonable	0	0	0	0	0	0
Governance, Fraud & Corruption	Expense Fraud	1	Discussion Document	Reasonable	0	0	0	0	0	0
Governance, Fraud & Corruption	Members Expenses	1	Completed	Reasonable	3	0	0	3	0	0
Operational	Housing - Home Point	1	In Progress		0	0	0	0	0	0
ICT	HC_User Access Management	1	In Progress		0	0	0	0	0	0
Grant Certification	Green Deal Pioneer Places Grant	1	Completed	Non-Opinion	0	0	0	0	0	0
Grant Certification	HC Adoption Reform Grant	1	Completed	Non-Opinion	0	0	0	0	0	0
Grant Certification	Care Bill grant	1	Completed	Non-Opinion	0	0	0	0	0	0
Governance, Fraud & Corruption	Fraud & Corruption Survey	1	Completed	Non-Opinion	0	0	0	0	0	0
Follow Up	Income Collection	2	In Progress		0	0	0	0	0	0
Follow Up	Legal Services	2	Draft	Non-Opinion	1	0	0	1	0	0
Follow Up	Data Protection	2	Completed	Non Opinion	1	0	0	1	0	0
Follow Up	Gypsy & Traveller Service	2	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Risk Management	2	In Progress		0	0	0	0	0	0
Governance, Fraud & Corruption	Fraud & Corruption Policy	2	Not Started		0	0	0	0	0	0
Governance, Fraud & Corruption	Whistleblowing Policy	2	Not Started		0	0	0	0	0	0
Operational	Procurement	2	In Progress		0	0	0	0	0	0
Operational	Financial Contributions & Fairer Charging	2	In Progress		0	0	0	0	0	0
Operational	Framework i-case management system	2	Initial Meeting 17 August 2014		0	0	0	0	0	0
Schools	Schools - Prevention of Fraud	2	Created		0	0	0	0	0	0
Operational	Looked After Children	2	Initial Meeting 9 September 2014		0	0	0	0	0	0
Special Investigation	Colwall Primary School- Damp Problems - Lesson Learned	2	In Progress							
Follow Up	Payroll	3	Not Started		0	0	0	0	0	0
Follow Up	Accounts Payable	3	Not Started		0	0	0	0	0	0
Key Control	Accounts Receivable	3	Not Started		0	0	0	0	0	0
Key Control	Main Accounting	3	Not Started		0	0	0	0	0	0
Key Control	Treasury Management	3	Not Started		0	0	0	0	0	0
Key Control	Capital Accounting	3	Not Started		0	0	0	0	0	0
Key Control	Council Tax	3	Not Started		0	0	0	0	0	0

Appendix B

Herefordshire Council 2014-15 Audit Plan

Audit Type	Audit Area	Quarter	Status	Opinion	No. of recs	Recommendations				
						5	4	3	2	1
Key Control	NDR	3	Not Started		0	0	0	0	0	0
Key Control	Housing & Council Tax Benefits	3	Not Started		0	0	0	0	0	0
Follow Up	Health & Safety	3	Deferred to quarter 4		0	0	0	0	0	0
Operational	Use of Agency Staff	3	Not Started		0	0	0	0	0	0
ICT	Software Asset Management	3	Not Started		0	0	0	0	0	0
ICT	Education, Health & Care Plans data	3	Not Started		0	0	0	0	0	0
Operational	Preparations for the Care Bill	3	Not Started		0	0	0	0	0	0
Operational	Homelessness	4	Not Started		0	0	0	0	0	0
Operational	Peer Challenge/Benefits Realisation	4	Not Started		0	0	0	0	0	0
Operational	Registrars & Coroners	4	Not Started		0	0	0	0	0	0
Operational	Home School Transport	4	Not Started		0	0	0	0	0	0
Operational	Elections	4	Not Started		0	0	0	0	0	0
School	Schools - Safer Recruitment	4	Not Started		0	0	0	0	0	0
Operational	Safer Recruitment - Excluding Schools	4	Not Started		0	0	0	0	0	0
ICT	Hardware Asset Management	4	Not Started		0	0	0	0	0	0
ICT	ISO27001 Implementation	4	Not Started		0	0	0	0	0	0

Audit Framework Definitions

Control Assurance Definitions

Substantial	▲★★★ I am able to offer substantial assurance as the areas reviewed were found to be adequately controlled. Internal controls are in place and operating effectively and risks against the achievement of objectives are well managed.
Reasonable	▲★★★ I am able to offer reasonable assurance as most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but some systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
Partial	▲★★★ I am able to offer Partial assurance in relation to the areas reviewed and the controls found to be in place. Some key risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.
None	▲★★★ I am not able to offer any assurance. The areas reviewed were found to be inadequately controlled. Risks are not well managed and systems require the introduction or improvement of internal controls to ensure the achievement of objectives.

Categorisation Of Recommendations

When making recommendations to Management it is important that they know how important the recommendation is to their service. There should be a clear distinction between how we evaluate the risks identified for the service but scored at a corporate level and the priority assigned to the recommendation. No timeframes have been applied to each Priority as implementation will depend on several factors, however, the definitions imply the importance.

Priority 5: Findings that are fundamental to the integrity of the unit's business processes and require the immediate attention of management.

Priority 4: Important findings that need to be resolved by management.

Priority 3: The accuracy of records is at risk and requires attention.

Priority 2: Minor control issues have been identified which nevertheless need to be addressed.

Priority 1: Administrative errors identified that should be corrected. Simple, no-cost measures would serve to enhance an existing control.

Definitions of Risk

Risk	Reporting Implications
Low	Issues of a minor nature or best practice where some improvement can be made.
Medium	Issues which should be addressed by management in their areas of responsibility.
High	Issues that we consider need to be brought to the attention of senior management.
Very High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.

Herefordshire Council

MEETING:	**Audit and Governance Committee**
MEETING DATE:	**29 September 2014**
TITLE OF REPORT:	**Review of the Council's Audit Findings Report for 2013/14**
REPORT BY:	**Chief Finance Officer**

1. Classification

Open

2. Key Decision

This is not an executive decision.

3. Wards Affected

County-wide

4. Purpose

4.1 To update the committee on the improved audit findings for 2013/14.

5. Recommendation

THAT the report be noted.

6. Alternative Options

6.1 There are no alternative options.

7. Reasons for Recommendations

7.1 The external auditors are required to produce an annual audit findings report on the financial resilience, value for money and statement of accounts of the council.

8. Key Considerations

8.1 The auditors reviewed the financial resilience, value for money and statement of accounts of the council by looking at key indicators of financial performance, its approach to strategic financial planning, its approach to financial governance and its approach to financial control.

8.2 The overall conclusion has improved to a green assessment in these areas. The 2012/13 report concluded that the council faced very significant financial risks which

Further information on the subject of this report is available from
Josie Rushgrove, Head of Technical Finance on Tel (01432) 261867

needed to be responded to urgently. Action has been taken in 2013/14 to reduce these risks significantly.

8.3 In 2012/13 Grant Thornton assessed the following areas as amber rated;-

- Key indicators of financial performance
- Strategic Financial Planning
- Financial Governance
- Financial Control

These have now been reassessed as green, meaning adequate arrangements are now in place. In addition the 2012/13 assessment rated the council reserve position to be red, inadequate, this is now green due to the delivery of a break even position in 2013/14, the setting aside of specific reserves and the increase in the general fund reserve balance above the policy of 3% of our net budget.

9. Community Impact

9.1 There is no community impact arising from this report.

10. Equality and Human Rights

10.1 The content of the report has no direct impact on equality or human rights.

11. Financial Implications

11.1 There are no financial implications arising from this report.

12. Legal Implications

12.1 This report has no legal implications.

13. Risk Management

13.1 The Audit Report Findings reviews the risk management arrangements of the council's finances.

14. Consultees

14.1 S151 Officer

15. Appendices

15.1 Appendix A - Grant Thornton, The Audit Findings for Herefordshire Council

16. Background Papers

16.1 None.

Grant Thornton

The Audit Findings for Herefordshire Council

Year ended 31 March 2014

September 2014

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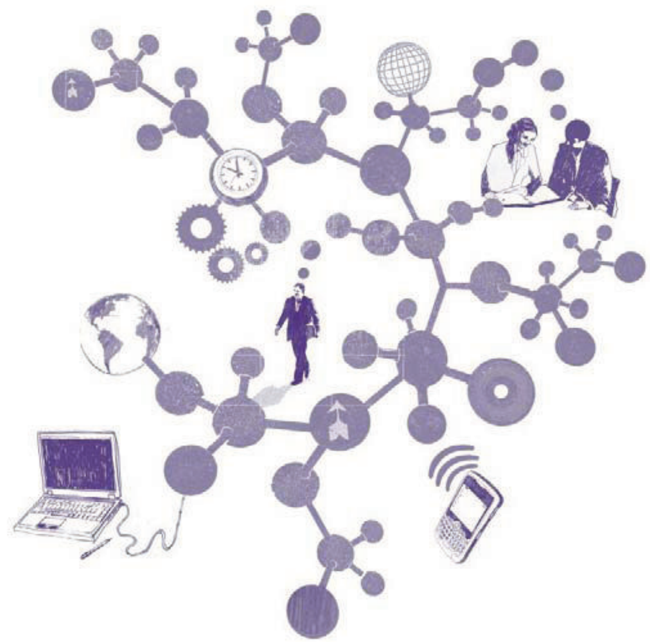

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Herefordshire Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in February 2014.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector in relation to the Energy from Waste facility. We are satisfied that this work does not have a material effect on the financial statements or a significant impact on the value for money conclusion

We received draft financial statements and some accompanying working papers at the start of our audit.

Key issues arising from our audit

Financial statements opinion
We anticipate providing an unqualified opinion on the financial statements.

We asked management to make some adjustments to improve the presentation of the accounts which management agreed to do.

The key messages arising from our audit of the Council's financial statements are:
- The draft accounts presented for audit were of a good quality, a further improvement on previous years. We did not find any material errors in the statements.
- Many working papers were provided at the start of the audit and were fit for purpose. Most officers responded promptly to audit queries. Both of these areas were a significant improvement on previous years. There were still though some areas where it still took too long to obtain support for account balances. One particular improvement area for the future is the support to agree the statement of accounts to the ledger trial balance.
- We are pleased to see that the Council is very keen to continue this improvement and change processes to ensure an efficient closedown and audit next year and we are happy to help in this process. This will be important as the audit of accounts timetable moves forward in future years.

Further details are set out in section 2 of this report.

Value for Money conclusion
Based on the work completed to date to review the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we will be issuing an unmodified VfM conclusion. Despite an overspend in Adult Social Care of £3 million, the Council contained expenditure within the overall budget and at the same time increased reserves significantly. There is now greater assurance around the Medium Term Financial Plan and delivery of savings as the Council approaches the challenging years ahead.

The Council received an inadequate assessment from Ofsted in late 2012 in relation to its arrangements to safeguard children. It has subsequently worked hard through its Improvement Board to address the issues and in June this year Ofsted rated the Council as "in need of improvement".

The Council's waste solution was identified as a VfM risk as part of our audit planning and we have received a very high level of correspondence from the public raising specific concerns with us. In Section 3 we highlight a significant issue in relation to the documentation of reporting to members of officers views on the choice of technological solution in 2009.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will shortly complete our work in respect of the Whole of Government Accounts.

Controls
The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. There are no issues to report to you.
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The way forward
Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Financial Officer and the finance team.

We have made some recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Financial Officer and the finance team.

Acknowledgment
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee in February 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period. (Completeness)	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, • Reviewed the monthly trend analysis of payments, • Performed cut off testing of purchase orders and goods received notes (both before and after year end), • Reviewed the completeness of the subsidiary system interfaces and control account reconciliations, and • Tested a sample of operating expenses and creditors.	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Employee remuneration accrual understated. (Completeness)	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, • Reviewed the completeness of the reconciliations of information from the payroll system to the general ledger and financial statements, • Performed cut off testing of payments made in April and May to ensure payroll expenditure is recorded in the correct year, • Reviewed the monthly trend analysis of total payroll, and • Tested a sample of employee remuneration payments.	Our audit work has not identified any significant issues in relation to the risk identified. .

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, and • Tested a sample of PPE transactions covering the period 1/4/13 to 31/3/14	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, and • Reviewed the qualifications, terms of reference and the assumptions and methods used by the Valuer, in their work carried out as an expert for the Council, and • We have reviewed the valuation reports produced to support the accounting entries.	Our audit work has not identified any significant issues in relation to the risk identified. Officers need to consider their current valuation programme to ensure that the requirements of the code (now clarified in relation to classes of asset) are met.
Welfare Expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • Conducted a walkthrough of the key controls for this system, and • Tested a sample of welfare benefit transactions covering the period 1/4/13 to 31/3/14	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy on revenue recognition is included in note 41 of the Statement of Accounts.	• The Council's policy is appropriate and consistent with the relevant accounting framework – the Local Government Code of Accounting Practice • Minimal judgement is involved • The accounting policy is properly disclosed	
Judgements and estimates	Key estimates and judgements include: • Useful life of capital equipment , • Pension fund valuations and settlements, • PFI • Revaluations, • Impairments, and • Provisions.	• The Council's policy is appropriate and consistent with the Local Government Code of Accounting Practice • Reliance on experts is taken where appropriate • Accounting Policies are properly disclosed • We have reviewed the accounting models the Council have used to calculate the entries required in the accounts for the three current PFI schemes in operation. We have compared these to our standard accounting model to provide some independent evidence over the accuracy of the estimate used. We are satisfied that these estimates are materially accurate.	

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of the revised accounting policies has not highlighted any issues which we wish to bring to your attention.	●

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Statement/Notes effected
1	none	

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Account balance	Impact on the financial statements
1	Disclosure	PBSE	An additional statement to note the contract variations signed in May 2014 in relation to the Waste PFI was made to the draft accounts presented for audit. This was necessary given the timeline for the production of the accounts and the financial close on the contract variation.
2.	Disclosure	Explanatory Foreword	Figures were amended in the Explanatory Foreword to ensure consistency with the notes in the Statement of Accounts
3	Disclosure	Note 8.92.2	Prior year figures in note 8.92.2 for integrated community equipment were amended.
4.	Disclosure	Note 8.12.6	A note was added to inform the reader of the significant change in accounting policies in relation to schools in 2014/15.
5.	Disclosure	Note 8.42	Further disclosures were added to note 8.42- financial instruments in relation to defined benefit pensions.
6.	Disclosure	Note 33	Note 33 on Direct Schools Grant was amended to take account of three schools which had moved to academy status. The figure in the Comprehensive Income and Expenditure Account was correct.
7	Disclosure	Note 8.1.99	Disclosure was added regarding the transfer of public health functions and the effect on financial statements.
8	Disclosure	Accounting policies	Accounting policies were added in relation to the timing of de-recognition of schools transferring to academy status, revenue recognition of council tax and business rates, the approach to depreciating Property Plant and Equipment components, the accounting for maintained school's income, expenditure. liabilities and reserves and the impact on changes in business rates.

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Reason for not adjusting
None	

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council.
4.	**Disclosures**	• Our review found no material omissions in the financial statements
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

The Council, like most others nationally, continues to face challenges in how to balance its budget. The outturn position for 2013/14 shows that the budget has been achieved. This was a positive achievement considering the forecast in October 2013 of a £2m deficit. In reaching this position, significant savings have been made, however, some were achieved through one-off measures rather than the planned recurrent savings. The Council obtained a direction approval from CLG to allow it to charge £1.6m of transformation revenue costs to capital. Plans are in place to convert this to recurrent savings in 2014/15. While similar pressure points to previous years remain, for example Adult Social Care, arrangements to monitor and manage these financial challenges have improved and appear robust. Overall, we consider the Council's medium term financial plan (MTFP) to have been strengthened in the year and that it has appropriate budget setting and monitoring arrangements in place. In Appendix D we include our ratings of four key areas in our financial resilience work.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. Our work has focused on how the Council has delivered its savings programme in 2013/14 and its plans for delivering savings in future years. Our overall conclusion was that, although there was significant non delivery of savings in 2013/14, in the main, this was the result of over-optimism in the timing of delivery. The delivery of savings was more effective in 2013/14 than in previous years and there is now greater assurance on savings delivery in 2014-15. There is scope to improve the way that savings schemes are project managed and monitored and also the quality of information provided to Members on the progress of schemes. In addition the Council received an inadequate assessment from Ofsted in late 2012 in relation to its arrangements to safeguard children. It has subsequently worked hard through its Improvement Board to address the issues and in June this year Ofsted rated the Council as "in need of improvement".

As part of the audit plan, we highlighted specific risks in relation to the VFM conclusion. These were;

- The introduction of the Better Care Fund,
- Plans for the new energy to waste plant at Hartlebury.
- Arrangements to safeguard children, and
- Financial resilience as reflected by MTFS and in particular the impact of continued overspending in Adult Social Care.

In addition we received a Public Interest Disclosure Act (PIDA) from a member of staff in relation to the procurement and implementation of a customer interface IT system, CRM, and carried out further work to look at the concerns raised.

Public Interest Disclosure Act

Our investigation in response to the PIDA referral suggested that the Business Case for the project was very ambitious and not fully owned by all parts of the Council. The estimated cashable savings of £1.6m identified in the Business Case were not supported by robust analysis and were premised on centralising services and therefore reducing back-office costs in departments. In reality the project did not subsequently extend to all of the services envisaged within the Business Case, so it is unlikely that key elements of the cashable savings were realised.
Our review of the procurement of CRM suggests that the Council appears to have carried out an appropriate tendering process with sufficient safeguards built in to ensure fairness and transparency. Following this, the Council implemented a shared front office and this is still in operation and working reasonably effectively, but the project did not, as envisaged by the Business Case: extend to all council services and partners; provide complete visibility of all customer information or allow proactive or 'intelligent' action in response to customer data which were all key planks of the original plan
:

The project has delivered benefits but the Council's own post-implementation review concluded that it has only been partially successful and that momentum has stalled for a number of reasons

- the world changed: the Primary Care Trust was abolished and other services were divested and key providers no longer contract with the Council
- the impact of Austerity meant that the Council could no longer fund the full implementation of the project and the back-office savings which were supposed to be delivered by CRM were probably delivered by other means
- the Council's model of seeking to provide services to meet all customer demand has changed to one of seeking to constrain demand and enable self-service where practicable
- there was insufficient corporate and departmental support to extending the project further

It is difficult to gauge whether the £1m spent on the project provided value for money. It is unlikely that CRM delivered all of the costs savings on which the Business Case was premised and the system is possibly over-engineered for its current use. Going forward the Council needs to be clearer about the scope and ambition of its customer vision and what this means for the way it engages with all customers in future and the digital and other channels it needs to deploy to support that vision. It is important that the Council learns lessons from this project. Our detailed report includes recommendations. The Audit and Governance Committee has asked for a detailed action plan to address these and also pick up any wider lessons.

Better Care Fund

We have also considered the work undertaken by partners across Herefordshire to agree and develop the Better Care Fund Plan. We are able to conclude that the partnership to date has achieved the timescale and assurance requirements set by NHS England.

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Herefordshire submitted its Better Care Fund plans in line with the national timetable. Whilst resources committed in 2014/15 are limited, sums to be pooled are likely to increase considerably beyond then. It will be critical that the Better Care Fund Plans will achieve integrated services and reductions in emergency admissions for the future financial stability of health and social care services in Herefordshire

The plans are still in the early stages of development for the period beyond 2014/15 and there are some considerable financial challenges within the local government and health economy.

Energy to Waste project

Given the large volume of correspondence from members of the public and the unique nature of the arrangement, we have undertaken a detailed review of the arrangements in relation to the energy to waste plant.

Residual Risk identified

The Worcestershire and Herefordshire Waste Private Finance Initiative (PFI) contract with Mercia Waste Management Ltd was set up in December 1998 with the intention of developing a waste disposal facility that would come on stream early in the contract. It was predominantly based around what was then described as a waste to energy facility for which planning permission was subsequently not obtained. Since planning permission was refused in April 2001, alternative technologies and ways forward have been explored to help allow both parties to meet national targets for recycling and reduce the amount of waste which ends up in landfill sites. In December 2013 the Council's Cabinet agreed to enter a variation to the existing waste contract to provide and Energy from Waste (EfW) in Hartlebury (North Worcestershire). The residual risk identified was that arrangements are not in place to ensure that this variation to the existing waste contract provides value for money.

Overview of work undertaken

We have reviewed the arrangements that the Council has put in place to ensure that a variation to the existing waste disposal contract to provide for an Energy from Waste plant in Hartlebury provides value for money. This included a review of the assessment carried out by the Council in December 2013 and also the earlier assessment of the choice of technology in 2009. As part of this work, we assessed whether the Council has taken appropriate and timely expert advice.

Summary of findings

In December 2013 the Council's Cabinet agreed to enter a variation to the existing waste contract to provide an (EfW) plant in Hartlebury and the contract variation was subsequently completed in May 2014. The December Cabinet meeting considered the option of constructing an EfW plant against other options such as "do nothing" and termination of the existing contract. It also considered alternative methods of financing the EfW plant such as private finance, mixed private finance and prudential borrowing and prudential borrowing. The assessment included both a quantitative appraisal which had been supported by the Council's financial advisers, Deloitte, and also qualitative factors.

The financial appraisal also quantified risks identified in meetings of council officers and their advisers. The assessment concluded that procuring an EfW plant through prudential finance as a variation to the existing contract was the best of the options over the whole life of the plant. The Council assessed the impact of changes to some of the key assumptions used to model the cost of the options such as changes in waste volumes and increases to landfill tax. The Council has taken appropriate expert advice to inform its decisions. This has included financial, legal and technical advice

It is clearly vital in a project of this size which has a long term impact that members are provided with all relevant information to allow them to make a considered decision. We reviewed the key decisions in this project and one of these was the choice of technology to deal with residual waste which was effectively made in 2009.

We have identified a significant issue in relation to the documentation supporting the reporting to members of officers' views of the preferred technological solution and the reasons for this to help make an informed decision. There was no detailed accompanying report to Cabinet setting out why officers (rather than consultants) considered that this choice of technology provided better value for money over other options available, taking account of cost and other key factors. Instead the accompanying officer report to the December 2009 Cabinet made reference to the fact that the technology proposed by Mercia had been ranked highly in the consultants ERM options appraisal (which had been commissioned to support the Joint Municipal Waste Management Strategy).

Appendix B contains more detail on our work.

Adult Social Care

For several years the Adult Social Care budget in Herefordshire has overspent and in 2012/13 the budget was overspent by £5.9m due mainly to the failure to deliver very ambitious and unrealistic savings targets.

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Very early in 2013/14, the Council discovered that it had counted grant income of £3.8m twice in its budget. A Special Council Meeting was called to start to address the issue

Following previous external audit criticisms, the Council has strengthened its budget setting processes for 2014/15 including the use of zero-based budgeting and greater challenge from Finance. In 2013/14 Adult Social Care overspent by £3m, which was not only a smaller deficit than previous years, but also an improvement from the October forecast of £4m. There was slippage in the delivery of savings for several reasons and in particular the lack of challenge over over-optimistic assumptions on the rate of delivery. There was no contingency to deal with this in 2013/14.

In 2014/15 the Adults and Wellbeing directorate is broadly forecasting a break-even position and there is now greater assurance over the delivery of savings. This is due to the fact the Council has given greater priority to carrying out the reforms to Adult Social Care delivery needed. The Adult Social Care budget will continue to carry significant risk, both in the short and medium term. In particular, the Council, like others, still carries uncertainty over the full financial impact of the Care Bill.

The Council recognises it still needs to establish a working commitment accounting system in Adult Social Care so that managers have a better understanding of the financial consequence of decisions made; a point first made by external auditors five years ago. Work continues on this development.

Safeguarding children

An announced inspection by Ofsted of the Council's arrangements to safeguard children was carried out in September 2012 and these arrangements were assessed overall as "inadequate" across all three Ofsted review categories. An improvement notice was issued in February 2013. The Council drew up an improvement plan in October 2012 and set up a multi agency Improvement Board with an independent Chairman. The Council has made several significant changes to address the issues set out in the Ofsted report and there has been regular reporting on progress against the Improvement Plan, including reports to Cabinet. The Council also invited in a LGA peer review team. Ofsted issued a report in 30 June 2014. This removed the "inadequate" rating. Overall the Council was assessed as "in need of improvement" and in each of the three sub-categories The Council recognises that there is still more to do, not least in addressing the large number of temporary staff employed in key posts. There are also issues around the accuracy and accessibility of electronic systems to record details about children and families to allow managers to understand what services are needed and how well they work. A detailed action plan has been drawn up to address the outstanding issues.

Overall VFM conclusion

We are issuing an unqualified VfM conclusion based on the issues examined. In particular our consideration takes into account the size of annual waste expenditure involved in relation to the Council's total gross budget and also that the shortcomings we found in the reporting of the preferred waste technological solution in 2009 were not in our view typical of the decision making we normally see at the Council.

As such, on the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are currently satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our fees charged for the audit.

Fees

	Per Audit plan £	Actual fees £
Council audit*	164,803	TBC
Grants	8,400	5,795
PIDA (proposed)		11,140
Total fees	**173,203**	**TBC**

*Both the significant level of correspondence from the public and the unique nature of the arrangements surrounding the waste contract means that the level of risk attached to the audit is significantly higher than envisaged by the Audit Commission when setting the scale fee which is quoted above. Work is on-going to determine the level of fee variation required for this work, particularly as we continue to receive correspondence in this area which we have a statutory duty to consider. We will discuss the level of additional fee required with officers and then submit this for approval to the Audit Commission. There is an additional fee of £1,050 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for unitary councils and is subject to agreement by the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council 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 Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should continue to redesign the process for closedown and audit of the accounts to ensure a more efficient process.	High	The aim is to closedown the accounts and audit one month earlier for the 2014/15 year end	August 2015 Head of Technical Finance
2	Officers need to consider their current valuation programme to ensure that the requirements of the code (now clarified in relation to classes of asset) are met.	Medium	Draft policy is in circulation and valuation work has commenced	Policy to be agreed by 1st November 2014 Head of Technical Finance
3	The Council needs to improve the project management and monitoring of savings schemes, including the information provided to Members on progress.	High	Continuous Improvement Programme work is including monitoring savings which will include the reporting to members. Cabinet reporting to be reviewed for further improvements going forward	On-going process Chief Finance Officer
4	The Council should ensure that it has a working commitment accounting system in Adult Social Care.	High	Transformational work is underway with delivery of outcomes expected in early 2015	February 2015 Chief Finance Officer

Appendix B: Detailed reporting on Energy from Waste Plant

The Worcestershire and Herefordshire Waste Private Finance Initiative (PFI) contract with Mercia Waste Management Ltd was set up in December 1998 with the intention of developing a waste disposal facility that would come on stream early in the contract. It was predominantly based around what was then described as a waste to energy facility for which planning permission was subsequently not obtained. Since planning permission was refused in April 2001, alternative technologies and ways forward have been explored.

There is a high level of public interest in future waste disposal arrangements and we have received an exceptionally high number of enquiries from members of the public. As a result of the level of public interest and in response to the level of risk involved, we have reviewed the current situation as part of our audit. In particular , we have focussed on the arrangements the Council has in place to ensure that value for money was obtained from any variation to the contract. We provide below a summary of our conclusions to date from the work.

For many years the Council has been seeking, with its partner Worcestershire Council, to vary its privately funded contract for waste management which will allow both parties to meet national targets for recycling and reduce the amount of waste which ends up in landfill site. In December 2013 the Council's Cabinet agreed to enter a variation to the existing waste contract to provide an Energy from Waste (EfW) plant in Hartlebury in North Worcestershire and the contract variation was subsequently completed in May 2014.

The December 2013 Cabinet meeting considered the option of constructing an EfW plant against other options such as "do nothing" and termination. It also considered alternative methods of financing the EfW plant such as private finance, mixed private finance and prudential borrowing and prudential borrowing. The assessment included both a quantitative appraisal which had been supported by the Council's financial advisers, Deloitte, and also qualitative factors. The financial appraisal included a quantification of risks identified in meetings of Council officers and their advisers. The quantitative appraisal used discounting techniques to take account of the profiles of expenditure for each of the options as would be expected in any large capital project decision.

The Council also assessed the impact of changes to some of the key assumptions used to model the cost of the options such as changes in waste volumes and increases to landfill tax. The preferred option from a value for money perspective remained unchanged even where more pessimistic assumptions were employed by the Council's advisers. The assessment concluded that procuring an EfW plant fully financed through prudential borrowing as a variation to the existing contract was the best of the options over the whole life of the plant.

The December Cabinet report concluded that, in net present cost terms, the chosen option would be £128 million cheaper than the "continue as is" option. over the 25 year period post construction. The report stated that it would add around £6.6 million to the annual unitary charge to be paid to the contractor.
The choice of technology has been the subject of public debate. In 2009 there was an evaluation of options as part of the review of the Joint Municipal Waste Management Strategy (JMWMS). Members were consulted with, focus groups were held and there was engagement with businesses. A large postal survey was undertaken from which there was a reasonable response rate. The consultation was made available on-line. The consultation identified that a key focus for the public

was climate change and that informed the strategy and final decisions. Value for money and waste prevention were also issues raised through the public consultation. The options appraisal was undertaken by consultants ERM, experts in this type of work, using a recognised and supported analysis model. A wide range of options were initially identified and a set of criteria used to identify the preferred option.

The option chosen was not necessarily the cheapest but the option identified as scoring most highly had benefits which others did not, including that it was tried and tested technology, which had been identified by the Councils as being a critical factor. The options appraisal was not weighted, in line with DEFRA advice at the time, but drew attention to the three key criteria which the Council considered most important. These criteria were developed in a workshop attended by officers and members. It took no account of transportation costs and income from heat energy and other recyclables on the advice of consultants who also stated that this would not have changed the outcome of the process. This option appraisal was refreshed by the same consultants in 2012 and the consultants concluded that the initial appraisal was still valid.

Whilst the options appraisal supporting the JMWMS carried out by ERM appeared thorough, the report to Cabinet recommending support for the choice of technology lacked detail and clarity. The September 2009 Cabinet had approved a JMWMS which was now neutral on the technology to deal with residual waste as opposed to the previous strategy which had favoured autoclave technology. However as previously mentioned, the JMWMS was supported by an options appraisal produced by ERM which ranked energy from waste highly and this was included as an appendix to the September Cabinet report. The September Cabinet report stated that this options appraisal would inform the choice of future treatment of residual waste and that Mercia would be asked to come forward with a proposal. The Cabinet minutes of December 2009 resolved to support, in principal, the concept contained within the Energy from Waste (EfW) proposal subsequently put forward by Mercia.

Whilst this was the point that the choice of technology was effectively made, there was no detailed accompanying report to Cabinet setting out why officers (rather than consultants) considered that this choice of technology provided better value for money over other options available, taking account of cost and other key factors. Instead the accompanying officer report made a short reference to the fact that this technology proposed by Mercia had been ranked highly in the ERM report. We would have expected a detailed officer report considering the scale of the decision which referred to and built on the ERM report. The solution proposed in December 2009 was an EfW plant with combined heat and power. Subsequently, due to the choice of site, a decision was made to provide an EfW plant which was "CHP-enabled". Whilst we can understand this decision, we cannot see where this change was reported to Cabinet until December 2013.

Project management arrangements have been in place for several years and a detailed project plan was developed. The Council understood and managed the risks associated with the project which including land use, planning, procurement, and contractual risk. Extensive external advice has been sought to understand and mitigate risks. This has included financial, legal and technical advice. In addition to the advisers already referred to, the Council employed consultants to ensure that the costs of running the EfW plant compared well with other recently procured plants and that the planned maintenance schedule, if followed, would ensure the plant is maintained to a standard which means that at contract termination the plant is in a condition which would be expected of its age. We are also aware that the Council sought advice in determining future waste volumes and recycling rates to help determine the appropriate size of plant.

Clearly a complex project of this size will continue to present significant risks and amongst these is the risk of future legislative change which may increase costs of the EfW plant. In this respect the Council obtained advice from its technical adviser, AMEC, that it was considered unrealistic to require the potential costs of these foreseeable but unquantifiable legislative changes to be included within the costed proposals except where firm proposals were available, for example legislation requiring Royal Assent. The advisers report that the contract does include a mechanism to deal effectively with such eventualities should they transpire.

Members will be aware that on 17 June 2014, the National Audit Office (NAO) issued a report on the oversight of three PFI waste projects, including that of the Herefordshire and Worcestershire. Their review focussed on how the Department for Environment, Food and Rural Affairs (DEFRA) oversees the three PFI waste projects. We met with the NAO recently to discuss their findings. The NAO highlighted two issues which the Treasury and DEFRA believed were not yet satisfactorily resolved. These were:

- whether the Councils needed to act as the sole finance provider for the project, rather than just one lender alongside a banking group; and
- the valuation of the EfW facility when the contract ends, given that the contractor will operate the facility for a much shorter period than originally envisaged.

Appendix C: Audit Opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HEREFORDSHIRE COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Herefordshire Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Herefordshire Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officers' Responsibilities, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, 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.

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 Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information which is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 financial position of Herefordshire Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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.

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 our 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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2013, 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 put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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 2013, we are satisfied that, in all significant respects, Herefordshire Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed our consideration of matters brought to our attention by a local authority elector in relation to the Energy from Waste scheme. We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion.

Appendix D-financial resilience ratings

We use a red/amber/green (RAG) rating with the following definitions.

Green	**Adequate arrangements appear to be in place**
Amber	**Adequate arrangements, with areas for development**
Red	**Inadequate arrangements**

Risk area	Summary observations	High level risk assessment
Key Indicators of Financial Performance	We assessed a number of your 2013/14 key financial indicators and there was a mixed position. Sickness absence and schools balances were rated green. Sickness absence in 2013/14 averaged 4.15 days per staff member and was much lower than the public sector average and an improvement from last year. Schools balances are higher than average based on 2012/13 figures but there are some high schools balances which would warrant further investigation by the Council. We assessed long term borrowing as green. Long- term borrowing in 31/3/2013, when compared to both revenue and long term assets, was close to the average of other similar councils. These comparisons do not take account of the relatively high short term borrowing and PFI. We assessed reserves as green (as opposed to red last year). Even though the latest 2012/13 comparative figures show Herefordshire as having the lowest useable reserves of similar councils in relation to annual expenditure, the 2013/14 position in Herefordshire has considerably strengthened (although comparative figures for other similar councils are not yet available). The liquidity ratio (current assets over current liabilities) was assessed as amber. The Council has the second lowest ratio using 2012/13 comparative figures. The Council attribute this to accounting technicalities which require the £12m of LOBO loans to be treated as current liabilities, although it is considered highly unlikely that these will be called in in the short-term. It is also the current treasury management policy to borrow in the short term to take advantage of low interest rates. If borrowing is excluded the position exceeds 100%.	**Green**
Strategic Financial Planning	The Council agreed a budget for 2013/14 in February 2013. Due to an error identified in the initial budget by finance staff (a £3.8m Department of Health grant was double-counted) a revised budget was taken to Council in May which increased the savings required to be made in 2013/14. The Council has since tightened the controls over budget setting to prevent a re-occurrence. In developing its 2014/15 budget plans the Council considered and employed a range of initiatives, including service redesign and alternative methods of provision. There is as a result greater assurance over the 2014-15 position. The 2014/15 budget papers available to members have been updated and improved, showing a clear link with council key priorities. The Chief Financial Officer held a cross party budget consultation event in December 2013 which was the culmination of an engagement process undertaken with members through the autumn. The budget proposals were considered by General Overview and Scrutiny Committee. The Council consulted with the public on the proposed budget for 2014/15 and the financial plan 2014/15 to 2016/17.	**Green**

Area of focus	Summary observations	RAG-Rating
Financial governance	The Council has improved the governance arrangements in place in response to the difficult financial environment. There is now the discipline of regular financial reporting and challenge meetings chaired by the Section 151 Officer with subsequent reporting to Cabinet. As a result the Council's financial environment and financial performance is better understood at all levels of the organisation. There is scope to improve the project management and monitoring of savings and reporting of delivery of savings to members.	Green
Financial control	The overspend in 2012/13 in Adult Social care was £5.9 million and this caused the Council to overspend overall by £1.4 million. Fundamentally this was caused by an unrealistic budget being set for this service and in particular unrealistic assumptions on the impact of savings schemes. In 2013/14 the overspend in this area was reduced to £3 million and the Council overall contained expenditure within budget. The Council obtained a direction approval from CLG to allow it to charge £1.6m of transformation revenue costs to capital. This was still a real achievement given the reported deficit position in October 2013. The Council has taken action to make the budget more realistic. There is now greater assurance on the 2014-15 position and savings. The Council has adequate financial controls overall. The Council needs to continue to improve the quality of financial forecasting in Adult Social Care and also establish a working commitment accounting system in this area. Finance staff both in the Council and in the Council's jointly owned shared services company, Hoople are experienced and appropriately qualified. There has been a restructure of the Finance team, bringing Hoople and Council finance staff together. The Council has replaced its internal audit service to obtain better value for money .	Green

Grant Thornton

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Herefordshire Council

MEETING:	**Audit and Governance Committee**
MEETING DATE:	**29 September 2014**
TITLE OF REPORT:	**Statement of Accounts**
REPORT BY:	**Chief Finance Officer**

1. Classification

Open

2. Key Decision

This is not a key decision.

3. Wards Affected

County-wide

4. Purpose

To seek the Audit and Governance Committee's approval of the 2013/14 Statement of Accounts and Annual Governance Statement.

5. Recommendations

THAT the Audit and Governance Committee

(a) approve the 2013/14 Statement of Accounts;

(b) agree the draft letter of representation is signed by the Chair and Chief Finance Officer; and

(c) approve the Annual Governance Statement.

6. Alternative Options

6.1 There are no Alternative Options as all councils are required to produce a Statement of Accounts and Annual Governance Statement.

7. Reasons for Recommendations

7.1 The council is required to produce a statement of accounts and annual governance statement in accordance with legal and accounting requirements. The process requires the accounts to be certified by the Chief Finance Officer by 30th June and

Further information on the subject of this report is available from
Josie Rushgrove, Head of Technical Finance on Tel (01432) 261867

then approved by the Audit and Governance Committee by 30th September.

7.2 The council has a responsibility for conducting at least annually a review of the effectiveness of the governance framework including the system of internal control. This is reported through the Annual Governance Statement which is reviewed and approved by the Audit and Governance. The Annual Governance Statement also provides commentary on how the council's governance framework including the system of internal control can be improved. Whilst the Annual Statement by its nature is only signed off once a year, the process of review is continuous. As a result the reports presented to each meeting of the Audit and Governance Committee are used to inform the Annual Governance Statement.

8. Key Considerations

8.1 The Statement of Accounts (attached as Appendix A) has been drawn up in accordance with the Accounts and Audit Regulations 2011, and the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code consolidates the statutory requirements and accounting standards that the council is legally required to follow.

8.2 The most significant matters in the accounts for 2013/14 and a summary of the council's financial position are set out in the Explanatory Foreword. Key points for 2013/14 include the following;

- The out-turn position delivered a break even position. Adult social care did overspend however this was accommodated by additional savings realised elsewhere.

- General fund reserves at £5.1m exceed the minimum policy requirement to hold a general fund reserve balance equivalent to 3% of our net budget requirement (being approximately £4.5m).

- Specific reserves have been set aside totalling £23.9m. This will be used to mitigate specific key corporate financial risks, including any settlements required in respect of ongoing litigation.

2013/14 Statements

8.3 Under International Financial Reporting Standards (IFRS) the main financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Account, Balance Sheet and Cash Flow Statement.

Movement in Reserves Statement

8.4 This statement, which is section 4 of the Statements, shows the movement in the year on the different reserves held by the authority, analysed into usable and non-usable reserves. These are also shown in the bottom half of the Balance Sheet.

Usable Reserves

8.5 Total usable reserves at 31st March 2014 were £41.3m compared with £34.8m at 31st March 2013. This is summarised in the table below.

	General fund balance	Earmarked reserves	Capital receipts reserve	Capital grants unapplied	Total usable reserves
	£000	£000	£000	£000	£000
Balance as at 31st March 2013	4,656	13,968	2,693	13,515	34,832
Balance as at 31st March 2014	5,053	23,943	5,995	6,350	41,341

8.6 The general fund increased by £0.4m, which reflects the small underspend on the revenue account in the year. Details of the movement to and from earmarked reserves are shown in Note 8.8. The capital receipts reserve increased by £3.3m as a result of disposing of surplus assets through auctions held in the year. This reserve is earmarked to fund future year's capital spend. Further details are included in Note 8.23 of the Statements.

<u>Unusable Reserves</u>

8.7 Unusable reserves are not available to be spent. They include unrealised gains and losses, such as the revaluation reserve and timing differences for funding of spend on assets (through the Capital Adjustment Account). There is also a negative reserve for future pension fund deficit obligations. These unusable reserves moved from £44.8m at 31st March 2013 to £86.3m at 31st March 2014, the main movement being the pensions' deficit reduction. Further details can be found in Note 8.24.

Comprehensive Income and Expenditure Statement (CIES)

8.8 This statement, which is Section 5 of the Statements, shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The adjustments to reconcile this statement to the amount to be funded from council tax are included in the Movement in Reserves Statement and detailed in Note 8.7.

8.9 The net cost of services in 2013/14 was £148.1m compared to £153.0m in 2012/13. The largest movement being the inclusion of Public Health in gross expenditure and income, reflecting the transfer of additional statutory services to local authorities in 2013/14.

8.10 'Other operating expenditure' on the CIES was significantly higher in 2012/13 (£9m in 2013/14 compared to £22.8m in 2012/13) due to £19.9m of asset write-offs in 2012/13 as a result of a number of schools to transferring to Academies in 2012/13.

Balance Sheet

8.11 The Balance Sheet in Section 6 of the Statements summarises the council's assets, liabilities and reserves at the end of the financial year.

8.12 At 31st March 2014 long-term assets totalled £465.1m, compared to £447.1m at 31st March 2013. The main element of this is property, plant and equipment which amounted to £426m at the year-end compared to £404m at 31st March 2013. Movements in the year include depreciation, revaluations, disposals and additions through the capital programme. Details of the movements are set out in Note 8.12.

8.13 Current assets amounted to £57.4m at 31st March 2013 (£47.5m at 31st March 2013), including £26.0m in cash and investments and £28.5m short-term debtors. Cash and investment balances increased by £15.0m, mainly due to grant monies being received in March and not spent at the year-end so held in cash and specific reserves.

8.14 Current liabilities were £83.0m at 31st March 2013, including £49.2m relating to short-term borrowing and £26.4m of short-term creditors. The increase in current liabilities from £70.0m in 2012/13 is due to council's treasury management policy of using short-term borrowing (as opposed to long term borrowing) due to the low rate of interest charged.

8.15 Long-term liabilities were £311.7m at the 31st March 2014 compared to £344.8m at 31st March 2013. These relate to borrowing and pensions liabilities, the pensions' net liability as determined by the pension fund actuary decreased by £28.1m.

Cash Flow Statement

8.16 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded. The statement shows that during 2013/14 total cash outflows were £497.1m and inflows £501.6m, resulting in a net increase in cash and cash equivalents of £4.5m.

The Collection Fund

8.17 This statement shows all income collected from council taxpayers and business ratepayers (NNDR), which amounted to £143.8m in 2013/14 (£151.8m in 2012/13). Expenditure includes precept payments to the West Mercia Police Authority (£11.5m) and Hereford & Worcester Fire Authority (£5.2m), representing income collected from council taxpayers on their behalf. The Herefordshire Council precept includes £2.5m for parishes, which are paid through the council's general fund. In 2013/14 NNDR contributions of £23.2m were payable to central government a decrease from 2012/13 due to 49% of income collected now retained by us.

9. Community Impact

9.1 The council is responsible for ensuring that appropriate safeguards are in place to ensure that it operates effective governance arrangements and internal controls. The decisions the council makes have direct impact on the lives of residents of the county and therefore it is essential that the council have appropriate governance arrangements in place.

10. Equality and Human Rights

10.1 The content of the report has no direct impact on equality and human rights.

11. Financial Implications

11.1 As set out in the report.

12. Legal Implications

12.1 There is a legal requirement for council to approve the statement of accounts by the end of September. The Accounts and Audit Regulations include requirements for all councils to produce an Annual Governance Statement.

13. Risk Management

13.1 The risk is that the external auditors will not issue an unqualified opinion on the statement of accounts by the end of September. The risk is mitigated by providing working papers and officer time to help external auditors form an appropriate judgement on the statement of accounts by 30th September.

14. Consultees

14.1 None

15. Appendices

15.1 Appendix A - Statement of Accounts 2013/14

Appendix B - Draft Letter of Representation

Appendix C - Annual Governance Statement

16. Background Papers

16.1 None identified.

Herefordshire Council

[redacted]

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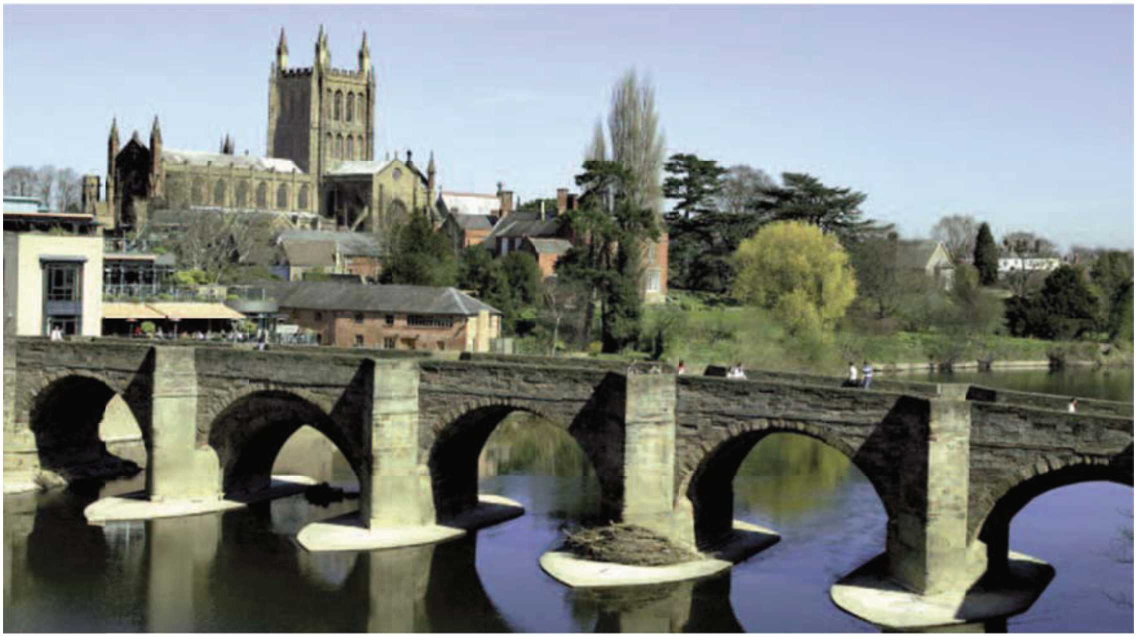
HEREFORDSHIRE COUNCIL



STATEMENT OF ACCOUNTS

2013-14

CONTENTS

1. INTRODUCTION

1.1. The Statement of Accounts for 2013/14 presents the council's overall revenue and capital position for the year.

1.2. It was evident from the outset that 2013/14 was going to be a very challenging year and as the year progressed this proved to be the case. In 2013/14 Herefordshire's funding from central government saw a cash reduction of £5.5 million (6.9%). At the same time, the council not only faced economic challenges but the demands of an ageing population causing pressures within Adult Care. Herefordshire's rural nature presents additional challenges and costs of providing services to a sparsely distributed population.

1.3. The impact of reduced funding and increasing cost pressures required £12.9 million of cuts in Herefordshire Council's 2013/14 budget, bringing total savings of £34 million in the three financial years ending in 2013/14.

1.4. As the year progressed the financial position improved with the final out-turn on the council's revenue account showing a £397,000 underspend, bringing general reserves to £5.1 million at 31st March 2014 compared to £4.7 million at 31st March 2013. This means we exceed the policy requirement to hold a general fund reserve equivalent to a minimum of 3% of net budget (approximately £4.5 million). Herefordshire's financial management strategy is to maintain specific reserves to deal with the key corporate financial risks, which stood at £23.9 million at 31st March 2014.

Cllr Tony Johnson
Leader of the Council

2. EXPLANATORY FOREWORD

2.1 Introduction

2.1.1 The following Statement of Accounts for Herefordshire Council presents the overall financial position for the Authority for the year ended 31st March 2014 and has been produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The amounts presented in the financial statements and notes have been rounded to the nearest thousand.

2.1.2 There were a number of changes to the Code for the 2013/14 accounts. The main ones are;

i. **Post employment benefits (pensions)** – revisions to the classification, recognition, measurement and disclosure requirements

ii. **Business Rates retention** – From April 2013 the system of funding local authorities changed allowing council to retain a percentage of business rates. Prior to this the council would have acted as an agency and all the income collected would have been passed onto central government through the business rates pool. The council would have received a central government grant based on its entitlement. Through the rates retention scheme the council retains 49% (1% Fire authority) of the income collected and 50% is passed onto central government. This has the impact in the council's accounts as that now the collection fund will also report a surplus/deficit relating to business rates.

2.2 Revenue Expenditure and Income

2.2.1 The out-turn position on the council's revenue account was £397,000 underspend after transfers from reserves.

2.2.2 The following table summarises the overall position.

	Budget £000	Actual £000	Under/(Over) Spends £000
Directorate			
Adults Well-being	58,289	61,248	(2,959)
Children's Well-being	36,558	35,691	867
Economy, Communities and Corporate	50,877	50,310	567
Chief Executive and Organisational Development	673	364	309
Public Health	(66)	(84)	18
Directorate total	**146,331**	**147,529**	**(1,198)**
Treasury management	15,281	14,957	324
Other corporate budgets and reserves	(11,316)	(12,587)	1,271
Total	**150,296**	**149,899**	**397**

2.2.3 The budget and actual figures above reflect the requirement to allocate internal recharges to comply with CIPFA's Service Reporting Code of Practice (SERCOP). This makes the accounts comparable across all local authorities by ensuring services report their full costs including overheads and capital charges. It also includes technical accounting adjustments to comply with International Financial Reporting Standards (IFRS), including pensions, PFIs and holiday accruals, which have to be undertaken to complete the statutory accounts. These are different to the budgets monitored and reported through the year which reflect management responsibilities and accountabilities which is normal practice. A reconciliation between the directorate totals and amounts included in the Comprehensive Income and Expenditure Accounts is shown in note 8.26.

2.2.4 The most significant overspend related to commissioning of adult social care, which had been anticipated and included in budget monitoring reports throughout the year.

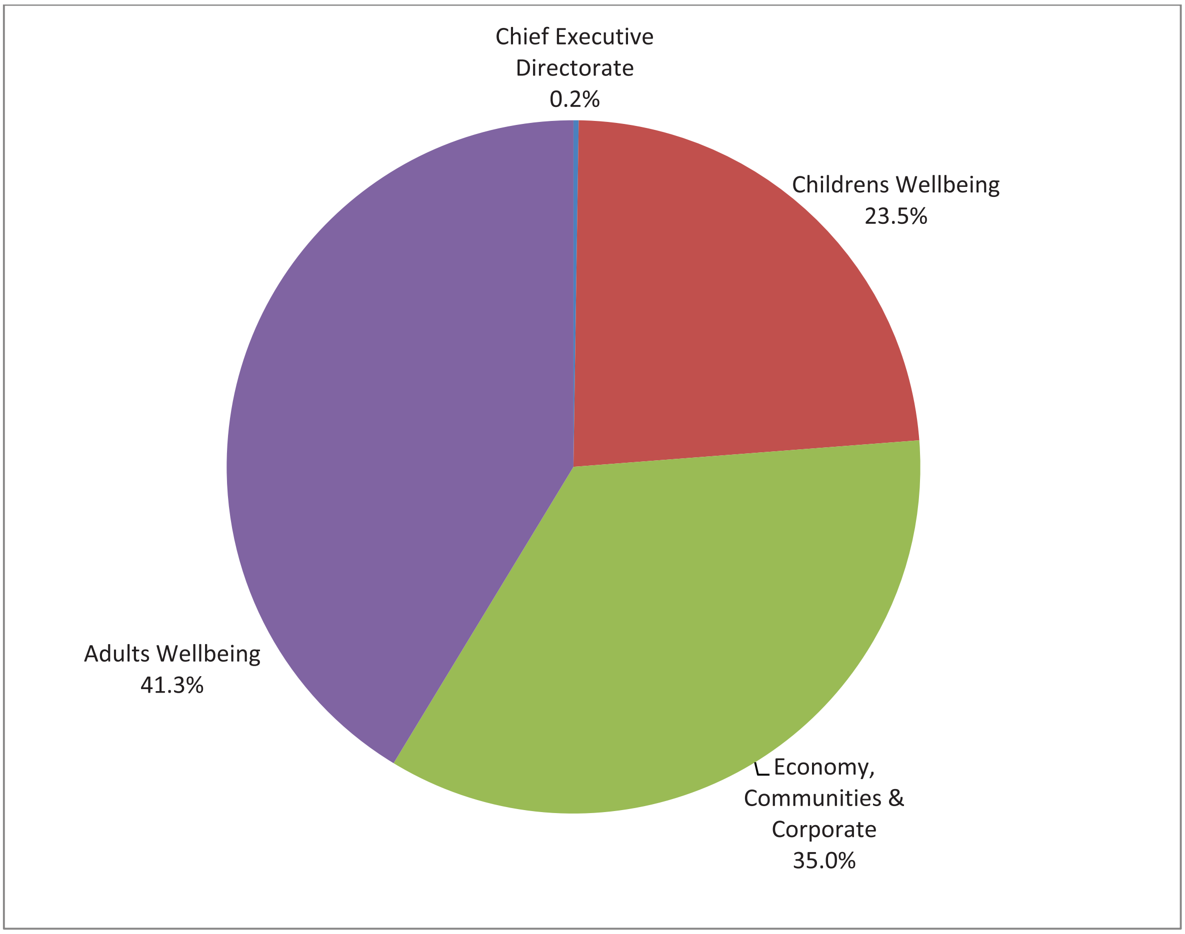
2.2.5 As part of the year end process the following new reserves were created;

Reserve	**£000**	**Purpose**
Risk mitigation	3,500	Unbudgeted risks in delivering savings on 2014/15 to 2016/17.
Business Rate smoothing	1,000	To cover fluctuations to be used in 15/16
Land charges	600	National dispute around land charges
Safeguarding	417	To support safeguarding improvements
ICT	387	Infrastructure and ICT development
Library services	260	To support delivery of 2014/15 savings
Herefordshire Local Plan	170	To deliver the Local Plan Core Strategy
HR	146	For transformation support and development
SEN	75	To support government programme
Section 256	55	Joint health and social care funding
Other small reserves	53	Unspent funds committed in 2014/15
Total	**6,663**	

2.3 Analysis of Revenue Expenditure and Income

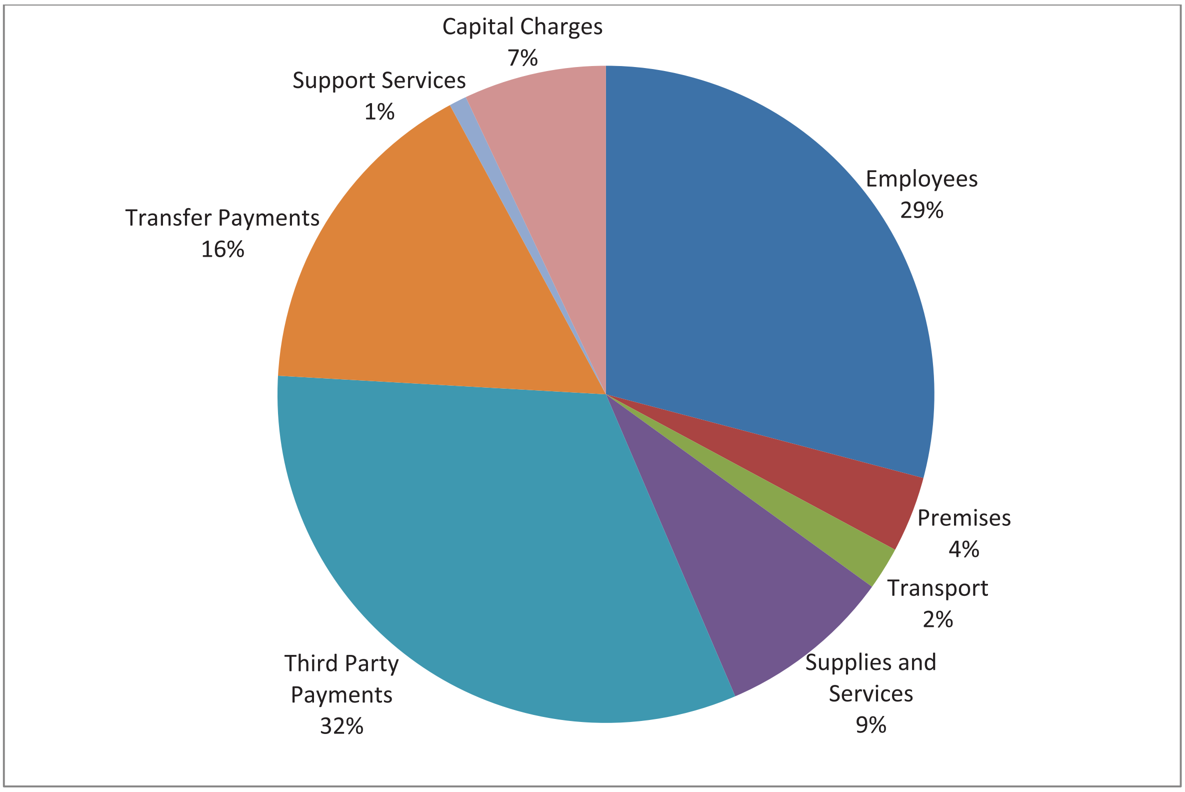
2.3.1 The net cost of services within the Income and Expenditure Account is £148.1 million, made up of the following directorates.

Analysis of Net Expenditure by Directorates



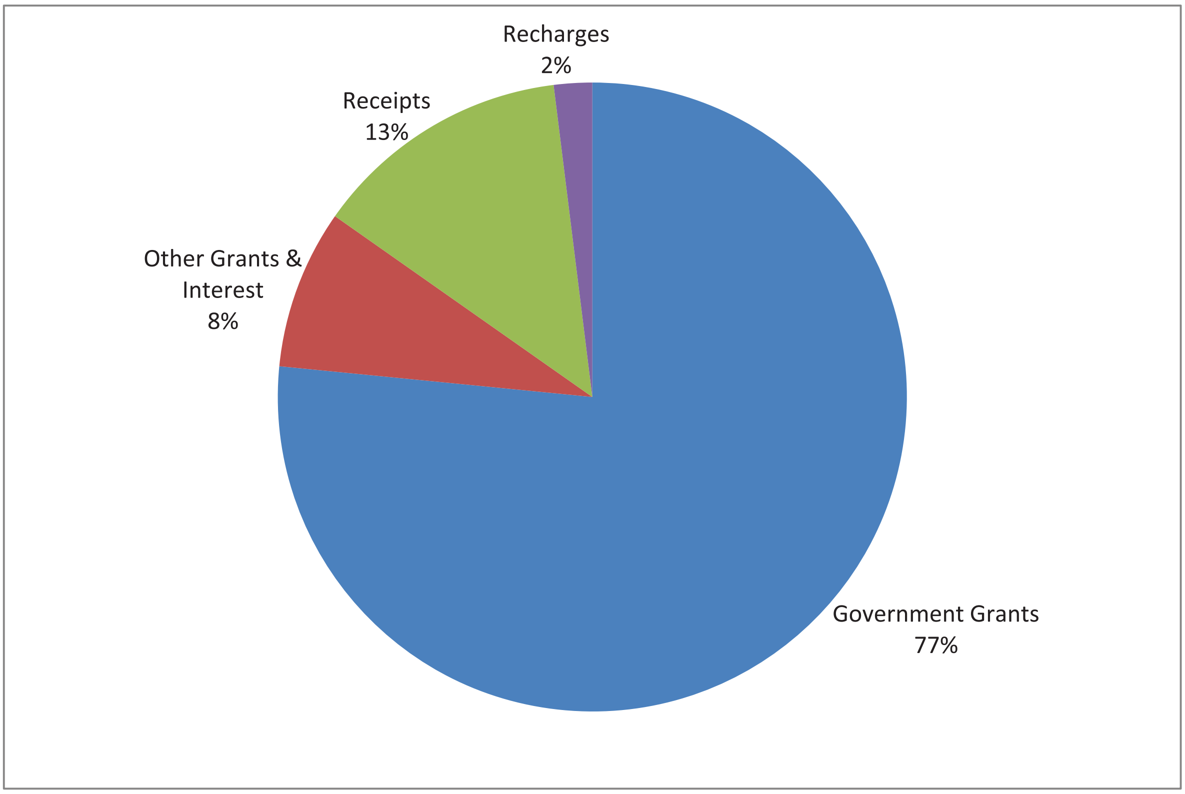
2.3.2 The gross cost of services was £344.3 million, spent on the following types of expenditure:

Analysis of Gross Service Expenditure



2.3.3 The gross income for the year for services was £196.2 million and came from the following sources:

Analysis of Income within Services

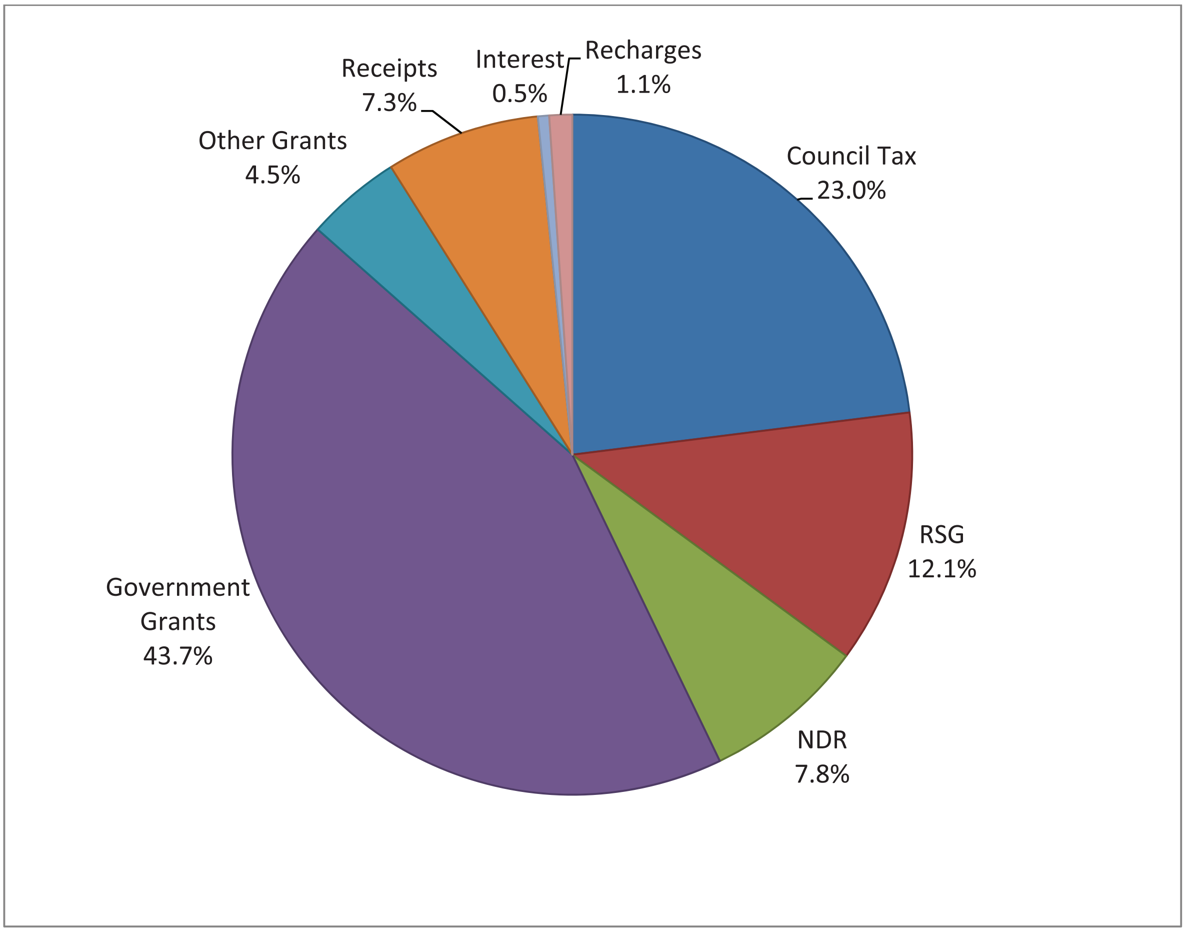


2.3.4 The figure for government grants includes £75.5 million Dedicated Schools Grant, which is a grant towards schools expenditure. The grants figure also includes £50.2 million in respect of the payment and administration of housing and council tax benefits.

2.3.5 In addition to income generated by services and service specific grants, the council received £42.9 million Revenue Support Grant (RSG). This is the first year that councils have retained a percentage of non-domestic rates which amounted to £22.7 million plus £6.6 million top up from central government. Council tax income totalled £81.4 million in 2013/14, including parish and town councils' precepts of £2.5 million.

2.3.6 The total sources of income, including service income and income received centrally, is shown in the pie chart below. This excludes capital grants and contributions of £17 million, which are shown in the Comprehensive Income and Expenditure account but are reversed out through the Movement in Reserves Statement to fund capital schemes.

Total Revenue Income



2.4 Capital Programme

2013/14 Out-turn

2.4.1 £43.4 million was incurred on capital spending funded through the utilisation of grants of £26.2 million, prudential borrowing of £15 million, capital receipts reserve of £2 million and revenue contribution of £0.2 million.

Summary of Capital Expenditure

2.4.2 Capital expenditure for the year can be summarised as follows:

	£000
Leominster Primary School	4,562
The new Heritage Archive & Records Centre	3,400
Blackmarstons Special School improvements	2,981
The Connect 2 bridge crossing	1,984
Capitalised Change Management Costs	1,660
Hereford Enterprise Zone	1,353
Multi storey car park refurbishment	1,194
Road improvements	10,790
Other smaller schemes	15,479
	43,403

Capital Outturn Variance to Forecast

2.4.3 Outturn was £7.8m less than forecast, the majority of which will now be spent in 2014/15. No funding resources have been lost as a result of the re-profiling of spend. A full breakdown of changes to forecast is set out below:

- Fastershire Broadband £3.8m. BT re-profiled spending. Scheme delivery is still on track with deployment to complete by December 2016.
- Masters House £1m. The programme of improvement works continue to timescale with works due to complete in October 2014.
- New Link Road £0.8m. This scheme has been to public inquiry with agreements reached on all but one of the required property acquisitions. The outcome of the inquiry is expected to be published in Autumn 2014.
- Redundant Building Grant £0.8m. This is a two year external grant funded programme with funds being released following completion of all grant conditions.
- Car parking Strategy £0.8m. This budget was provided for the Rockfield site works which are now complete.
- Local Transport Plan £0.6m, as a result of changing contract in the year and severe weather disruption.

Prudential Borrowing

2.4.4 When capital grants cannot fund a scheme in full then the use of unsupported prudential borrowing can be considered. In 2013/14 the council utilised £15 million of prudential borrowing to fund the capital programme.

Future years' capital programme

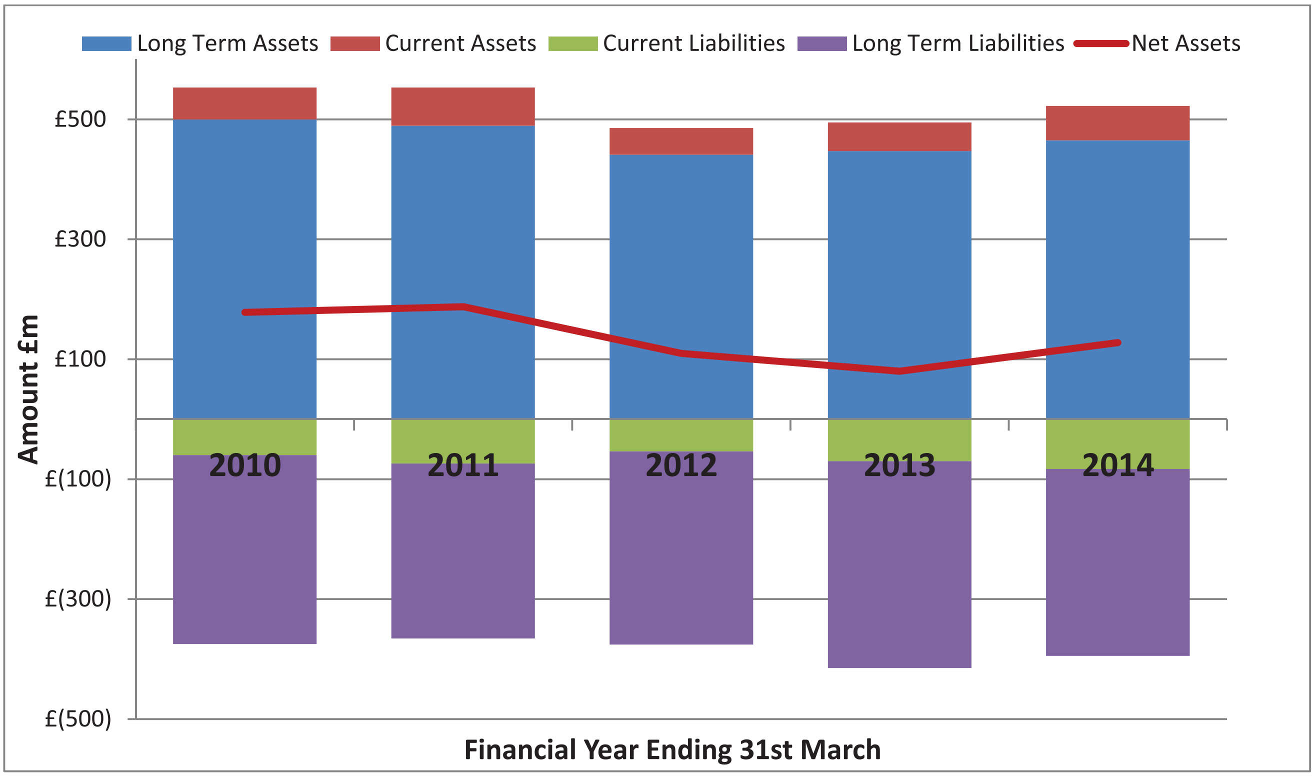
2.4.5 The council maintains as a minimum a full three-year rolling capital programme reflecting commitments, links to strategic plans and estimated sources of capital funding. The forecast capital programme detailed by the sources of funding is set out below.

	2014/15 £000	2015/16 £000	2016/17 £000
Sources of Funding			
Grants and Contributions	24,905	634	666
Prudential Borrowing	57,237	37,371	20,770
Capital Receipts Reserves	3,209	1,904	0
Total Capital Expenditure	**85,351**	**39,909**	**21,436**

2.5 Balance Sheet

2.5.1 The chart below shows how the balance sheet has changed over the last 5 years.

Balance Sheet Analysis - Comparison between financial years (2010 -2014)



2.5.2 The net assets on the balance sheet total £127.7 million (£79.7 million in 2012/13), an improvement of £48 million over the course of the year. This includes an increase in the value of long-term assets of £18 million and a reduction on the pensions liability of £28 million.

2.5.2 Over the period there has been a trend of falling net asset values, with a high of £187.4 million at 31st March 2011 to a low of £79.7 million at 31st March 2013, a fall of £107.7 million (57%). This was mostly due to the transfer of a number of schools to academies and increasing pension liabilities. The current year shows a welcome shift in direction.

2.5.3 In the last two years the increase in short term liabilities is the result of the treasury management strategy of using short-term borrowing to take advantage of low interest rates, reducing costs.

2.5.4 The fluctuation in long-term liabilities has mainly been caused by the pensions liability, which is assessed each year by the actuary and can vary significantly year on year as assumptions and forecasts change;

	Pension liability
	£m
31st March 2010	163.4
31st March 2011	131.8
31st March 2012	159.3
31st March 2013	187.4
31st March 2014	159.4

2.6 The Council's Borrowing

2.6.1 The council's borrowing strategy is determined each year within the Treasury Management Strategy, which is approved as part of the budget process. External borrowing is taken out to support the council's capital programme and borrowing limits are set in accordance with the Prudential Code for Capital Finance in Local Authorities.

2.6.2 In 2013/14 the council did not take out any new long-term borrowing.

2.6.3 Principal of £4 million was repaid to the Public Works Loan Board under existing annuity and EIP (equal instalments of principal) agreements. Interest of £5.7 million was paid on council borrowing during the year (including £5.1 million to the Public Works Loan Board), of which £0.3 million was capitalised and added to the cost of the associated fixed assets (see note 8.1.4).

2.6.4 During the year the council continued using short-term borrowing from other local authorities to cover liquidity requirements and capital spend. At 31st March 2014 £31.5 million of short-term loans from other local authorities were outstanding.

2.6.5 Total borrowing at the year end, including short-term loans, stood at £168 million (compared to £157 million as at 31st March 2013). Of this amount £12 million, relating to two potentially long-term bank loans, is shown as being repayable within one year. Accounting convention dictates that these two loans are shown as current liabilities because every six months, when the interest payments become due, the lenders have the option to increase the interest rates being charged. If a lender did increase the rate (from 4.5%) the council would then have the option to repay the loan.

2.6.6 The amounts noted above relate to principal outstanding at the end of the year. The borrowing figures in the Balance Sheet are higher as they include accrued interest and other accounting adjustments.

2.6.7 Net borrowing (after offsetting investments) was £144.7 million as at 31st March 2014, compared to £147 million as at 31st March 2013.

2.6.8 The council is only allowed to borrow to support capital projects. The borrowing supports fixed assets valued at £465 million at the balance sheet date.

2.7 The Council's Reserves

General reserves

2.7.1 In 2013/14 the council has a policy of maintaining a minimum of £4.5 million of general reserves as contingency against unforeseen emergencies and events. At the end of 2013/14 the council held general reserves of £5.1 million compared with a position of £4.7 million in 2012/13.

Earmarked reserves

2.7.2 Specific reserves totalled £23.9 million (£13.9 million in 2012/13), which are detailed in note 8.8 to the Statements.

2.7.3 The table below shows the level of reserves over the last 5 years;

Balance as at:	**General Fund £000**	***Specific Reserves***		**Total £000**
		Schools	**Other**	
31st March 2010	5,349	5,497	13,745	24,591
31st March 2011	6,349	6,002	11,570	23,921
31st March 2012	6,113	5,789	7,669	19,571
31st March 2013	4,656	5,535	8,433	18,624
31st March 2014	5,053	6,345	17,598	28,996

2.8 Significant provisions, contingencies and write-offs

2.8.1 The council held provisions of £3.7 million at 31st March 2014, as detailed in note 8.22 to the Statements.

2.8.2 The most significant provision is the redundancy provision of £1.8 million, including schools and partner organisations, based on the number of planned redundancies at 31st March 2014.

2.8.3 At 31st March 2014 the council also held a provision of £1.3 million for insurance commitments. Herefordshire Council pays the first £5,000 to £50,000 of most insurance claims (depending on the type or class of the claim), known as the deductible. During 2011/12 the council commissioned a review of the insurance provision to include schools, which was also used as the basis of the provision for 2012/13 and 2013/14. A further review is to be undertaken in 2014/15.

2.8.4 The new business rates retention scheme was introduced in April 2013 and for the first time there is a requirement to make a provision for potential future appeals against rateable values, which could result in refunds against 2013/14 income and previous years. Legislation has been introduced that allows councils to spread the impact of appeals relating to periods before 2013/14 to be spread over 5 years. The rates appeals provision was £584,000 after taking account of spreading the liability over five years.

2.8.5 A list of contingent liabilities are set out in note 8.44 to the Statements. Although contingent liabilities are not required to be accounted for there is a reserve of £300,000 in the accounts as a general contingency against future spend. In addition specific reserves have been set up for the national land charges dispute (£600,000) and for risk mitigation (£3.5 million).

2.8.6 There were no significant write-offs of income to the General Fund in the year.

2.9 Pensions

2.9.1 In accordance with International Accounting Standard 19 on Retirement Benefits (IAS 19), Note 8.43 to the Statements sets out the council's assets and liabilities in respect of the Local Government Pension Scheme (LGPS). Herefordshire Council's non-teaching staff are members of the Worcestershire County Council Pension Fund. However, public health staff who transferred to the council in 2013/14 retained their NHS pensions.

2.9.2 Herefordshire's proportion of the net deficit on the Worcestershire County Council Pension Fund as at 31st March 2014 is £159.4 million, which is approximately 61% of the fair value of the assets (£187.4 million and 80% at 31st March 2013). Whilst this deficit does not have to be met immediately from the council's reserves, action must be taken over a period of years to eliminate it. In addition the balance sheet deficit also includes £1 million relating to ex-Hereford and Worcester teachers' unfunded benefits (£1.1 million at 31st March 2013).

2.9.3 The pension fund position is reviewed every three years and was last revalued as at 31st March 2013. The council has agreed with the Actuary that in order to recover the deficit over 21 years that the employer's deficit contribution increases from £4.2 million in 2013/14 to £7.6m by 2016/17. The Actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. The Actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% in 2013/14 to 14.6% by 2015/16.

2.10 Impact of Economic Climate

2.10.1 The economic climate has had an impact on the 2013/14 accounts in a number of areas:

2.10.2 **Children's Wellbeing:** The current economic climate continues to affect the lives of children and young people in Herefordshire. Financial pressures continue to affect all families and the changes to welfare benefits have yet to be fully assessed in terms of their impact on local authority services. Herefordshire has continued to see increased numbers of children needing to be looked after in 2013/14 creating cost pressures for the service. The transfer of responsibility for children in remand to the Local Authority has caused additional financial burdens.

In order to maintain provision for children's social care, additional cuts were made across the full range of other children's wellbeing in 2013/14 balancing the need to meet the increasing cost of providing children's social care. As a result there is an increasing focus on maintaining statutory and essential services. Cuts in early years' services will have an impact on children and young people in Herefordshire and may have an adverse longer term impact, resulting in higher costs at a later date. This is being mitigated by focusing integrating services within the council to support children, young people and their families making the most of initiatives such as Troubled Families and improving health initiatives.

Fees for post 16 and denominational school transport were increased to reflect the decision to reduce the subsidy which has been staged over three years. However, there is no change to the support for those who are eligible for assistance. In line with government policy Herefordshire has continued to see a movement of schools to Academy status and out of local authority control. This results in cuts in funding to central and children's services, whilst a number of statutory duties remain with the local authority.

2.10.3 **Adults Wellbeing:** The growing needs of the local population and financial pressures facing the local NHS Trust remains a key factor in the pressure on finances, in particular the increased demand on the social care system to enable the early discharge and prevention of admission to hospital. This has continued to create pressures on the community equipment and domiciliary care support budgets.

The increased financial pressures on families has seen a continued request for carers to seek social care support.

Efficiencies in the reduction in the number of grants given to the voluntary sector is likely to have an impact on our communities as some services are greatly reduced or removed.

2.10.4 **Economy, Communities and Corporate:** In the last six months of the year, planning fee income levels improved in line with national improved economic climate. Parking fee income also started to improve on the previous year levels towards the end of the financial year. Recent data also indicates that household and trade waste tonnage levels have stabilised in Herefordshire and the rest of the country following the reduction in the previous year which related to the economic downturn.

2.10.5 **Treasury Management activities:** The Bank Base Rate has now been at 0.50% for more than five years and has significantly reduced the income that the council is able to earn on its investments. During the year deposit interest rates fell further with the average rate earned on the council's investments falling from 0.98% in 2012/13 to 0.75% in 2013/14.

However, the continuing low interest rate regime also meant that the cost of short-term finance remained favourable with the average interest rate payable on short-term borrowing from other local authorities being 0.40%, including brokers commission. It is currently council policy to utilise relatively cheap short-term finance rather than taking out new longer-term finance from the Public Works Loan Board. This strategy reduces interest rate risk (with reduced income from investments being offset by savings on loan interest) and results in a significantly lower cost of borrowing when compared to longer-term loans.

2.11 Academy schools

2.11.1 Academies are publicly funded local schools that are independent of the council, responsible to, and funded directly by, government. They are freed from national restrictions such as the teachers' pay and conditions documents, the national curriculum and Ofsted inspection requirements. Academies receive additional top-up funding to reflect their extra responsibilities which are no longer provided by the local authority.

2.11.2 Many schools in Herefordshire have become Academies. At 31st March 2014 there were 26 Academies with 8,612 pupils (39% of total pupils).

2.11.3 With both Foundation Schools and Academies, the ownership of the school land and buildings is transferred from the council to the school by issuing a long-term lease at a peppercorn rent. The assets are removed from the Balance Sheet when the legal agreement is completed.

2.11.4 In 2013/14 the following five schools converted to Academies:
Barrs Court School
Mordiford CofE Primary School
Burghill Community Primary School
Marden Primary School
St Thomas Cantilupe CofE Primary School

2.11.8 As a result of the last three schools converting to academies £2.65 million has been written out of the council's Balance Sheet as fixed asset disposals. Barrs Court School and Mordiford CofE Primary School had previously converted to Foundation status and so their assets had already been removed from the Balance Sheet in previous years.

2.11.9 Fairfield High School converted to an academy after the year end and so its assets will be removed from the Balance Sheet in 2014/15. The net book value of the school's land and buildings as at 31st March 2014 is £2.58 million.

2.12 The 2013/14 Financial Statements

The council's accounts are detailed in the following pages and comprise:

Movement in Reserves Statement (page 15)

2.12.1 This statement shows the movement in the year on the different reserves held by the authority.

Comprehensive Income and Expenditure Statement (page 17)

2.12.2 This statement shows the accounting cost in the year of providing services, rather than the amount to be funded from council tax.

Balance Sheet (page 19)

2.12.3 The Balance Sheet summarises the council's assets, liabilities and other balances at the end of the financial year.

Cash Flow Statement (page 21)

2.12.4 This statement represents a summary of all cash flowing in and out of the council arising from transactions with third parties. All internal transactions between the various accounts maintained by the council are excluded.

Notes to the Financial Statements (page 23)

2.12.5 The notes to the core financial statements provide further information on the financial activities of the council.

The Collection Fund (page 98)

2.12.6 This statement shows all income collected from council taxpayers and business ratepayers (NNDR). Expenditure includes council tax precept payments to the West Mercia Police Authority and Hereford & Worcester Fire and Rescue Authority, representing income collected from council taxpayers on their behalf. Similarly the account distributes shares of the business rates collected between the council, central government and the Fire Authority.

2.12.7 The Statement of Accounts, which takes into account events up to 27th June 2014, was authorised for issue on 27th June 2014 by the Chief Financial Officer.

2.12.8 Further information about the council's finances is available from the Chief Financial Officer, Herefordshire Council, Brockington, 35, Hafod Road, Hereford, HR1 1SH.

Peter Robinson

Chief Financial Officer

(Section 151 Officer)

3. STATEMENT OF RESPONSIBILITIES

3.1 The Council's Responsibilities

3.1.1 The council is required to:

a. Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer.

b. Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and

c. Approve the statement of accounts.

3.2 The Chief Financial Officer - Responsibilities

3.2.1 The Chief Financial Officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

3.2.2 In preparing this statement of accounts, the Chief Financial Officer has:

a. Selected suitable accounting policies and then applied them consistently;

b. Made judgements and estimates that were reasonable and prudent; and

c. Complied with the local authority Code.

3.2.3 The Chief Financial Officer has also:

a. Kept proper accounting records which were up to date; and

b. Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Chief Financial Officer

I certify that the Statement of Accounts gives a true and fair view of the financial position of Herefordshire Council at 31st March 2014 and its income and expenditure for the year ended 31st March 2014.

Peter Robinson
Chief Financial Officer

4 MOVEMENT IN RESERVES STATEMENT

4.1 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 local taxation) and other reserves. The (surplus) or deficit on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax setting. The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

	Restated General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
Balance as at 31st March 2012	**(6,113)**	**(13,458)**	**(2,769)**	**(15,679)**	**(38,019)**	**(71,664)**	**(109,683)**
Movement in reserves during 2012/13							
Surplus or (deficit) on the provision of services	13,633				**13,633**		**13,633**
Other comprehensive income and expenditure					0	16,376	**16,376**
Total comprehensive income and expenditure	13,633	0	0	0	**13,633**	16,376	**30,009**
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(12,686)		76	2,164	**(10,446)**	10,446	**0**
Net increase or decrease before transfers to earmarked reserves	947	0	76	2,164	**3,187**	26,822	**30,009**
Transfers to or from earmarked reserves (note 8.8)	510	(510)			**0**		**0**
(Increase) or decrease in 2012/13	1,457	(510)	76	2,164	**3,187**	26,822	**30,009**
Balance as at 31st March 2013	**(4,656)**	**(13,968)**	**(2,693)**	**(13,515)**	**(34,832)**	**(44,842)**	**(79,674)**

	General fund balance £000	Earmarked reserves £000	Capital receipts reserve £000	Capital grants unapplied £000	Total usable reserves £000	Unusable reserves £000	Total reserves £000
Balance as at 31st March 2013	**(4,656)**	**(13,968)**	**(2,693)**	**(13,515)**	**(34,832)**	**(44,842)**	**(79,674)**
<u>Movement in reserves during 2013/14</u>							
(Surplus) or deficit on the provision of services	(3,806)				**(3,806)**		**(3,806)**
Other comprehensive income and expenditure					**0**	(44,171)	**(44,171)**
Total comprehensive income and expenditure	(3,806)	0	0	0	**(3,806)**	(44,171)	**(47,977)**
Adjustments between accounting basis and funding basis under regulations (note 8.7)	(6,566)		(3,302)	7,165	**(2,703)**	2,703	**0**
Net increase or decrease before transfers to earmarked reserves	(10,372)	0	(3,302)	7,165	**(6,509)**	(41,468)	**(47,977)**
Transfers to or from earmarked reserves (note 8.8)	9,975	(9,975)			**0**		**0**
(Increase) or decrease in 2013/14	(397)	(9,975)	(3,302)	7,165	**(6,509)**	(41,468)	**(47,977)**
Balance as at 31st March 2014	**(5,053)**	**(23,943)**	**(5,995)**	**(6,350)**	**(41,341)**	**(86,310)**	**(127,651)**

5. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement. The 2012/13 comparative figures have been adjusted to take account of the changes in accounting for post-employment benefits.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Restated 2012/13				2013/14		
Expenditure	**Income**	**Net**		**Expenditure**	**Income**	**Net**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
74,246	(20,250)	53,996	Adult Social Care	73,397	(16,918)	56,479
135,209	(99,245)	35,964	Educational and Children Services	129,095	(94,250)	34,845
9,397	(1,431)	7,966	Cultural and Related Services	7,718	(1,163)	6,555
22,312	(5,248)	17,064	Environmental and Regulatory	22,319	(6,107)	16,212
14,424	(5,172)	9,252	Planning Services	10,883	(5,353)	5,530
24,146	(7,229)	16,917	Highways and Transport Services	25,261	(7,737)	17,524
58,087	(52,447)	5,640	Housing Services	47,806	(42,606)	5,200
11,118	(4,514)	6,604	Corporate and Democratic Core	6,638	(1,990)	4,648
(1,323)	(2)	(1,325)	Non-distributed Costs	(166)	(2)	(168)
15,518	(14,612)	906	Central Services to the Public	13,780	(12,350)	1,430
			Public Health	7,647	(7,753)	(106)
363,134	**(210,150)**	**152,984**	**Cost of Services**	**344,378**	**(196,229)**	**148,149**
22,762		22,762	Other operating expenditure (note 8.9)	11,492	(2,470)	9,022
16,535	(10,634)	5,901	Financing and investment income & expenditure (note 8.10)	19,494	(6,239)	13,255
	(168,014)	(168,014)	Taxation and non-specific grant income (note 8.11)		(174,232)	(174,232)
		13,633	**(Surplus)/Deficit on the provision of services**			**(3,806)**
		(8,035)	Surplus on revaluation of Property, Plant and Equipment assets			(9,314)
		24,411	Remeasurement of net defined benefit liability	(note 8.43)		(34,857)
		16,376	**Other comprehensive income and expenditure**			**(44,171)**
		30,009	**Total comprehensive income and expenditure**			**(47,977)**

6 BALANCE SHEET

6.1 The Balance Sheet shows the value as at the Balance Sheet date 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.

6.2 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 may only be used to fund capital expenditure or repay debt).

6.3 The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes 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’.

BALANCE SHEET

31.3.13 £000		Notes	31.3.14 £000	31.3.14 £000
404,064	Property, plant and equipment	8.12	426,274	
2,805	Heritage Assets	8.13	2,805	
32,966	Investment property	8.14	30,245	
4,733	Intangible assets	8.15	2,918	
4	Long-term investments	8.16	4	
2,506	Long-term debtors	8.16	2,807	
447,078	**Long-term Assets**			465,053
8,541	Short-term Investments	8.16	17,564	
3,150	Assets held for sale	8.20	2,732	
287	Inventories	8.17	177	
32,845	Short-term Debtors	8.18	28,496	
228	Intangible current asset	8.15	0	
2,420	Cash and cash equivalents	8.19	8,412	
47,471	**Current Assets**			57,381
(1,652)	Cash and cash equivalents	8.19	(3,174)	
(33,855)	Short term borrowing	8.16	(49,228)	
(32,433)	Short-term creditors	8.21	(26,417)	
(622)	Capital grants receipts in advance	8.25	(2,144)	
(1,474)	Provisions	8.22	(2,095)	
(70,036)	**Current Liabilities**			(83,058)
(1,124)	Provisions	8.22	(1,587)	
(124,857)	Long-term borrowing	8.16	(120,760)	
(216,740)	Other long-term liabilities	8.16/43	(187,737)	
(2,118)	Capital grants receipts in advance	8.25	(1,641)	
(344,839)	**Total Long-term liabilities**			(311,725)
79,674	**Net Assets**			**127,651**
(34,832)	Usable reserves	8.23		(41,341)
(44,842)	Unusable reserves	8.24		(86,310)
(79,674)	**Total reserves**			**(127,651)**

7 CASH FLOW STATEMENT

7.1 The Cash Flow statement shows the changes in cash and cash equivalents of the authority during the year. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows arising as operating, investing and financing activities.

7.2 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority.

7.3 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.

7.4 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.

CASH FLOW STATEMENT

2012/13 £000		2013/14 £000	2013/14 £000
	Operating Activities		
	Cash inflows		
(78,981)	Taxation	(104,435)	
(213,719)	Grants	(204,638)	
(334)	Interest received	(304)	
(91,812)	Other receipts from operating activities	(39,740)	(349,117)
(384,846)	***Cash inflows generated from operating activities***		
	Cash outflows		
105,487	Cash paid to and on behalf of employees	98,219	
47,955	Housing benefit paid out	49,068	
2,697	Precepts paid	2,499	
4	Payments to the Capital Receipts Pool	2	
7,876	Interest paid	7,546	
211,379	Other payments and operating activities	169,330	
375,398	***Cash outflows generated from operating activities***		326,664
(9,448)	**Net cash flows from operating activities**		(22,453)
	Investing Activities		
36,465	Purchase of PPE, investment property and intangible assets	41,152	
39,500	Purchase of investments *(not cash equivalents)*	63,690	
294	Other payments for investing activities	306	
(2,861)	Proceeds from the sale of PPE, investment property and intangible assets	(4,226)	
(40,500)	Proceeds from investments *(not cash equivalents)*	(54,690)	
(15,844)	Other receipts from investing activities	(17,979)	
17,054	**Net cash flows from investing activities**		28,253
	Financing Activities		
(44,004)	Cash receipts of short and long term borrowing	(75,584)	
968	Cash payments for the reduction liabilities for finance leases and PFI contracts	1,063	
31,513	Repayments of short and long term borrowing	64,152	
3,008	Other payments for financing activities	99	
(8,515)	**Net cash flows from financing activities**		(10,270)
(909)	**Net decrease/(increase) in cash and cash equivalents**		**(4,470)**
(141)	**Cash and cash equivalents at 1st April**		**768**
768	**Cash and cash equivalents at 31st March**		**5,238**
(909)	**Net decrease/(increase) in cash and cash equivalents**		**(4,470)**

8 NOTES TO THE FINANCIAL STATEMENTS

8.1. Accounting Policies

General Principles

8.1.1 The council is required to produce an annual Statement of Accounts by the Accounts and Audit Regulations 2011, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice (SERCOP) 2013/14, supported by International Financial Reporting Standards.

Accruals of Income and Expenditure

8.1.2 Revenue and capital transactions are accounted for on an accruals basis. Customer and client receipts are accounted for in the period to which they relate. The cost of supplies and services are accrued and accounted for in the period during which they were consumed or received. Interest payable on external borrowings and interest income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. Debtors and creditors are included in the accounts on an actual basis where known, or on an estimated basis where precise amounts are not established at the year-end.

Borrowing Costs

8.1.3 Borrowing costs that can be directly attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Qualifying assets are assets that take a substantial period of time to get ready, which is sufficiently long enough for a material balance of borrowing to accrue. This will be applied to schemes lasting more than 12 months and with at least £10,000 of interest associated with the project.

8.1.4 During 2013/14 £325,000 of borrowing costs have been capitalised relating to spend on the corporate accommodation programme, multi-storey car park improvements and link road enabling costs.

Cash and cash equivalents

8.1.5 Cash comprises cash in 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 equivalents are deemed to be ‘on-call’ investments, where investments can be recalled immediately.

Contingent assets

8.1.6 Contingent assets are not recognised in the financial statements but disclosed as a note to the accounts where an inflow of economic benefits or service potential is probable. If it becomes virtually certain that an inflow of economic benefits or service potential will arise and the asset’s value can be measured reliably, then the debtor and related revenue are recognised in the financial statements in the year the change occurs.

Contingent liabilities

8.1.7 A contingent liability arises when an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence of uncertain future events not wholly within control of the authority. Contingent liabilities are not recognised in the financial statements but disclosed as a note to the accounts. If it becomes probable that an outflow of future economic benefits or service potential will be required then a provision is recognised in the year in which the probability occurs.

Employee benefits

Benefits payable during employment

8.1.8 Employment benefits are accounted for according to the principles of accruals of expenditure. Short-term compensated absences, such as annual leave and flexi-time, are recognised when employees render services that increase their entitlement to future compensated absences. These are measured as the additional amount that the authority expects to pay as a result of unused entitlement at the balance sheet date, including employer's national insurance and pension contributions. The accumulated benefits are included in the balance sheet as a provision for accumulated absences. The amounts charged to the General Fund are reversed out through the Movement of Reserves Statement to the accumulated absences account in the balance sheet.

Termination benefits

8.1.9 Termination benefits are payable as a result of either:

a) An employer's decision to terminate an employee's employment; or

b) An employee's decision to accept voluntary redundancy

Termination benefits are recognised immediately in the Surplus or Deficit on the Provision of Services

Post-employment benefits

8.1.10 Employees of the council are members of three separate pension schemes;

a) The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education;

b) The NHS pension scheme (for Public Health transferred staff); and

c) The Local Government Pension Scheme administered by Worcestershire County Council.

8.1.11 Pension schemes are classed as either defined contribution or defined benefit plans. The above schemes provide defined benefits to members, built up during the time employees work for the council.

8.1.12 However, the arrangements for the Teachers' scheme mean that the liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the balance sheet and the education service revenue account is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year. The scheme is therefore accounted for as if it were a defined contributions scheme

8.1.13 The NHS pension scheme, which transferred Public Health staff are members of, is an unfunded defined benefit scheme and is accounted for as a defined contribution plan by NHS bodies. Therefore, it would be extremely unlikely that local authorities would be able to identify the underlying scheme assets and liabilities for transferred staff.

8.1.14 The adoption of the 2011 amendments to IAS 19 Employee Benefits in the 2013 Code has resulted in a change in accounting policy from April 2013. There are new classes of components of defined benefit cost to be recognised in the financial statements (i.e.net interest on the net defined benefit liability and remeasurement of the net liability). The 2012/13 accounts have been restated to take account of these changes as follows:

	Original 2012/13 £000	Restated 2012/13 £000	Change £000
Net cost of services			
Current service	7,056	7,229	173
Curtailment, settlement and past service	(1,299)	(1,299)	0
Reverse actuals	(9,717)	(9,717)	0
	(3,960)	(3,787)	173
Net operating expenditure			
Interest	17,819	17,646	(173)
Admin costs	0	113	113
Return on assets	(12,875)	(10,126)	2,749
	4,944	7,633	2,689
Movement in Reserves			
Reverse IAS 19 adjustments	(10,701)	(13,563)	(2,862)
Restate actuals	9,717	9,717	0
	(984)	(3,846)	(2,862)
Net change to General Fund balance	0	0	0

8.1.15 The Local Government Pension Scheme is accounted for as a defined benefit scheme as follows:

a) The liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method, that is, an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees;

b) Liabilities are discounted to their value at current prices;

c) Assets are included in the Balance Sheet at their fair value;

d) The change in the net pension's liability is analysed into seven components;

i. **Current service cost:** The increase in liabilities as a result of service earned in the year is allocated to the revenue account of the services for which the employee worked, within the Comprehensive Income and Expenditure Statement.

ii. **Past service cost:** The increase in liabilities arising from a scheme amendment or curtailment whose effect relates to service earned in earlier years is debited to the Net Cost of Services in the Comprehensive Income and Expenditure Statement.

iii. **Net Interest on the defined benefit liability:** The change during the period that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.

iv. **Return on plan assets:** Charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.

v. **Actuarial gains and losses:** Changes in the net pensions liability that arise because events have not coincided with assumptions previously made by the actuaries is included in Other Comprehensive Income and Expenditure.

vi. **Contributions paid to the pension fund:** Cash paid as employer's contributions to the pension fund.

8.1.16 Statutory provisions limit the council to raising council tax to cover amounts payable by the council to the pension fund in the year. In the Movement in Reserves Statement there is an appropriation to or from the Pensions Reserve to replace the notional costs of retirement benefits with the amounts payable to the pension fund in the year.

8.1.17 Further information on accounting for the pension fund is set out in note 8.43 to the Statements.

Events after the balance sheet date

8.1.18 Events after the Balance Sheet date are those that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue.

8.1.19 There are two types;

a. Those that provide evidence of conditions at the end of the reporting period, which are adjusted in the accounts; and

b. Those that relate to conditions after the reporting period, which are not adjusted in the accounts, rather disclosed in the notes to the statements.

Exceptional items

8.1.20 Where items of income and expenditure are material, the nature and amount is disclosed separately in the Income and Expenditure Statement or in the notes to the accounts.

Prior period adjustments, changes in accounting policies and estimates and errors

8.1.21 Prior period adjustments may arise from a change in accounting policies or to correct a material error. Changes in estimates are accounted for prospectively, whereas changes in accounting policies are applied retrospectively. Material errors in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

8.1.22 In 2013/14 there was a change in the accounting policies for employee benefits. The impact is set out in note 8.1.14.

Financial Instruments

8.1.23 Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument, such as share capital) of another entity.

Financial liabilities

8.1.24 A financial liability is an obligation to deliver cash (or another financial asset) to another entity.

8.1.25 Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument and are charged to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised. For most of the borrowings that the council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged is the amount payable for the year in the loan agreement. However, the council has two stepped interest rate loans, where the effective interest rate differs from the loan agreement.

8.1.26 Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down is spread over the life of the loan by an adjustment to the effective interest rate.

8.1.27 Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account through the Movement on Reserves Statement.

Financial Assets

8.1.28 A financial asset is a right to future economic benefits that is represented by cash, an equity instrument of another entity (e.g. shares held) or a contractual right to receive cash (or another financial asset) from another entity.

8.1.29 Financial assets are classified into two types:

a. Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; or

b. Available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

8.1.30 **Loans and receivables** are recognised in the Balance Sheet when the council 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 all of the loans the council has made the amount presented in the balance sheet as 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.

8.1.31 The council has no available-for-sale assets.

Government grants and other contributions

8.1.32 Grants and contributions are recognised in the accounts when there is reasonable assurance that;

- The authority will comply with any conditions attached to them, and
- The grants or contributions will be received.

8.1.33 Grants and contributions relating to capital and revenue expenditure are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has conditions that the authority has not satisfied.

8.1.34 General grants and contributions e.g. Revenue Support Grant, are disclosed on the face of the Comprehensive Income and Expenditure Statement.

8.1.35 Grants and contributions funding capital expenditure that have been credited to the Comprehensive Income and Expenditure Statement are not proper income to the General Fund according to the capital control regime. These amounts are accounted for as follows;

- Where conditions of the grant are outstanding at the balance sheet date, they are recognised as Capital Grants Receipts in Advance. Once the conditions have been met the grant or contribution is transferred to the Comprehensive Income and Expenditure Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, no conditions remain outstanding and the expenditure has been incurred at the Balance Sheet date, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account. This reflects the application of capital resources to finance expenditure and is reported in the Movement in Reserves Statement.
- Where the capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed has not been incurred at the Balance Sheet date, the grant or contribution is transferred to the Capital Grants Unapplied Account. When the expenditure is incurred the grant or contribution is transferred from the Capital Grants Unapplied Account

to the Capital Adjustment Account, reflecting the application of capital resources to finance expenditure.

Heritage assets

8.1.36 Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are held principally for their contribution to knowledge and culture.

8.1.37 Heritage assets continue to be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the council's accounting policies on property, plant and equipment (see note 8.1.69).

8.1.38 The council has recognised as heritage assets the museum exhibits held by Heritage Services. The collection is shown in the balance sheet at open market value with the collection having been professionally valued in May 2012.

8.1.39 Additions to the collection are capitalised although, in line with the council's general capitalisation policy, purchases less than £10,000 are not recognised in the Balance Sheet.

8.1.40 As recommended in Financial Reporting Standard 30, operational assets continue to be recognised under Property, Plant and Equipment notwithstanding any historical or other heritage qualities.

8.1.41 Heritage assets, assumed to have indefinite lives, will not be depreciated although the carrying amount will be reviewed at least every five years to ensure that the valuation remains current.

8.1.42 In addition the carrying amount of an asset will be reviewed if there is evidence of impairment e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity.

Intangible assets

8.1.43 Expenditure on non-monetary assets that do not have physical substance but are identifiable and controlled by the council (e.g. computer software licences) is capitalised when it will bring benefits to the council for more than one financial year. Intangible assets are normally carried at cost less accumulated amortisation and impairment losses. Where an intangible asset is acquired by way of government grant, it is recognised initially at fair value.

8.1.44 An intangible asset with a finite useful life is amortised to the relevant service revenue account over its economic life to reflect the pattern of consumption of benefits. Gains or losses on derecognition of an intangible asset are recognised in the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

8.1.45 Neither amortisation, gains nor losses are permitted to have an impact on the General Fund Balance and so all are reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

Inventories

8.1.46 Inventories are measured at the lower of cost and net realisable value, except where they are held for distribution at no charge in which case they are measured at the lower of cost and net current replacement cost.

Investment property

8.1.47 Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or is held for sale.

8.1.48 Investment property is measured initially at cost, and subsequently at market value. Properties are not depreciated but are revalued annually reflecting market conditions at the year end.

8.1.49 Gains and losses on revaluation are included in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Gains or losses on disposal of an investment property are treated in the same way.

8.1.50 Gains or losses recognised in the Comprehensive Income and Expenditure Statement are not proper charges to the General Fund and are reversed out through the Movement in Reserves Statement as follows;

a) On derecognition of an investment property the disposal proceeds are credited to the Capital Receipts Reserve and the carrying amount of the property is debited to the Capital Adjustment Account.

b) Gains or losses are reversed out to the Capital Adjustment Account.

Leases

8.1.51 Leases are classified as either finance leases or operating leases based on the extent to which risks and rewards of ownership of a leased asset lie with the lessor or the lessee.

8.1.52 **Finance leases**

a) Where the council is **lessee** - finance leases are recognised as assets and liabilities at the fair value of the property or, if lower, the present value of the minimum lease payments. Minimum lease payments are apportioned between the finance charge (interest) and the reduction of the outstanding liability. Assets recognised under a finance lease are depreciated over the shorter of the lease term and the asset's useful economic life. Assets recognised under a finance lease are subject to revaluation in the same way as any other asset.

b) Where the council is **lessor** - assets held under a finance lease are recognised as a debtor equal to the net investment in the lease. The lease payment receivable is treated as repayment of principal and interest.

Operating leases

8.1.53 a) Where the council is **lessee** – an operating lease is recognised as an expense on a straight line basis over the lease term.

b) Where the council is **lessor** – the asset is recognised under the relevant category of assets. Costs, including depreciation, are recognised as an expense and income is recognised on a straight-line basis over the lease term.

Arrangements containing a lease

8.1.54 Arrangements that do not take the legal form of a lease but convey the right to use an asset in return for payments, are assessed under IFRIC 4 to determine whether the arrangement contains a lease. This requires an assessment of whether;

a) The arrangement depends on use of a specific asset

b) The arrangement conveys the right to use the asset.

If the arrangement contains a lease, that lease shall be classified as a finance or operating lease.

Non-current assets held for sale

8.1.55 An asset is classified as held for sale if;

a) The asset is available for immediate sale in its present condition
b) The sale is highly probable.
c) The asset is being actively marketed.
d) The sale should be expected to be completed within one year

8.1.56 Assets held for sale are measured at the lower of the carrying amount and fair value less costs to sell and are not depreciated.

8.1.57 Assets held for sale are presented separately on the face of the Balance Sheet.

Overheads and Support Services

8.1.58 The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SERCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

a. **Corporate and Democratic Core**: The costs relating to the council's status as a multi-functional, democratic organisation; and

b. **Non Distributed Costs**: The cost of discretionary benefits awarded to employees retiring early and capital charges on non-operational assets.

PFI schemes

8.1.59 Private Finance Initiative (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. As the council is deemed to control the services that are provided under its PFI schemes and as ownership of the fixed assets will pass to the council at the end of the contracts for no additional charge, the council carries the fixed assets used under the contracts on the Balance Sheet.

8.1.60 The original recognition of these fixed assets is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the assets.

8.1.61 Fixed assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the council.

8.1.62 The amounts payable to the PFI contractors each year are analysed into five elements:

a) Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

b) Finance cost – a percentage interest charge on the outstanding Balance Sheet liability, debited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.

c) Contingent rent – differences in the amount to be paid for the property arising during the contract, debited or credited to interest payable and similar charges in the Comprehensive Income and Expenditure Statement.

d) Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator.

e) Lifecycle replacement costs – the annual payment implicit in the contract is funded and treated as a prepayment on the Balance Sheet and recognised as fixed assets when the contractor incurs the expenditure

8.1.63 Under the Shaw Healthcare contract the rent and service charges paid to Shaw by residents for the council's extra care flats at Leadon Bank have been treated as a contribution to the revenue costs of the units.

8.1.64 The council has two traditional PFI contracts, one in partnership with Worcestershire County Council for the provision of waste management services and the other for the provision of Whitecross secondary school. The council also has one contract that falls within the definition of a similar contract to a PFI, which is the Shaw Healthcare contract for the provision of residential care services

Property, plant and equipment

8.1.65 Property, plant and equipment are tangible assets that are held for use on the production or supply of goods and services, for rental to others, or for administration purposes, and are expected to be used for more than a year.

Recognition

8.1.66 Property, plant and equipment is only recognised as an asset on the balance sheet if;

a) it is probable that the future economic benefits or service potential will flow to the council, and

b) the cost of the asset can be measured reliably.

8.1.67 Costs meeting the definition of recognition include initial costs of acquisition and construction and subsequent costs to enhance or replace part of the asset. The costs arising from day-to-day servicing of an asset are not capitalised as this does not add to the future economic benefits or service potential of the asset. The council does not capitalise fixed assets costing less than £10,000.

8.1.68 Where a component is replaced or enhanced, the carrying amount of the old component is derecognised and the new component reflected in the carrying amount.

Measurement

8.1.69 Assets are initially recognised at cost and accounted for on an accruals basis. The measurement of cost comprises:

a) purchase price;

b) any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in a manner intended by management; and

c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located

8.1.70 Assets are then carried in the Balance Sheet using the following measurement bases:

a) **Infrastructure, community assets and assets under construction** – historical cost.

b) **Land and buildings** – fair value. Where there is no market-based evidence of fair value because of the specialist nature of the asset fair value may need to be estimated using a depreciated replacement cost approach (DRC).

c) **Vehicles, plant and equipment –** depreciated historical cost (as a proxy for fair value)

Revaluations

8.1.71 Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve was created with a zero balance on 31 March 2007. Gains may be credited to the Provision of Services where they arise from the reversal of an impairment loss or revaluation decrease previously charged to a service revenue account.

8.1.72 Where the carrying amount of an item of property, plant and equipment is decreased as a result of a revaluation that is not specific to the asset the decrease is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset and thereafter in the Surplus or Deficit on the Provision of Services.

8.1.73 Revaluation gains and losses charged to the Surplus or Deficit on the Provision of Services are not proper charges to the General Fund and are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

8.1.74 When an asset is revalued, any accumulated depreciation and impairment is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Depreciation

8.1.75 Depreciation is provided for on all assets classified as property, plant and equipment by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

8.1.76 The valuer makes a professional assessment of the economic life remaining based on the age, condition and suitability of the asset. For the purposes of depreciation a nil residual value is assumed for all building assets. New assets are not subject to a depreciation charge in the year of acquisition.

8.1.77 Each part of an asset with a cost significant in relation to the total cost is depreciated separately where the useful lives or depreciation methods of the components are different. The council reviews assets of £3 million and over for componentisation and treats components worth at least 20% of the asset value as being significant. This applies to enhancement expenditure and revaluations carried out from 1 April 2010. Where a component is replaced or restored, the carrying amount of the old component is derecognised.

8.1.78 Depreciation charged to the Surplus or Deficit on the Provision of Services is not a proper charge to the General Fund and is transferred to the Capital Adjustment Account. This is reported in the Movement in Reserves Statement. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Impairments

8.1.79 An impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. At the end of each financial year assets are assessed for any indications of impairment and if there are then the recoverable amount shall be estimated. Circumstances that indicate an impairment may have occurred include;

a) A significant decline in an asset's value during the year, which is specific to the asset

b) Evidence of obsolescence or physical damage of an asset

c) A commitment by the council to undertake a significant re-organisation

d) A significant adverse change in the statutory or other regulatory environment in which the council operates.

8.1.80 General Fund service revenue accounts, central support services and trading accounts are charged with impairment losses (in excess of any balance on the revaluation reserve). An impairment on revalued assets is recognised in the Revaluation Reserve to the extent that the impairment does not exceed the amount in the Revaluation Reserve for the same asset and thereafter in the Surplus or Deficit on the Provision of Services. An impairment loss on a non-revalued asset shall be recognised in the Surplus or Deficit on the Provision of Services.

8.1.81 At the end of each financial year an assessment shall take place as to whether there is any indication that an impairment loss recognised in earlier periods for an asset may no longer exist or have decreased. The reversal of an impairment loss previously recognised in the Surplus or Deficit on the Provision of Services shall not exceed the carrying amount that would have been determined had no impairment loss been recognised. Any excess above the carrying amount is treated as a revaluation gain and credited to the Revaluation Reserve.

8.1.82 Impairment losses and subsequent reversals are charged to the Surplus or Deficit on the Provision of Services, they are not proper charges to the General Fund. These amounts are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Disposals

8.1.83 The carrying amount of an asset is derecognised on disposal and the gain or loss on disposal of the asset is included in the Surplus or Deficit on the Provision of Services. This is not a proper charge to the General Fund and is reversed out by;

a) Crediting the Capital Receipts Reserve with the disposal proceeds; and

b) Debiting the Capital Adjustment Account with the carrying amount of the asset on disposal.

Any balance on the Revaluation Reserve is written off to the Capital Adjustment Account on disposal of the asset.

8.1.84 Where appropriate the costs of disposing of non-current assets are financed from the capital receipts generated up to a maximum of 4% of the capital receipt.

Provisions

8.1.85 A provision is recognised when:

a) An authority has a present obligation (legal or constructive) as a result of a past event;

b) It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.

8.1.86 Provisions are charged to the cost of services when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are made they are charged to the provision set up in the balance sheet.

Reserves

8.1.87 The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account and included in the Cost of Services. The reserve is then appropriated back through the Movement in Reserves Statement so that there is no charge against council tax for the expenditure.

Revenue funded from capital under statute

8.1.88 Where legislation allows expenditure to be classified as capital for funding purposes, which does not result in a fixed asset on the balance sheet (generally grants), it is charged to the Surplus or Deficit on the Provision of Services in accordance with proper practice. A transfer to the Capital Adjustment Account from the Statement of Movement in Reserves reverses this out so that there is no impact on council tax.

Value added tax

8.1.89 Revenue included in the Comprehensive Income and Expenditure Statement is only the amount relating to the authority on its own behalf and therefore excludes VAT that must be passed on the HM Revenue and Customs. VAT is only included in the accounts to the extent that it is irrecoverable. The net amount due to or from HM Revenue and Customs in respect of VAT is included as part of creditors or debtors.

Revenue recognition

8.1.90 Revenue is measured at the fair value of the consideration received or receivable.

8.1.91 **The sale of goods**; revenue is recognised when all the following conditions have been satisfied:

a) the significant risks and rewards of ownership have been transferred to the purchaser.

b) the council retains neither continuing managerial involvement nor effective control over the goods sold

c) the amount of revenue can be measured reliably.

d) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and

e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

8.1.92 **The rendering of services**; when the outcome of a transaction can be estimated reliably, associated revenue is recognised according to the percentage completed at the reporting date. The following conditions need to be satisfied;

a) the amount of revenue can be measured reliably;

b) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;

c) the stage of completion at the balance sheet date can be measured reliably; and

d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

8.1.93 **Interest**; revenue is recognised when;

a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and

b) the amount of the revenue can be measured reliably.

8.1.94 **Non-exchange transactions**; revenue is recognised when;

a) it is probable that the economic benefits or service potential associated with the transaction will flow to the authority; and

b) the amount of the revenue can be measured reliably.

Interests in Companies and Other Entities

8.1.95 The council has 33% voting rights with Herefordshire Housing. However, the council is not exposed to the direct risk of any loss though transactions or collapse, and therefore there is no requirement to complete group accounts.

8.1.96 The council has an interest in a company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. This is a company limited by guarantee and the council is a member. However, this relationship does not require group accounts as the company provides an independent role in the redevelopment. Contracts with third parties are entered into by the council and the financial transactions relating to these are included in the council's accounts. This company will be wound down in 2014/15.

8.1.97 West Mercia Energy (WME) operates as a joint arrangement with Herefordshire, Shropshire, Worcestershire and Telford and Wrekin councils. The financial advantage of bulk purchasing arrangements is reflected in the Income and Expenditure Account. The council's share is not considered material to the accounts. At 19.8%, based on the estimated proportion of the surplus attributable to the council, the council's share of WME net liabilities of £1.4 million amounted to £276,000 at 31 March 2014.

8.1.98 The council holds 74.7% shareholding in Hoople Ltd, which increased from 62% in the previous year after the demise of the PCT. This is a joint venture which the council entered into with Wye Valley NHS Trust and Herefordshire Primary Care Trust in 2011. The purpose of the joint venture was to increase efficiency and reduce back office costs for all partners. However, the balance sheet value of Hoople Ltd at 31 March 2014 was insignificant to justify the preparation of group accounts.

8.1.99 On 1 April 2013 Public Health staff and services were transferred from Primary Care Trusts (PCTs) to local authorities. With the transfer brought a number of commissioning responsibilities for the Council, together with overall responsibility for improving health at local level. The national Public Health Outcomes Framework has been developed, which sets out key outcomes of interest for partners in improving health including some mandatory services including:- the National Child Measurement Programme; NHS health check assessments; comprehensive sexual health services (including testing and treatment for sexually transmitted infections, contraception outside of the GP contract and sexual health promotion and disease prevention) and drug and alcohol intervention.

To discharge the new public health responsibilities, the Council was provided with a ring-fenced public health grant. A new 'Public Health' line has been included in the Comprehensive Income and Expenditure Statement and this has been credited with this income. Public Health expenditure has also been charged to this line.

Under the new arrangements for Public Health, staff performing Public Health functions who were compulsorily transferred from the PCTs to local authorities and who had access to the NHS Pension Scheme on 31 March 2013 retained access to that scheme on transfer at 1 April 2013. Further details regarding this can be found in Note 8.42.

No material assets or liabilities were transferred.

8.2. Accounting standards that have been issued but have not yet been adopted

8.2.1 Authorities are required to disclose the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted in the CIPFA Accounting Code of Practice for the relevant financial year.

8.2.2 For 2013/14 these are;

- IFRS 10 Consolidated Financial Statements (May 2011),
- IFRS 11 Joint Arrangements (May 2011),
- IFRS 12 Disclosure of Interests in Other Entities (May 2011),
- IFRS 13 Fair Value Measurement (May 2011)
- IAS1 Presentation of Financial Statements (as amended in May 2011). This is a presentational issue only.
- IAS 27 Separate Financial Statements (as amended May 2011). This outlines the accounting and disclosure requirements for 'separate financial statements', which are financial statements prepared by a parent, or an investor in a joint venture or associate. This is not applicable to Herefordshire Council's accounts.
- IAS 28 Investments in Associates and Joint Ventures (as amended in May 2011). This sets out how to account for investments in associates and joint ventures. This is not applicable to Herefordshire Council's accounts.
- IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities (as amended in December 2011). This standard outlines the accounting requirements for the presentation of financial instruments, particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments.

IFRS 10 Consolidated Financial Statements

8.2.3 This standard introduces a new control test for consolidating accounts. An investor is deemed to have control over an investee when it has;

- Power over the investee
- Exposure or rights to variable returns
- Ability to use the power to affect the amounts of investor's returns

8.2.4 It is not anticipated that this will impact on Herefordshire Council's accounts.

IFRS 11 Joint Arrangements

8.2.5 Under this standard joint arrangements are now classified into 2 models, joint ventures and joint operations. The focus is no longer on the legal structure but on how rights and obligations are shared by parties to the arrangements.

8.2.6 It is not anticipated that this will impact on Herefordshire Council's accounts.

IFRS 12 Disclosure of Interests in Other Entities

8.2.7 This is a new standard aimed at improving the disclosure of interests in other entities. The objective is to enable users of the financial statements to evaluate:

- The nature of, and risks associated with, its interests in other entities; and
- The effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement

8.2.8 Fair value is deemed to be the price that would be received to sell an asset or paid to transfer a liability between market participants. Property, plant and equipment (PPE) assets are to be measured at 'highest and best use'. For operational assets needed to provide services directly to the public the measurement should be based on existing use value. Assets not subject to service or other constraints should be measured at fair values under IFRS 13.

8.2.9 Under this standard some assets are likely to require re-measurement.

8.3 Critical Judgements in Applying Accounting Policies

8.3.1 In applying the accounting policies set out in note 8.1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events.

8.3.2 The critical judgements made in the Statement of Accounts are:

- The council is deemed to control the services provided by Shaw Healthcare under the contract for the development and provision of residential homes and day care centres. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement.

- The council has relationships with a number of companies as detailed in note 8.1 but it has been determined that there is no requirement for group accounts.

8.4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

8.4.1 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.

8.4.2 There is a significant risk of material adjustment in the forthcoming financial year for the following items in the council's Balance Sheet at 31 March 2014:

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	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 retirement ages, mortality rates and expected returns on pension fund assets. The pension fund actuary Mercer Ltd is employed by the pension fund to provide expert advice about the assumptions to be applied.	Changes in any of the assumptions can have a significant effect on the pensions liability shown in the accounts. An increase in the discount rate of 0.1% would decrease the liability by £7.6m, an increase of 0.1% inflation would be an additional £7.7m and 1 year increase in life expectancy would represent £8.2m.

Property, plant, equipment and investment properties	Full valuation involving an inspection is carried out every 5 years. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year.	There is a risk of an adjustment in the year when the property is revalued. An assessment of the risk was carried out in 2013/14 based on the movement in property indices over the last 5 years. This quantified the potential risk to be around £2.5m.

8.5 Material Items of Income and Expense

8.5.1 There were no material item of income and expense in the Comprehensive Income and Expenditure Account for 2013/14.

8.6. Events after the Balance Sheet Date

8.6.1 The Statement of Accounts was authorised for issue on 27th June 2014 by the Chief Financial Officer. Events taking place after this date are not reflected in the financial statements or notes.

8.6.2 Many schools in Herefordshire have become Academies. It is council policy to remove the associated fixed assets from the Balance Sheet on the date that the assets are legally transferred. In 2013/14 £2.65 million was removed from the Balance Sheet due to schools converting to Academy status. In 2014/15 fixed assets will fall by at least a further £2.58 million as Fairfield High School became an academy after the year end.

8.6.3 In May 2014 the council entered a waste PFI contract variation for the building of an energy from waste plant. The future years unitary payments commitments have been updated to reflect the effect of this contract variation.

8.7 Adjustments between Accounting Basis and Funding Basis under Regulations

8.7.1 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 to the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2013/14

	Usable Reserves			
	General Fund Balance £000	**Capital Receipts Reserve £000**	**Capital Grants Unapplied £000**	**Unusable reserves £000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation on non-current assets	(13,801)			13,801

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Revaluation losses and impairment on Property, Plant and Equipment	(4,486)			4,486
Movements in the market value of investment properties	(388)			388
Amortisation of intangible assets	(2,204)			2,204
Capital grants and contributions	16,445			(16,445)
Revenue expenditure funded from capital under statute	(1,927)			1,927
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(10,772)			10,772
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	10,748			(10,748)
Capital expenditure charged against the General Fund balance	503			(503)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	476		(476)	
Application of grants to capital financing transferred to the Capital Adjustment Account			7,641	(7,641)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	5,280	(5,280)		
Use of the Capital Receipts Reserve to finance new capital expenditure		1,979		(1,979)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(1)	1		
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(2)		2
Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4)			4
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure	(16,627)			16,627

Statement (see Note 8.43)				
Employer's pensions contributions and direct payments to pensioners payable in the year	9,841			(9,841)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(558)			558
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	909			(909)
Total Adjustments	**(6,566)**	**(3,302)**	**7,165**	**2,703**

2012/13 Comparative Figures (restated)

	Usable Reserves			
	General Fund Balance	**Capital Receipts Reserve**	**Capital Grants Unapplied**	**Unusable reserves**
	£000	**£000**	**£000**	**£000**
Adjustments involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation on non-current assets	(12,981)			12,981
Revaluation losses and impairment on Property, Plant and Equipment	(9,029)			9,029
Movements in the market value of investment properties	6,479			(6,479)
Amortisation of intangible assets	(1,695)			1,695
Capital grants and contributions	15,909			(15,909)
Revenue expenditure funded from capital under statute	(236)			236
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(22,651)			22,651
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	10,812			(10,812)
Capital expenditure charged against the General Fund balance	294			(294)
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,588		(1,588)	
Application of grants to capital financing transferred to the Capital Adjustment Account			3,752	(3,752)
Adjustments involving the Capital Receipts Reserve:				
Transfer of sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,820	(2,820)		
Use of the Capital Receipts Reserve to finance new capital expenditure		2,898		(2,898)
Contribution from the Capital Receipts Reserve towards administrative costs of non current asset disposals				
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool.	(4)	4		
Recognition of new deferred capital receipts				
Transfer from Deferred Capital Receipts Reserve upon receipt of cash		(6)		6

Adjustments involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	18			(18)
Adjustments involving the Pensions Reserve:				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 8.43)	(13,563)			13,563
Employer's pensions contributions and direct payments to pensioners payable in the year	9,826			(9,826)
Adjustments involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(373)			373
Adjustment involving the Accumulated Absences Account				
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	100			(100)
Total Adjustments	**(12,686)**	**76**	**2,164**	**10,446**

8.8 Transfers to/from Earmarked Reserves

8.8.1 This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to the General Fund in 2013/14

	31 Mar 2013	Transfer out 2013/14	Transfer (in) 2013/14	31 Mar 2014
	£000	**£000**	**£000**	**£000**
School balances	(5,535)	847	(1,657)	(6,345)
Industrial Estates	(431)	81		(350)
Schools Insurance	(497)	77		(420)
Schools sickness	(141)		(25)	(166)
Waste Disposal	(2,407)			(2,407)
Contingent liabilities	(306)			(306)
Hereford Futures	(213)		(23)	(236)
Whitecross school PFI	(339)		(35)	(374)
Economic Development	(127)			(127)
Three Elms Ind. Estate	(241)		(123)	(364)
Community Equipment	(110)			(110)
Community Social Care	(116)			(116)
Change management	(142)	142		0
Insurance	0		(105)	(105)
Risk mitigation	0		(3,500)	(3,500)
Business Rate smoothing	0		(1,000)	(1,000)
Land charges	0		(600)	(600)
Safeguarding	0		(417)	(417)
ICT	0		(387)	(387)
Library services	0		(260)	(260)
Herefordshire Local Plan	0		(170)	(170)
HR	0		(146)	(146)
Special Educational Needs	0		(75)	(75)
Section 256	0		(55)	(55)
Other small reserves	(60)	10	(75)	(125)
Unused grants carried forward	(3,303)	1,883	(4,362)	(5,782)
	(13,968)	**3,040**	**(13,015)**	**(23,943)**

8.9 Other Operating Expenditure

	2013/14 £000	2012/13 £000
Parish council precepts	2,788	2,697
Levies	195	189
Payments to the Government Housing Capital Receipts Pool	1	4
(Gains)/losses on the disposal of non-current assets	6,038	19,872
Total	**9,022**	**22,762**

8.10 Financing and Investment Income and Expenditure

	2013/14 £000	Restated 2012/13 £000
Interest payable and similar charges	7,844	7,768
Pensions net interest and admin charge	7,916	17,759
Pension Return on Assets	0	(10,126)
Interest receivable	(332)	(283)
Income and expenditure in relation to trading accounts/investment properties and changes in their fair value	(1,242)	(8,060)
(Gains)/losses on the disposal of investment properties	(547)	0
Other investment income	(384)	(1,157)
Total	**13,255**	**5,901**

The 2012/13 figures have been adjusted for the change in accounting for pensions.

8.11 Taxation and Non Specific Grant Income

	2013/14 £000	2012/13 £000
Council tax income	(81,825)	(89,068)
Non domestic rates	(27,639)	(55,539)
Non-ringfenced government grants	(47,847)	(5,887)
Capital grants and contributions	(16,921)	(17,520)
Total	**(174,232)**	**(168,014)**

8.12 Property, Plant and Equipment

8.12.1 Movements on Balances

Movements in 2013/14:

	Land & buildings £000	Vehicles, plant, furniture &equip £000	Infra structure assets £000	Commu nity assets £000	Surplus assets £000	Assets under construct ion £000	Total PPE £000	PFI assets incl. in PPE £000
Cost or Valuation								
At 1 April 2013	**244,530**	**20,841**	**182,541**	**1,600**	**3,998**	**14,785**	**468,295**	**10,527**
Additions	13,986	611	11,580	232	0	12,703	**39,112**	**160**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	9,314	0	0	0	0	0	**9,314**	**0**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(4,432)	0	0	0	0	(55)	**(4,487)**	**0**
Adjustment to write back depreciation on revalued assets	(3,711)	0	0	0	0	0	**(3,711)**	**0**
Disposals	(3,864)	(841)	0	0	(3,505)	0	**(8,210)**	**(61)**
To held for sale	(132)	0	0	0	0	0	**(132)**	**0**
Other reclassifications	4,228	-	4,193	69	3,719	(12,209)	**0**	**0**
At 31 March 2014	**259,919**	**20,611**	**198,314**	**1,901**	**4,212**	**15,224**	**500,181**	**10,626**
Accumulated Depreciation and Impairment								
At 1 April 2013	**(16,419)**	**(13,636)**	**(34,176)**	0	0	0	**(64,231)**	**(2,600)**
Depreciation on cost (net of any impairments)	(4,480)	(2,609)	(5,334)	0	0	0	**(12,423)**	**(338)**
Depreciation on revalued amount in excess of cost	(1,379)	0	0	0	0	0	**(1,379)**	**0**
Depreciation written back on revalued assets	3,711	0	0	0	0	0	**3,711**	**0**
Disposals	19	396	0	0	0	0	**415**	**0**
At 31 March 2014	**(18,548)**	**(15,849)**	**(39,510)**	**0**	**0**	**0**	**(73,907)**	**(2,938)**
Net Book Value								
At 31 March 2014	**241,371**	**4,762**	**158,804**	**1,901**	**4,212**	**15,224**	**426,274**	**7,688**
At 31 March 2013	**228,111**	**7,205**	**148,365**	**1,600**	**3,998**	**14,785**	**404,064**	**7,927**

Comparative Movements in 2012/13:

	Land & buildings £000	Vehicles, plant, furniture &equip £000	Infra structure assets £000	Commu nity assets £000	Surplus assets £000	Assets under construct ion £000	Total PPE £000	PFI assets incl. in PPE £000
Cost or Valuation								
At 1 April 2012	**260,351**	**21,288**	**170,582**	**901**	**2,989**	**2,953**	**459,064**	**28,663**
Additions	8,000	2,179	11,944	699	1,343	11,879	**36,044**	**13**
Revaluation increases/(decreases) recognised in the Revaluation Reserve	8,366	0	0	0	(331)	0	**8,035**	**0**
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(8,396)	0	0	0	(511)	0	**(8,907)**	**0**
Adjustment to write back depreciation on revalued assets	(2,115)	0	0	0	(3)	0	**(2,118)**	**0**
Disposals	(20,054)	(2,626)	0	0	(135)	0	**(22,815)**	**(18,149)**
Assets reclassified as Held for Sale	0	0	0	0	0	0	**0**	**0**
Reclassifications from/(to) Investment Properties	0	0	0	0	0	0	**0**	**0**
Other reclassifications	(1,622)	0	15	0	646	(47)	**(1,008)**	**0**
At 31 March 2013	**244,530**	**20,841**	**182,541**	**1,600**	**3,998**	**14,785**	**468,295**	**10,527**
Accumulated Depreciation and Impairment								
At 1 April 2012	**(14,353)**	**(12,899)**	**(28,851)**	**0**	**(3)**	**0**	**(56,106)**	**(4,641)**
Depreciation on cost (net of any impairments)	(4,648)	(2,268)	(5,325)	0	0	0	**(12,241)**	**(327)**
Depreciation on revalued amount in excess of cost	(740)	0	0	0	0	0	**(740)**	**(11)**
Depreciation written back on revalued assets	2,115	0	0	0	3	0	**2,118**	**0**
Disposals	1,207	1,531	0	0	0	0	**2,738**	**2,379**
At 31 March 2013	**(16,419)**	**(13,636)**	**(34,176)**	**0**	**0**	**0**	**(64,231)**	**(2,600)**
Net Book Value								
At 31 March 2013	**228,111**	**7,205**	**148,365**	**1,600**	**3,998**	**14,785**	**404,064**	**7,927**
At 31 March 2012	**245,998**	**8,389**	**141,731**	**901**	**2,986**	**2,953**	**402,958**	**24,022**

8.12.2 Depreciation

Depreciation is provided on a straight line basis over an asset's economic useful life. Lives have been estimated as follows:

- Buildings – estimated useful life up to 100 years
- Vehicles, plant, furniture and equipment – 5 years
- Infrastructure – 15 to 50 years

8.12.3 Analysis of Capital Charges to Directorates

Capital charges included in the Comprehensive Income and Expenditure Statement relating to tangible fixed assets are analysed by directorate below:

Directorate	Depreciation £000	Impairments £000	Total for 2013/14 £000
Adults Well-being	591	55	646
Children's Well-being	6,295	997	7,292
Economy, Communities and Corporate	6,690	3,434	10,124
Chief Executive and Organisational Development	225	0	225
Total	**13,801**	**4,486**	**18,287**

8.12.4 Capital Commitments

At 31 March 2014 the council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2014/15 and future years budgets. Major commitments totalled £7.3 million in relation to the Leominster Primary School and Corporate Accommodation programme.

8.12.5 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. More frequent valuations are carried out if the rolling programme is insufficient to keep pace with material changes in value. This year an external company, Hub Professional Services Ltd, carried out the majority of the valuations with only the lower value assets (less than £5,000) being reviewed by the in-house valuation team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicle, plant and equipment is based on depreciated costs as a proxy for fair value.

8.12.6 Schools

Where a school is under the Council's control (i.e. under the responsibility of the Council's Section 151 Officer) its income, expenditure, current assets, liabilities and reserves are consolidated into the Council's accounts and included within the figures disclosed in the Statement of Accounts. Any reserves attributable to the school are earmarked and disclosed separately. As a result Community schools, Voluntary Aided schools, Voluntary Controlled schools and Foundation schools are all consolidated into the Council's accounts. However, once a school transfers to Academy status it is no longer under the control of the Council and, therefore, its income, expenditure, assets, liabilities and reserves are no longer consolidated into the Council's accounts.

In respect of any Plant, Property and Equipment associated with schools the Council has determined that Community schools and Voluntary Controlled schools should be on balance sheet but that Voluntary Aided school buildings (excluding playing fields), Foundation schools and Academy schools should not. Voluntary Aided schools long term assets are not included as ownership and control of the assets lies with the school.

The fair value of schools is estimated using a Depreciated Replacement Cost approach i.e. the valuation comprises the market value of the land in its existing use plus the current replacement cost of the buildings less an allowance for physical deterioration.

Whether or not the value of a school is included in the balance sheet depends upon the type of school. The different types of school and their accounting treatment is summarised below.

Type of School (excluding Pupil Referral Units)	**Number of Schools**	**Net Book Value 31/3/14 £'000**
Community Schools owned and controlled by the council. Land and buildings recognised in the Balance Sheet.	34	105,102
Voluntary – Controlled Land and buildings owned by a foundation or trust (usually a Christian group) but all costs met by central government. Similar to a community school in the degree of control exercised by the council. In order to accurately reflect the assets that the council controls and maintains (and which the council has a duty to provide) the land and buildings are included in the Balance Sheet. This is interpreted as being in accordance with FRS5 (substance over legal form).	12	11,501
Voluntary – Aided Ownership as above except with the difference that the schools are not fully funded by the government (with the school meeting part of the cost of capital works) and have more autonomy. Only the value of playing fields is included in the Balance Sheet, where these are required to be provided by the council.	22	1,114
Foundation Schools Land and buildings legally transferred to the school. Because a foundation school has more freedom than a community school in how it is managed the school assets are written out of the balance Sheet.	2	0
Academies	26	0

As foundation schools above.		
Total	**96**	**117,717**

The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 includes an updated Appendix which outlines that all assets of local authority maintained schools (all schools excluding academies) are under the control of the local authority (unless it can specifically proved otherwise) and therefore all income, expenditure, assets, liabilities and reserves should be consolidated into the local authorities accounts. It is expected that this will materially increase the value of the Plant, Property and Equipment in the 2014/15 accounts.

8.13 Heritage Assets

8.13.1 The carrying value of heritage assets shown in the Balance Sheet is calculated as follows:

	2013/14 £000	2012/13 £000
Balance at start of the year	**2,805**	**2,820**
Additions:		
Reclassification	0	(15)
Balance at end of the year	**2,805**	**2,805**

8.13.2 The council's heritage assets consist of the museum, archive and local studies holdings, together with some individual items held by other departments.

8.13.3 Heritage assets that have not been included in the new category include items such as sculptures and war memorials in the county. These items have been excluded on the basis that identification and valuation of these items is considered impractical and the additional work involved would not be commensurate with the benefit to the user of the accounts. In addition, ownership of assets such as war memorials is often difficult to establish without detailed research.

8.13.4 The heritage assets held by the council were professionally valued in May 2012 by James Glennie of Art and Antiques Appraisals Ltd (James Glennie has 30 years valuing and auctioneering experience and worked for the international auction house Bonhams for 14 years).

Summary of Collections

The valuation of the heritage assets can be analysed as follows:

	£000
Paintings and prints	1,383
Ceramics and glass	170
Furniture	144
Costumes and textiles	65
Arms, armour, firearms, weapons etc	42
Archaeology	171
Natural history and sciences	81
Documents, photographs and archives	218
Clocks, watches, scientific instruments and cameras	67
Sculpture	38
Silver, jewellery, coins, medals, tokens etc	61
Transport and carriages	52
Social history	36
Hereford Public Library reference section	277
Total	**2,805**

8.13.5 Excluding archives and items held by local studies, the museum itself holds an estimated 120,000 objects.

8.13.6 As can be seen from the above, nearly half of the valuation of the exhibits relates to paintings and prints which comprise more than 3,500 works of art. The Fine Art collection features a significant number of early English watercolours, mainly landscapes, dating from the 18th to mid 19th centuries. It has a rich selection of work by artists with local connections, such as the work of First World War artist Brian Hatton.

8.13.7 The Costume and Textile collection is of national importance with items from the 17th century to the present day.

8.13.8 Amongst the Natural History collection the geology, herbarium and parts of the invertebrate collections are the most important. There are good local entomological specimens and a local collection of vertebrates including a fine sturgeon caught in the River Wye in the mid 19th century (valued today at £20,000).

8.13.9 The Archaeological collections are primarily of Herefordshire origin and are particularly strong in the Iron Age and Roman periods from the county. Stone Age material from King Arthur's Cave is of national significance, and there are some fine groups of prehistoric flint and stone tools in the collections.

8.13.10 The Social History collection is large and diverse, including local crafts, trades, agricultural implements, wheeled vehicles and numerous domestic artefacts. The collection is largely of 19th- 20th century date, but there is some 17th and 18th century material including an important group of ironwork. A collection of photographic equipment and items belonging to Alfred Watkins, a Victorian antiquarian, inventor and author of the Ley Line theory, is of local and national relevance.

8.13.11 The collection of photographs is an important resource for local imagery and past trades and date from the mid-19th century to the present day.

8.13.12 The collection of currency is greatest in the area of Roman coinage, with two large hoards and coins from the Roman town of Magna at Kenchester. Arms and armour includes some fine Medieval and Civil War pieces including the famous Roaring Meg Mortar and its associated shell from the siege of Goodrich Castle.

Preservation and Management

8.13.13 One of the main purposes of Herefordshire Museum Services is to collect and preserve in perpetuity, objects that celebrate and enhance the lives and environment of the people of Herefordshire and to provide access for everyone to this exciting resource.

8.13.14 The museum service has been accredited by the Arts Council. Registration under the Arts Council Museums Accreditation Scheme indicates that the museum has achieved a nationally approved standard in management, collection care and delivery of information and visitor services.

8.13.15 The central storage facility for the county's museum collections is the Museum Resource and Learning Centre. This is a modern purpose-built state of the art facility where the climate controlled stores provide the optimum temperature and humidity to keep the objects in good condition.

8.13.16 By definition the museum has a long-term purpose and there is a strong presumption against the disposal of items, except for sound curatorial reasons such as deterioration or damage.

8.13.17 The collection is increased by both passive collection (through objects offered by members of the public and occasionally institutions, including via the Treasure Act 1996) and active collection. Items will only be considered for collection if:

- The object has been legally acquired and the donor has proper title;
- It fills a gap in the existing collection;
- It represents a category of artefact where it is important to have all surviving examples retained for posterity, or
- It is a complete, or more complete, example of an object already represented in the collection.

All members of the Collections Team are consulted over potential acquisitions in all collecting areas and a consensus reached.

Access to the Collection

8.13.18 Herefordshire Museum Services operates five sites across the county together with an award winning mobile museum service, Museum on the Move. Three sites are in Hereford – these are the Hereford Museum and Art Gallery, the Old House and the Museum Resource and Learning Centre. The other two centres are the Market House Visitor Centre in Ross-on-Wye and Ledbury Heritage Centre. Admission to museums, galleries and heritage centres is generally free of charge.

8.13.19 Museum on the Move is a fully accessible bus run by Herefordshire Museum Services in partnership with Staffordshire Council's Museum Service. Museum on the Move exists to provide access to the collection for different communities in the county, such as day care centres, village fetes and after-school clubs.

8.13.20 The centres in Ross-on-Wye and Ledbury provide insights into the past of these historic towns and also host a wide range of frequently changing community exhibitions, in addition to open days and other activities.

8.13.21 The Old House is a well preserved 17^{th} century timber-framed building situated in the commercial centre of Hereford. It has been a museum since 1929 and is furnished in Jacobean style. For those unable to climb the stairs a virtual tour is available on the fully accessible ground floor.

8.13.22 Hereford Museum and Art Gallery has been exhibiting artefacts and works of art connected with the local area since 1874. The Art Gallery is host to changing exhibitions and changeovers happen approximately every eight weeks.

8.13.23 As noted above, the Museum Resource and Learning Centre is the central storage facility for the county's museum collections. The Centre needs to balance preservation with public access. Access to the collections is provided by:

- Rotating items on show at the Hereford Museum and Art Gallery;
- Holding open days twice a month to enable the public to meet the curators and receive advice on their own items or to tour the facility;
- Allowing access at other times, for longer periods of research or for group visits to see behind the scenes, by appointment;
- Running regular family friendly events, workshops and lectures;

- Exceptionally, by loaning items to other museums or groups.

8.14 Investment Properties

8.14.1 The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. It comprises the trading areas of markets, industrial estates and retail. The direct operating expenses exclude recharged support services, capital charges and changes in the fair value of the assets.

	2013/14 £000	2012/13 £000
Rental income from investment property	(2,713)	(2,107)
Direct operating expenses arising from investment property	673	647
Net gain	(2,040)	(1,460)

8.14.2 The following table summarises the movement in the fair value of investment properties over the year:

	2013/14 £000	2012/13 £000
Balance at start of the year	**32,966**	**26,954**
Additions:		
Enhancement expenditure	93	223
Disposals	(2,426)	(1,713)
Net gains/(losses) from fair value adjustments	(388)	6,479
Transfers to Property, Plant and Equipment	0	1,023
Balance at end of the year	**30,245**	**32,966**

8.15 Intangible Assets

8.15.1 The council accounts for its software as intangible assets. Software is amortised over three to five years in equal annual instalments. Most of the amortisation was charged to the IT administration centre and then absorbed as an overhead across all services in the Net Expenditure of Services. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

8.15.2 The movement on Intangible Asset balances during the year is as follows:

	2013/14 Software £000	2012/13 Software £000
Balance at start of year:		
Gross carrying amounts	11,789	11,228
Accumulated amortisation	(7,056)	(5,361)
Net carrying amount at start of year	4,733	5,867
Additions:	389	563
Amortisation for the period	(2,204)	(1,695)
Disposals	0	(2)
Net carrying amount at end of year	2,918	4,733
Comprising:		
Gross carrying amounts	12,178	11,789
Accumulated amortisation	(9,260)	(7,056)
	2,918	4,733

8.16 Financial Instruments

8.16.1 Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability (or equity instrument) of another entity. Amounts relating to statutory debts, such as council tax, non-domestic rates, general rates etc, are not classed as financial instruments as they do not arise from contracts. Also excluded from the above analysis are accounting adjustments relating to accruals and payments in advance.

8.16.2 **Categories of Financial Instruments**
The following categories of financial instrument are carried in the Balance Sheet.

8.16.3 **Financial Assets**
All the financial assets in the balance sheet which are financial instruments are classed as loans and receivables.

	2013/14		2012/13	
	Per Balance Sheet	**Financial Instruments**	**Per Balance Sheet**	**Financial Instruments**
	£'000	**£'000**	**£'000**	**£'000**
Long-term investments				
Treasury stock etc	**4**	**4**	**4**	**4**
Long-term debtors				
Loans	1,296	1,296	1,225	1,225
PFI lifecycle costs	1,511	-	1,281	-
	2,807	**1,296**	**2,506**	**1,225**

Investments				
Short-term investments	17,564	17,564	8,541	8,541
Cash and cash equivalents	8,412	8,412	2,420	2,420
	25,976	**25,976**	**10,961**	**10,961**
Short-term debtors				
Sales invoices and contractual rights	18,829	18,829	20,636	20,636
Statutory debts (council tax, VAT etc)	8,983	-	7,837	-
Prepayments	2,417	-	6,061	-
Bad debt provisions	(1,733)	-	(1,689)	-
	28,496	**18,829**	**32,845**	**20,636**

8.16.4 **Financial Liabilities**
All the financial liabilities in the Balance Sheet which are financial instruments are classed as financial liabilities at amortised cost.

	2013/14		**2012/13**	
	Per Balance Sheet	**Financial Instruments**	**Per Balance Sheet**	**Financial Instruments**
	£'000	**£'000**	**£'000**	**£'000**
Cash and cash equivalents (unpresented items)	3,174	3,174	1,652	1,652
Short-term borrowing:				
Bank loans	12,611	12,611	12,615	12,615
Public Works Loan Board	4,927	4,927	5,099	5,099
Borrowing from other local authorities	31,541	31,541	16,011	16,011
Other loans (Salix loan)	149	149	130	130
	49,228	**49,228**	**33,855**	**33,855**
Short-term creditors				
Invoiced amounts and other contractual liabilities	17,578	17,578	22,373	22,373
Obligations under finance leases	-	-	1	1
Statutory liabilities (PAYE etc)	3,598	-	3,893	-
Accruals and receipts in advance	5,077	-	5,939	-
Funds and deposits held	164	-	227	-
	26,417	**17,578**	**32,433**	**22,374**

Long-term borrowing				
Public Works Loan Board	120,523	120,523	124,535	124,535
Other loans (Salix loan)	237	237	322	322
	120,760	**120,760**	**124,857**	**124,857**
Other long-term liabilities				
PFI liabilities and finance leases	27,306	27,306	28,238	28,238
Pensions liability	160,431	-	188,502	-
	187,737	**27,306**	**216,740**	**28,238**

18.16.5 **Income, Expense, Gains and Losses**

The following amounts, relating to financial instruments, are included in the Comprehensive Income and Expenditure Statement:

	2013/14			**2012/13**		
	Financial Liabilities at amortised cost	**Financial assets: Loans and receivables**	**Total**	**Financial Liabilities at amortised cost**	**Financial assets: Loans and receivables**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Interest payable and similar charges:						
Interest expense relating to:						
Loans	5,406	0	5,406	5,366	0	5,366
PFI liabilities	2,125	0	2,125	2,185	0	2,185
Finance leases	33	0	33	39	0	39
Brokers commission	11	0	11	5	0	5
Impairment losses (bad debts)	0	269	269	0	173	173
Total expense in Surplus or Deficit on the Provision of Services	7,575	269	7,844	7,595	173	7,768
Interest receivable:						
On investments	0	(332)	(332)	0	(283)	(283)
Total income in Surplus or Deficit on the Provision of Services	0	(332)	(332)	0	(283)	(283)
Net loss/(gain) for the year	**7,575**	**(63)**	**7,512**	**7,595**	**(110)**	**7,485**

8.16.6 **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, using the following assumptions:

- The fair values of PWLB loans have been calculated based on premature repayment rates at the year end.
- The fair values of the bank loans have been assessed using the market cost of equivalent loans with the same remaining periods to maturity.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair value of the council's borrowing (which is carried at amortised cost in the Balance Sheet) is as follows:

	31 March 2014		31 March 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
	£000	£000	£000	£000
Total borrowing	169,988	190,959	158,712	191,601

The fair value is higher than the carrying amount because the council's portfolio of longer-term loans are all fixed rate and the interest rates payable on these loans are generally higher than the relatively low rates prevailing at the Balance Sheet date. Therefore the fair value includes a premium that the council would have to pay if the lender agreed to early repayment of the loans. None of the council's investments are for a period exceeding 364 days and so the fair value of investments will not be significantly different to the carrying amount.

The carrying amounts of other long-term financial assets and liabilities in the balance sheet include commitments falling due under PFI schemes. The fair value of these commitments exceeds the carrying amount and represents the additional cost that could fall due if we were to terminated the PFI schemes as at the balance sheet date. The total PFI carrying amount is £27 million and the fair value as at 31.03.14 totals £42 million. The accounts have not been adjusted for this as the PFI schemes are set to continue until expiry.

8.17 Inventories

	2013/14	2012/13
	£000	£000
Balance outstanding at start of year	287	342
Purchases	617	636
Recognised as an expense in the year	(414)	(486)
Written off balances	(313)	(205)
Balance outstanding at year-end	**177**	**287**

8.18 Debtors

	31 March 2014 £000	31 March 2013 £000
Central government bodies	10,464	11,603
Other local authorities	903	439
NHS bodies	4,990	4,728
Public corporations and trading funds	23	0
Other entities and individuals	13,849	17,764
	30,229	34,534
Provision for Bad Debts	(1,733)	(1,689)
Total	**28,496**	**32,845**

8.19 Cash and Cash Equivalents

8.19.1 The balance of cash and cash equivalents is made up of the following elements:

	31 March 2014 £000	31 March 2013 £000
Cash held by the Authority	2,575	1,448
Short-term deposits	5,837	972
	8,412	2,420
Bank current accounts	(3,174)	(1,652)
Total Cash and Cash Equivalents	**5,238**	**768**

8.19.2 By transferring funds to and from its investment accounts the council maintains a nil cleared balance on its current accounts overnight. The overdrawn amount shown above is wholly due to the inclusion of unpresented bank payments for accounting purposes.

8.20 Assets Held for Sale

	2013/14 £000	2012/13 £000
Balance outstanding at start of year	**3,150**	**4,132**
Reclassified	0	0
Assets newly classified as held for sale	132	0
Revaluation losses	0	(122)
Assets sold	(550)	(860)
Balance outstanding at year-end	**2,732**	**3,150**

All assets held for sale are categorised as current assets

8.21 Creditors

	31 March 2014 £000	31 March 2013 £000
Central government bodies	(3,788)	(4,022)
Other local authorities	(4,152)	(3,024)
NHS bodies	(1,130)	(511)
Other entities and individuals	(17,347)	(24,876)
Total	**(26,417)**	**(32,433)**

8.22 Provisions

8.22.1 The movement on provisions from 1st April 2012 to 31st March 2014 is set out below;

	Long-term £000	Short-term £000	Total £000
Balance at 1 April 2012	**(1,124)**	**(424)**	**(1,548)**
Additional provisions made in 2012/13	(540)	(1,474)	(2,014)
Amounts used in 2012/13	540	224	764
Unused amounts reversed in 2012/13	0	200	200
Balance at 31 March 2013	**(1,124)**	**(1,474)**	**(2,598)**
Additional provisions made in 2013/14	(463)	(1,526)	(1,989)
Amounts used in 2013/14	0	905	905
Balance at 31 March 2014	**(1,587)**	**(2,095)**	**(3,682)**

8.22.2 The provisions held at 31st March 2014 are;

Provision	**£000**	
Redundancy	1,780	Based on the number of planned redundancies and staff identified at risk of redundancy at 31st March 2014 plus contractual commitments to cover redundancies for transferred staff in partner organisations
Insurance	1,258	For potential future insurance claims based on external professional assessment
Data breaches	60	Estimated costs relating to data breach fines and claims
NNDR appeals	584	For future appeals against rating valuations which will affect rating income due for 2013/14 and prior years. This figure is after spreading the impact of appeals affecting pre April 2013, as allowed by legislation.
	3,682	

8.23 Usable Reserves

Movements in the Authority's usable reserves are summarised in the Movement in Reserves Statement and set out in more detail below.

8.23.1 Earmarked Reserves
The movement in earmarked reserves are detailed in Note 8.8.

8.23.2 Capital receipts reserve

	31 March 2014 £000	31 March 2013 £000
Balance at 1 April	**(2,693)**	**(2,769)**
Received during the year	(5,349)	(2,872)
Applied during the year	1,979	2,898
Admin costs of sales	67	46
Set aside during the year	1	4
Balance at 31 March	**(5,995)**	**(2,693)**

8.23.3 Capital grants unapplied

	31 March 2014 £000	31 March 2013 £000
Balance at 1 April	**(13,515)**	**(15,679)**
Received during the year	(476)	(1,588)
Applied during the year	7,641	3,752
Balance at 31 March	**(6,350)**	**(13,515)**

8.24 Unusable Reserves

Summary

	31 March 2014 £000	31 March 2013 £000
Revaluation reserve	(55,339)	(48,942)
Capital Adjustment Account	(194,938)	(188,283)
Financial Instruments Adjustment Account	402	398
Deferred Capital Receipts Reserve	(287)	(289)
Pensions Reserve	160,431	188,502
Collection Fund Adjustment Account	1,692	1,134
Accumulated Absences Account	1,729	2,638
Total unusable reserves	**(86,310)**	**(44,842)**

8.24.1 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 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2013/14 £000	2012/13 £000
Balance at 1 April	**(48,942)**	**(42,782)**
(Surplus) or Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(9,314)	(8,035)
Difference between fair value depreciation and historical cost depreciation	1,380	718
Accumulated gains on assets sold or scrapped	1,537	1,157
Balance at 31 March	**(55,339)**	**(48,942)**

8.24.2 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, 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.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Authority.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 8.7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

	2013/14 £000	2013/14 £000	2012/13 £000
Balance at 1 April		(188,283)	(192,856)
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation on non-current assets	13,801		12,981
Revaluation losses and impairment on Property, Plant and Equipment	4,486		9,029
Amortisation of intangible assets	2,204		1,695
Revenue expenditure funded from capital under statute	1,928		236
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	10,772		21,494
		33,191	45,435
Adjusting amounts written out of the Revaluation Reserve		(2,917)	(740)
Prior year adjustments to Revaluation Reserve			22
Net written out amount of the cost of non-current assets consumed in the year		30,274	44,717
Capital financing applied in the year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,979)		(2,898)
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(16,445)		(15,909)
Application of grants to capital financing from the Capital Grants Unapplied Account	(7,642)		(3,752)
Statutory provision for the financing of capital investment charged against the General Fund balance	(10,748)		(10,812)
Capital expenditure charged against the General Fund balance	(503)		(294)
		(37,317)	(33,665)
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		388	(6,479)
Balance at 31 March		**(194,938)**	**(188,283)**

8.24.3 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) records the timing differences between the rate at which gains and losses are recognised for accounting purposes and the rate at which debits and credits are required to be made against council tax.

The opening balance mainly relates to the council's two "stepped interest" bank loans where the interest paid in the first two years was much lower than the rate subsequently charged. The charge in the Comprehensive Income &

Expenditure Statement is based on the effective (or average) rate over the period of the loan and so in the first two years the charge was increased by debiting the differential in the Movement in Reserves Statement and crediting the FIAA. This latter reserve is then reversed out over the remaining period of the loan to give a consistent effective rate of interest.

Another adjustment is required for 2013/14 relating to the discount received on the early repayment of loans to the Public Works Loan Board in 2010/11. Discount of £83,000 was received and this amount included in the Comprehensive Income & Expenditure Statement. However, for accounting purposes this amount needs to be spread over ten years, so £78,000 was transferred to the FIAA and is credited to revenue over 10 years (i.e. £8,000 per annum).

	2013/14 £000	2012/13 £000
Balance at 1 April	**398**	**416**
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(4)	(4)
Discounts received in the year carried forward to future accounting periods	8	8
Reversal of interest adjustment for soft loans		(22)
Balance at 31 March	**402**	**398**

8.24.4 Pensions 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.

There has been an adjustment to the liability resulting to a change in the liability in respect of staff who transferred to Hoople in 2011.

	2013/14 £000	Restated 2012/13 £000
Balance at 1 April	**188,502**	**160,354**
Actuarial (gains) or losses on pensions assets and liabilities	(38,034)	24,411
Business combination	3,177	0
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	16,627	13,563
Employer's pensions contributions and direct payments to pensioners payable in the year	(9,841)	(9,826)
Balance at 31 March	**160,431**	**188,502**

8.24.5 Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements the Authority does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve.

	2013/14 £000	2012/13 £000
Balance at 1 April	**(289)**	**(295)**
Transfer to the Capital Receipts Reserve upon receipt of cash	2	6
Balance at 31 March	**(287)**	**(289)**

8.24.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax and non-domestic rates income in the Comprehensive Income and Expenditure Statement compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	2013/14 £000	2012/13 £000
Balance at 1 April	**1,134**	**761**
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,176)	373
Amount by which non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from rates income calculated for the year in accordance with statutory requirements	1,734	0
Balance at 31 March	**1,692**	**1,134**

8.24.7 **Accumulated Absences Account**

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences 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 General Fund Balance is neutralised by transfers to or from the Account.

	2013/14 £000	2012/13 £000
Balance at 1 April	**2,638**	**2,738**
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(909)	(100)
Balance at 31 March	**1,729**	**2,638**

8.25 Capital Grants Receipts in Advance

8.25.1 Under IFRS grants and contributions given towards an authority's capital investment are retained in this account whilst conditions remain attached to the financial assistance.

	2013/14 £000	2012/13 £000
Balance at 1 April	**(2,740)**	**(4,015)**
Additional amounts received in the year	(1,599)	(534)
Amounts transferred to the Comprehensive Income and Expenditure Account in the year	554	1,809
Balance at 31 March	**(3,785)**	**(2,740)**

The amounts are split between long-term and short-term liabilities at the balance sheet date.

8.26 Amounts Reported for Resource Allocation Decisions

8.26.1 The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SERCOP). However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular the report includes:

- Transactions for Trading Accounts
- Movements on Schools Balances
- Expenditure on Levies

8.26.2 Directorate Income and Expenditure

The income and expenditure of the council's directorates and corporate spend as reported to Cabinet in the 2013/14 out-turn report is as follows;

Directorate Income and Expenditure	Adults Wellbeing	Children's Wellbeing	Economy, Communities & Corporate	Chief Exec & Organisational Development	Public Health	Total
2013/14 figures	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fees, charges & other service income	17,624	12,081	18,496	470	51	48,722
Government grants	1,571	82,393	58,503	0	7,753	150,220
Total Income	**19,195**	**94,474**	**76,999**	**470**	**7,804**	**198,942**
Employee expenses	7,292	71,795	18,846	1,273	1,243	100,449
Other service expenses	69,118	49,159	109,151	8,255	6,443	242,126
Support services	4,033	9,211	(688)	(8,694)	34	3,896
Total Expenditure	**80,443**	**130,165**	**127,309**	**834**	**7,720**	**346,471**
Net Expenditure	**61,248**	**35,691**	**50,310**	**364**	**(84)**	**147,529**

The following table shows the restated comparative figures for 2012/13:

Directorate Income and Expenditure	Adults Wellbeing	Children's Wellbeing	Economy, Communities & Corporate	Chief Exec & Organisational Development	Public Health	Total
2012/13 Comparative figures	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fees, charges & other service income	17,297	11,428	9,039	12,310	481	50,555
Government grants	5,228	88,277	68,631	0	0	162,136
Total Income	**22,525**	**99,705**	**77,670**	**12,310**	**481**	**212,691**
Employee expenses	3,512	75,944	20,308	2,236	206	102,206
Other service expenses	74,081	50,864	123,898	9,142	46	258,031
Support services	4,447	8,789	(11,273)	1,779	230	3,972
Total Expenditure	**82,040**	**135,597**	**132,933**	**13,157**	**482**	**364,209**
Net Expenditure	**59,515**	**35,892**	**55,263**	**847**	**1**	**151,518**

8.26.3 Reconciliation of Directorate Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

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

	2013/14	Restated 2012/13
	£000	£000
Net expenditure in the Directorate Analysis	**147,529**	**151,518**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Account	620	1,466
Cost of services in the Comprehensive Income and Expenditure Statement	**148,149**	**152,984**

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8.26.4 Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate 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.

2013/14	Directorate Analysis £000	Amounts not Included in I & E £000	Cost Of Services £000	Corporate Items £000	Total £000
Fees, charges & other service income	48,722	(2,713)	**46,009**	0	**46,009**
Financing and investment income	0	0	**0**	1,958	**1,958**
Income from council tax	0	0	**0**	81,825	**81,825**
Government grants and contributions	150,220	0	**150,220**	92,407	**242,627**
Total Income	**198,942**	**(2,713)**	**196,229**	**176,190**	**372,419**
Employee expenses	100,449	(217)	**100,232**	0	**100,232**
Other service expenses	242,126	(738)	**241,388**	0	**241,388**
Support Service recharges	3,896	(938)	**2,958**	0	**2,958**
Financing and investment expenditure	0	0	**0**	15,760	**15,760**
Precepts & Levies	0	(200)	**(200)**	2,983	**2,783**
Payments to Housing Capital Receipts Pool	0	0	**0**	1	**1**
Gain or Loss on Disposal of Fixed Assets	0	0	**0**	5,491	**5,491**
Total expenditure	**346,471**	**(2,093)**	**344,378**	**24,235**	**368,613**
(Surplus) or deficit on the provision of services	**147,529**	**620**	**148,149**	**(151,955)**	**(3,806)**

The following table shows the comparative figures for 2012/13;

2012/13	Directorate Analysis £000	Amounts not Included in I & E £000	Cost Of Services £000	Corporate Items £000	Total £000
Fees, charges & other service income	50,555	(2,542)	**48,013**	0	**48,013**
Financing and investment income	0	0	**0**	9,500	**9,500**
Income from council tax	0	0	**0**	89,068	**89,068**
Government grants and contributions	162,136	0	**162,136**	78,946	**241,082**
Total Income	**212,691**	**(2,542)**	**210,149**	**177,514**	**387,663**
Employee expenses	102,206	(220)	**101,986**	0	**101,986**
Other service expenses	258,031	(680)	**257,351**	0	**257,351**
Support Service recharges	3,972	19	**3,991**	0	**3,991**
Financing and investment expenditure	0	0	**0**	15,401	**15,401**
Precepts & Levies	0	(195)	**(195)**	2,886	**2,691**
Payments to Housing Capital Receipts Pool	0	0	**0**	4	**4**
Gain or Loss on Disposal of Fixed Assets	0	0	**0**	19,872	**19,872**
Total expenditure	**364,209**	**(1,076)**	**363,133**	**38,163**	**401,296**
(Surplus) or deficit on the provision of services	**151,518**	**1,466**	**152,984**	**(139,351)**	**13,633**

8.27 Trading Operations

8.27.1 The council has a number of trading units where the service manager is required to operate in a commercial environment and generate income from external customers.

		2013/14 £000	2012/13 £000
Markets			
The council owns and manages open and closed markets, generating income from letting of premises and market stalls.	Turnover	(805)	(754)
	Expenditure	521	533
	(Surplus)/deficit	(284)	(221)
Industrial Estates			
The council owns and manages a number of industrial estates in the county.	Turnover	(1,382)	(1,442)
	Expenditure	520	581
	(Surplus)/deficit	(862)	(861)
Retail Properties			
The council owns retail premises in Hereford City centre from which it receives commercial rents.	Turnover	(526)	(520)
	Expenditure	42	20
	(Surplus)/deficit	(484)	(500)

8.27.2 The trading accounts are incorporated into the Comprehensive Income and Expenditure Statement as part of the line ‘Financing and investment income and expenditure’ (note 8.10).

8.28 Agency Services

8.28.1 During 2013/14 the council incurred spend in relation to the Golden Valley Fastershire capital project to provide improved broadband speeds throughout the rural areas of Herefordshire and Gloucestershire. In 2013/14 spend totalled £674,000 under the Fastershire project, of which £467,000 represents spend in the Gloucestershire area that is not shown in the council accounts as this spend is incurred under an agency arrangement.

8.29 Pooled Budgets

8.29.1 The council is party to 2 pooled budget arrangements;

Integrated Community Equipment Store

8.29.2 A joint equipment store service is provided as a partnership between Herefordshire Council, Herefordshire CCG (PCT in previous years) and Wye Valley Trust. Its aim is to promote independence and enable individuals to remain in their home.

	2013/14 £000's		**2012/13 £000's**	
Funding provided to the pooled budget:				
Herefordshire Council	(474)		(274)	
Wye Valley Trust	(110)			
Herefordshire CCG	(164)			
Herefordshire PCT		(748)	(274)	(548)
Expenditure met from the pooled budget:				
Herefordshire Council		1,048		744
Net deficit arising on the pooled budget during the year		300		196
Council share of the net deficit		300		137

CNS Complex Needs Solution

8.29.3 Herefordshire Council have entered into a pooled fund agreement with the Clinical Commissioning Group to provide provision for children and young people with complex educational, social and medical needs. The agreement pools spending in agreed proportions and spending is not separately allocated, but each child with these complex needs is funded directly from the pool irrespective of specific needs.

	2013/14 £'000		**2012/13 £'000**	
Funding provided to the pooled budget:				
Herefordshire Council	(2,965)		(2,719)	
Herefordshire CCG	(494)			
Herefordshire PCT		(3,459)	(453)	(3,172)
Expenditure met from the pooled budget:				
Herefordshire Council	3,019		2,578	
Herefordshire CCG	503			
Herefordshire PCT		3,522	429	3,007
Net surplus arising on the pooled budget during the year		63		(165)
Council share of the net surplus		54		(141)

8.30 Members' Allowances

The council paid the following amounts to members of the council during the year.

	2013/14 £000	2012/13 £000
Basic allowances	421	418
Special allowances	186	195
Travel and subsistence	36	44
Total	**643**	**657**

8.31 Officers' Remuneration

8.31.1 The Accounts and Audit Regulations set out the requirements for publishing information about employee remuneration disclosures in the statement of accounts. Remuneration is defined as 'all amounts paid to or receivable by a person, and includes sums due by way of expenses allowances (so far as those sums are chargeable to UK income tax), and the estimated money value of any other benefits received by an employee other than in cash' (e.g. benefits in kind).

8.31.2 The 2013/14 banding information is set out below. For the banding note remuneration excludes employer's pension contributions. Where no employees fell within a particular band, this band is not shown in the table;

		No of employees		2013/14		2012/13	
From	To	2013/14	2012/13	Non School	School	Non School	School
£50,000	£55,000	47	51	11	36	15	36
£55,000	£60,000	16	21	6	10	9	12
£60,000	£65,000	10	10	2	8	3	7
£65,000	£70,000	10	9	3	7	1	8
£70,000	£75,000	3	3	1	2	2	1
£75,000	£80,000	5	9	4	1	8	1
£80,000	£85,000	3	3	1	2	0	3
£85,000	£90,000	2	3	1	1	2	1
£90,000	£95,000	2	2	1	1	2	0
£95,000	£100,000	1	0	1	0	0	0
£100,000	£105,000	1	0	1	0	0	0
£105,000	£110,000	0	1	0	0	1	0
£110,000	£115,000	1	0	1	0	0	0
£115,000	£120,000	1	0	1	0	0	0
£120,000	£125,000	0	2	0	0	2	0
£125,000	£130,000	0	1	0	0	1	0
£140,000	£145,000	1	0	1	0	0	0
£255,000	£260,000	0	1	0	0	1	0
		103	**116**	**35**	**68**	**47**	**69**

8.31.3 The regulations require details to be disclosed for senior employees whose salary is £50,000 or more. For senior employees whose full-time equivalent salary is between £50,000 and £150,000 the disclosure is by way of job title and for those whose salary is £150,000 or more they are identified by name.

8.31.4 For the purposes of the regulations a ‘senior employee’ is defined as an employee whose remuneration is at least £50,000 and who is:

a) The designated head of paid service or chief officer; or

b) Any person having responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body, in particular activities involving the expenditure of money, whether solely or collectively with other persons.

8.31.5 The disclosure for the council for 2013/14 is set out below. The employees included are Directors and staff who report to Directors who are employed on Head of Service pay grades. These staff are also included in the table above. For this note employer’s pension contributions are included.

Post holder information	Notes	Year	Salary (inc. fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
Employees with salaries £150,000 or more								
Chief Executive - C Bull	45% recharge to the PCT Left 31/10/12	2012/13	107,173	150,629	0	257,802	23,364	281,166
Employees with salaries between £50,000 and £150,000								
Chief Executive	Started 01/03/2013	2013/14	143,887	0	0	143,887	32,625	176,512
		2012/13	12,083			12,083	2,634	14,717
Deputy Chief Executive	45% recharge to the PCT in 2012/13. Left 09/06/2013	2013/14	24,916	0	0	24,916	5,606	30,522
		2012/13	130,000	0	0	130,000	28,340	158,340
Director for Children's Welllbeing		2013/14	111,904	0	0	111,904	25,200	137,104
		2012/13	120,000	0	0	120,000	26,160	146,160
Director for Economy, Communities and Corporate		2013/14	119,284	0	181	119,465	27,000	146,465
		201213	120,000	0	81	120,081	26,160	146,241
Chief Officer – Finance and Commercial	Left 30/09/2013	2013/14	44,798	0	0	44,798	10,125	54,923
		2012/13	90,000	0	0	90,000	19,620	109,620
Chief Financial Officer - Section 151 Officer	0.2FTE[1], started 13/09/2013	2013/14	18,040	0	0	18,040	4,342	22,382
Assistant Director, Law, Governance & Resilience	Left 12/04/2013	2013/14	3,000	34,952	0	37,952	675	38,627
		2012/13	90,000	0	0	90,000	19,620	109,620
Assistant Director – People, Policy & Partnerships		2013/14	82,510	0	0	82,510	17,777	100,287
		2012/13	78,231	0	0	78,231	17,054	95,285
Assistant Director, - Education and Commissioning		2013/14	78,406	0	0	78,406	17,777	96,183
		2012/13	78,231	0	0	78,231	17,054	95,285
Assistant Director – Safeguarding and Early Years	Left 05/11/2013	2013/14	46,582	0	0	46,582	10,617	57,199
		2012/13	78,231	0	0	78,231	17,054	95,285

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Post holder information	Notes	Year	Salary (inc. fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total remuneration excluding pension contributions £	Pension contributions £	Total remuneration including pension contributions £
Head of Service - Adult Services	Left 14/04/2013	2013/14	3,072	28,506	0	31,578	691	32,269
		2012/13	78,231	0	0	78,231	17,054	95,285
Head of Special Projects	Left 31/12/2013	2013/14	65,726	30,000	706	96,432	12,309	108,741
		2012/13	72,228	0	699	72,927	15,745	88,672
Assistant Director Economic, Environment & Cultural Services		2013/14	78,406	0	0	78,406	17,777	96,183
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director, Homes and Community Services		2013/14	78,311	0	0	78,311	17,777	96,088
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director Place Based Commissioning		2013/14	78,311	0	0	78,311	17,777	96,088
		2012/13	76,176	0	0	76,176	16,606	92,782
Assistant Director, Customer Services and Communications		2013/14	0	0	0	0	0	0
		2012/13	45,635	42,116	0	87,751	9,948	97,699
Director of Public Health	TUPE Transfer 01/04/2013	2013/14	100,879	0	200	101,079	14,136	115,215
Solicitor to the Council	Started 07/05/2013	2013/14	69,547	0	0	69,547	15,804	85,351

1 Additional Services for financial transformation are procured separately under a contract (further details are set out in the report to the employment panel 3rd June 2014)

8.32 External Audit Costs

8.32.1 The council incurred the following fees relating to external audit and inspection:

	2013/14 £000	2012/13 £000
Fees payable with regard to external audit services carried out by the appointed auditor	165	187
Fees payable for the certification of grants claims and returns	18	29

8.33 Dedicated Schools Grant

8.33.1 The council's expenditure on schools is funded by the Dedicated Schools Grant (DSG) provided by the Department for Education. DSG is a ring-fenced grant and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on a council-wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

8.33.2 Details of the deployment of DSG receivable for 2013/14 are as follows:

	Central Expenditure 2013/14 £000	Individual Schools Budget 2013/14 £000	Total 2013/14 £000	Total 2012/13 £000
Final DSG allocation before Academy Recoupment			109,869	107,378
Less Academy figure recouped for 2013/14			(34,410)	(30,287)
Total DSG after Academy recoupment for 2013/14			75,459	77,091
Brought forward from previous year			459	840
2012/13 Sponsored Academy deficit reserve – unused amount reversed			485	0
Less Carry Forward to 2014/15 agreed in advance			(485)	0
Agreed budgeted distribution in year	10,374	65,544	75,918	77,931
Actual central expenditure	9,733		9,733	5,774
Actual Individual School Budget deployed to schools		65,631	65,631	71,698
Carry forward	641	(87)	554	459

8.33.3 Due to national funding changes from 1st April 2013 regarding schools and high needs there has been a net transfer of £3.9 million from the Individual Schools Budget to central expenditure in order to fund individual pupil high needs. Previously such funding was delegated to schools at the beginning of each year. Place only funding of £3.2 million is recorded in the 2013/14 Individual Schools Budget compared to £7.1 million in 2012/13. The accounting treatment is set out in the School and Early Years Finance (England) Regulations 2013.

8.34 Grant Income

8.34.1 The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement:

	2013/14 £'000	2012/13 £'000
Credited to Taxation and Non Specific Grant Income		
Revenue Support Grant	42,861	1,374
Redistributed NNDR	0	55,539
Other non-ringfenced Grants	4,986	4,514
Capital Grants	16,921	17,519
	64,768	**78,946**
Credited to Services		
Department for Education	83,481	92,259
Department for Communities and Local Government	2,478	2,480
Department for Work and Pensions	50,420	62,170
Young People's Learning Agency	658	727
Department for Transport	490	644
Defra	1,889	815
Department of Health	7,967	3,962
English Heritage	16	0
Home Office	15	58
Arts Council	7	0
	147,421	**163,115**
Total	**212,189**	**242,061**

8.35 Related Parties

8.35.1 The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

Central Government

8.35.2 Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates and provides the majority of its funding in the form of grants. Details of income received from government departments are set out in note 8.34.

Members

8.35.3 Members of the council have direct control over the council's financial and operating policies. There are a number of Councillors who serve on outside bodies and school governing bodies either as a representative of the council or as a private individual. Details of these interests are recorded in the Register of Members' interests, which are updated annually. An examination of the Register indicates that the council's financial transactions with these bodies in 2013/14 are not material. One member was the employee of a care home to which the council made payments in the year of £1.2 million.

Officers

8.35.4 A number of senior officers are members of professional bodies, governors at local schools and colleges, and are involved in local organisations and partnerships, such as Hoople Ltd, Hereford Futures, and the Robert Owen Society.

Other Public Bodies

8.35.5 During the year the council made payments of £23.9 million to Worcestershire County Council (£26.4 million in 2012/13), including payments to the pension scheme and for the joint waste disposal contract. The council works in partnership with the CCG having taken on some of the responsibilities of the Primary Care Trust (PCT) upon their abolition in April 2013. Payments to the CCG in 2013/14 totalled £ 0.5 million. A total of £6.7 million was also paid to Wye Valley NHS Trust (£11.8 million in 2012/13) and £3.6 million to 2Gether (£2.1 million in 2012/13).

Significant long-term contracts

8.35.6 The council awarded the public realm services contract to Balfour Beatty Living Places on 1st September 2013.

8.35.7 The contracted services include highways maintenance and improvement, street lighting, traffic signals, street cleaning, parks and public rights of way, fleet maintenance and professional consultancy services. The council paid £9.3 million to Balfour Beatty in 2013/14.

8.35.8 In total the council paid £12 million to Amey Wye Valley in 2013/14 (£38.5 million in 2012/13). The contract terminated at the end of September 2013.

8.35.9 Fosca UK Limited

In 2009 the council entered into a 7 year contract with Fosca for the collection of household, recycling and commercial waste. The value of the contract over 7 years is around £30.5 million. Payments to Fosca totalled £4.3 million in 2013/14 (£4.7 million in 2012/13).

Other organisations

8.35.10 The council pays a management fee to Halo Leisure Trust for the provision of leisure facilities, including swimming pools and leisure centres. In 2013/14 the council paid £1.1 million to Halo Leisure Trust (£2.5 million in 2012/13). In 2013/14 the council paid £246,000 to the Courtyard Trust (£284,000 in 2012/13).

The council has a commissioning agreement with the Trust based on agreed outcomes.

8.35.11 During the year the council made payments totalling £297,000 to Herefordshire Housing Ltd (£296,000 in 2012/13) including £162,500 of Supporting People Funding (£229,000 in 2012/13)

8.35.12 The council has an interest in company called Hereford Futures, whose role is to facilitate development and regeneration within Hereford. Payments were made to Hereford Futures amounting to £391,000 (£384,000 in 2012/13).

8.35.13 West Mercia Energy (WME) operates as a joint arrangement between Herefordshire, Shropshire, Worcestershire and Telford and Wrekin Councils Payments of £619,000 were made in 2013/14 to WME (£544,000 in 2012/13).

Jointly controlled organisation

8.35.14 Hoople Ltd is a unique young company created in April 2011 to deliver business support services to clients across the public and private sector. During the review period Hoople Ltd was wholly owned by Herefordshire Council, and Wye Valley NHS Trust. Each authority has two directors on the Board of the company, as well as two independent board members.

8.35.15 The inter-organisation transaction between the council and Hoople Ltd amounted to £7.398 million (£9.295 million in 2012/13). There were no contingent liabilities existing with Hoople Ltd that would affect the council. There were no capital commitments outstanding at 31st March 2014 payable to Hoople Ltd.

8.35.16 The draft year-end result of Hoople Ltd, prior to adjustments for pensions, was a profit before tax of £346,679 (£131,079 comprehensive profit in 2012/13). The council share of 74.7% is equivalent to £258,969 (£97,914 in 2012/13). In view of the immateriality of the share of balance sheet value, the council has opted not to prepare the Group Accounts.

More information on Hoople Ltd can be found on www.hoopleltd.co.uk

8.35.17 All amounts shown in this section are net of value added tax.

Outstanding balances with related parties

8.35.18 As at 31st March 2014 significant amounts due to and from related parties were :

Related Party	2013/14 Due to £000	2013/14 Due from £000	2012/13 Due to £000	2012/13 Due from £000
Amey Wye Valley	383	0	6,069	2,374
Academy Schools	11	48	0	0
Balfour Beatty	3,090	176	0	0
Birmingham CC	44	12	0	0
Courtyard Trust	0	0	0	6
Dept of Culture Media and Sport	0	557	0	0
DCLG	204	2,897	0	0
DEFRA	0	77	0	0
Dept for Transport	21	380	0	0
Dept for education	127	68	0	0
Education Funding Agency	558	0	0	0
DWP	0	854	0	0
FOCSA	368	0	364	0
Gloucestershire CC	19	20	0	164
Halo	0	83	0	969
Hereford and Worcs Fire	0	163	41	156
Hereford CCG	742	955	0	0
Herefordshire Housing	4	13	0	496
Herefordshire PCT	0	70	501	2,568
Hereford Futures	0	25	0	0
Heritage Lottery Fund	217	752	0	0
HM Courts Service	0	46	0	0
HM Revenue & Customs	2,027	4,780	1,766	4,916
Hoople Ltd	333	977	2,336	438
Monmouth CC	33	27	0	0
Ministry of Defence	34	0	0	0
NHS England	0	3,163	0	0
Powys	11	61	0	0
Shaw Healthcare	22	293	0	0
Shropshire CC	33	124	40	3
Teachers Pensions`	566	0	0	0
West Mercia Police	4	242	99	379
West Mercia Energy	121	340	64	296
Worcestershire County Council	3,828	108	3,813	25
Wye Valley Trust	145	688	1,938	964
YOS Worcestershire	0	93	0	0
2gether	223	98	3	221

8.35.19 These amounts are included in the council's debtors and creditors figures.

8.35.20 In addition, there were capital grants of £6.3 million from government departments held in the Capital Grants Unapplied Reserve not yet applied to capital spend.

8.36 Capital Expenditure and Capital Financing

8.36.1 The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance and PFI contracts) together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2013/14 £000	2012/13 £000
Opening capital financing requirement	**212,212**	**208,730**
Capital investment		
Property, Plant and Equipment	38,952	35,828
Investment Properties	93	223
Intangible Assets	389	563
Revenue expenditure funded from capital under statute	3,970	1,949
Assets acquired under PFI contracts	84	4
Long term debtors (including PFI prepayments)	304	294
Sources of Finance		
Capital Receipts	(1,979)	(2,898)
Government grants and other contributions	(26,129)	(21,375)
Sums set aside from revenue:		
Direct revenue contributions	(503)	(294)
MRP	(10,748)	(10,812)
Closing capital financing requirement	**216,645**	**212,212**
Explanation of movements in year		
Increase in underlying need to borrowing (unsupported by government financial assistance)	15,013	13,757
Salix interest free loan	84	533
Assets acquired under PFI contracts	84	4
MRP	(10,748)	(10,812)
Increase/(decrease) in Capital Financing Requirement	**4,433**	**3,482**

8.37 Leases

Authority as Lessee

Finance Leases

8.37.1 The council holds one car park under a finance lease arrangement.

8.37.2 The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2014 £000	31 March 2013 £000
Other land and buildings	506	534
Vehicles, plant, furniture and equipment	0	13
	506	**547**

8.37.3 The council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the interest in the property and finance costs that will be payable by the council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2014 £000	31 March 2013 £000
Finance lease liabilities (net present value of minimum lease payments):		
• current	0	2
• non current	320	320
Finance costs payable in future years	1,956	1,989
Minimum lease payments	**2,276**	**2,311**

8.37.4 The minimum lease payments will be payable over the following periods:

	Minimum lease payments		Finance lease liabilities	
	31 March 2014 £000	31 March 2013 £000	31 March 2014 £000	31 March 2013 £000
Not later than one year	0	2	31	33
Later than one year and not later than five years	0	0	126	126
Later than five years	320	320	1,799	1,830
	320	**322**	**1,956**	**1,989**

8.37.5 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2013/14 £116,000 contingent rents were payable by the authority (2012/13 £116,000).

Operating leases

8.37.6 The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2014 £000	31 March 2013 £000
Not later than one year	399	867
Later than one year and not later than five years	1,462	1,671
Later than five years	55	870
	1,916	**3,408**

8.37.7 The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

	2013/14 £000	2012/13 £000
Minimum lease payments	442	900

Authority as Lessor

Finance Leases

8.37.8 When a school changes status to become a Foundation School or an Academy the land and buildings are transferred to the school by granting a lease for 125 years at a peppercorn rent. Apart from these long leasehold transfers to schools, the council does not have any other finance leases where the council is lessor.

Operating leases

8.37.9 The Authority leases out property under operating leases for the following purposes:

- Retail
- Industrial Use
- Farming
- Other Commercial Use

8.37.10 The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2014 £000	31 March 2013 £000
Not later than one year	265	1,836
Later than one year and not later than five years	482	4,986
Later than five years	6,938	36,541
	7,685	**43,363**

8.37.11 The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

8.38 Private Finance Initiatives and Similar Contracts

8.38.1 The council has two formal PFIs, Whitecross School and Waste disposal (in partnership with Worcestershire County Council) and one other contract identified as falling under IFRIC 12, the Shaw Healthcare Contract.

Mercia Waste Management Ltd – waste management PFI contract

8.38.2 In 1998 Herefordshire Council, in partnership with Worcestershire County Council, entered into a 25 year contract with Mercia Waste Management Ltd for the provision of an integrated waste management system using the Private Finance Initiative.

8.38.3 Under the contract the authorities are required to ensure that all waste for disposal is delivered to the contractor, who will take responsibility for recycling or recovering energy from the waste stream. In total contract cost is approximately £500m of which approximately 25% relate to Herefordshire Council. The original life of the contract was 25 years with the option to extend this by 5 years.

8.38.4 Subsequent to the Balance Sheet date, a variation to the contract was signed in May 2014 to design, build, finance and operate an Energy from Waste Plant. Construction completion is planned for 2017 with a funding requirement of £195m and an uplift to the annual unitary charge for both councils of £2.7m.

8.38.5 Both councils will be providing circa 82% of the project finance requirement from their own planned borrowing from the Public Works and Loans Board witht eh remaining 18% being provided by the equity shareholders of Waste Mercia Management Services.

Stepnell Ltd – School PFI Contract

8.38.6 The Whitecross High School PFI project has delivered a fully equipped 900-place secondary school with full facilities management services. The contract with Stepnell Ltd has an overall value of £74 million and lasts for 25 years. During the 12/13 financial year the school transferred to Academy status but the obligations under the PFI contract remain with the council.

Shaw Homes

8.38.7 The council has a contract with Shaw Healthcare for the development and provision of residential homes and day care centres previously operated directly by the council. The contract expires in 2033/34 for all homes. The level of payments are dependent on the volume and nature of service elements and Shaw Healthcare's performance in providing services. The payments in respect of this contract was £3.6 million in 2013/14 (£3.5 million in 2012/13).

Assets

8.38.8 The property, plant and equipment used to provide the PFI services are recognised on the council's balance sheet, with the exception of Whitecross school, which was written out of the balance sheet when it became an Academy in 2012/13. Movements in asset values over the year are detailed in Note 8.12.1– Movement on Balances on Property, Plant and Equipment.

Liabilities

8.38.9 The payments to the contractors compensate them for the fair value of the services they provide, capital expenditure incurred and interest payable. The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2013/14 **£000**	**2012/13** **£000**
Balance outstanding at start of year	27,918	28,870
Payments during the year	(1,016)	(956)
Capital expenditure in the year	84	4
Balance outstanding at year-end	**26,986**	**27,918**

Payments

8.38.10 The table below shows an estimate of the payments to be made under PFI and similar contracts.

	Service Charges £000	Lifecycle Costs £000	Finance liability £000	Interest & similar £000	Total £000
Within one year	12,301	363	1,104	2,062	15,830
Within two to five years	52,566	1,534	5,074	7,836	67,010
Within six to ten years	62,978	2,107	7,714	8,349	81,148
Within eleven to fifteen years	25,093	2,338	7,592	6,502	41,525
Within sixteen to twenty years	25,003	1,665	5,940	4,650	37,258
Within twenty-one to twenty-five years	1,453	-	233	314	2,000

8.38.10 The PFI future year commitments total of £245m shown above includes inflation assumptions, without inflation the future year commitments would be £39m lower.

8.39 Impairment Losses

8.39.1 The following impairment losses and reversals were charged to the Surplus or Deficit on the Provision of Services and to Other Comprehensive Income and Expenditure:

2013/14				2012/13		
Impairments	Reversals	Net Total		Impairments	Reversals	Net Total
£000	£000	£000		£000	£000	£000
5,075	(643)	4,432	Land and buildings	9,859	(1,463)	8,396
0	0	0	Surplus assets	511	0	511
55	0	55	Assets under construction	0	0	0
0	0	0	Assets held for sale	184	(62)	122
5,130	(643)	4,487	Total	10,554	(1,525)	9,029

8.39.2 In 2013/14 the largest impairment (£3.3 million) related to the change of use of assets expected to form part of the proposed link road.

8.40 Capitalisation of Borrowing Costs

8.40.1 The council has a policy of capitalising borrowing costs on relevant projects i.e. where schemes lasting more than 12 months and with at least £10,000 of interest associated with the project. In 2013/14 there were six capital schemes which fell into this category and therefore £0.3 million borrowing costs were capitalised.

8.41 Termination Benefits

8.41.1 The following table summarises the redundancies which occurred in 2013/14, with comparative numbers for 2012/13;

	Compulsory redundancies	Other agreed departures	Total
2013/14			
Number	102	121	223
Total Cost	£747,900	£1,183,368	£1,931,268
Average	£7,332	£9,780	£8,660
2012/13			
Number	60	20	80
Total Cost	£801,630	£310,291	£1,111,921
Average	£13,361	£15,515	£13,899

8.41.2 In addition, the total cost of actuarial strain relating to 2013/14 terminations was £345,000 (£346,000 in 2012/13). This is paid to the pension fund over 3 years. The actual amount of actuarial strain paid to Worcestershire County Council in 2013/14 was £818,000 (relating to retirements in 2011/12, 2012/13 and 2013/14).

8.41.3 A redundancy provision of £1.8 million was also set up, including schools and partner organisations, based on the number of planned redundancies at 31st March 2014.

8.41.4 The number and total cost per band of exit packages analyses between compulsory and other redundancies are set out in the table below. This includes exit packages agreed in the year although not yet actioned at the year end. The table does not include actuarial strain paid to the pension fund (see 8.41.2)

	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages by cost band		Total cost of exit packages in each band	
Exit package cost band (including special payments)	**2013 /14**	**2012 /13**	**2013 /14**	**2012 /13**	**2013 /14**	**2012 /13**	**2013/14**	**2012/13**
£0 - £20,000	96	47	110	15	206	62	1,418,649	437,897
£20,001 - £40,000	5	12	11	4	16	16	457,619	476,673
£40,001 - £60,000	1	0	0	1	1	1	55,000	46,722
£150,001 - £200,000	0	1	0	0	0	1	0	150,629
Total	**102**	**60**	**121**	**20**	**223**	**80**	**1,931,268**	**1,111,921**

8.42 Pension Schemes accounted for as Defined Contribution Schemes

8.42.1 Teachers employed by the council are members of the Teachers' Pension Scheme, which is a defined benefit scheme administered by the Teachers Pensions Agency. Although the scheme is unfunded, a notional fund is used as a basis for calculating the employers' contribution rate. It is not possible for the council to identify its share of the underlying liabilities in the scheme attributable to its own employees, and therefore for the purposes of the statement of accounts it is accounted for on the same basis as a defined contribution scheme, that is, actual costs are included in the revenue accounts, with no assets and liabilities in the balance sheet.

8.42.2 However, in addition to the current scheme the council is contributing to former Hereford and Worcester teachers' unfunded added years' benefits. The liability of £1 million is included in the pension fund liability in the balance sheet in 2013/14.

8.42.3 In 2013/14 the council paid employer contributions of £4.39 million in respect of teachers' pension costs, which represented 14.1% of teachers' pensionable pay. In addition, the council is responsible for all pension payments relating to added years it, or its predecessor authority, has awarded, together with the related increases. In 2013/14 these amounted to £106,000 representing 0.34% of pensionable pay. At the year-end there were contributions of £569,000 remaining payable, which related to the March 2014 contributions paid to the scheme in April 2014.

8.42.4 Under the new arrangements for Public Health, a number of staff performing public health functions transferred from the former PCT to the council. Those who had access to the NHS pension scheme on 31 March 2013 retained access to the scheme on transfer at 1 April 2013. The NHS scheme is an unfunded, defined benefit scheme that covers NHS employers and is a multi-employer defined benefit scheme. However, in the NHS it is accounted for as if it were a defined contribution scheme. As the NHS bodies account for the scheme as a defined contribution plan it is being accounted for in the same way for transferred public health staff as local authorities are unable to identify the underlying scheme assets and liabilities for those employees.

8.42.5 In 2013/14 the council paid employer contributions of £101,000 in respect of NHS pension costs for public heath staff, which represented 14% of their pensionable pay.

8.43 Defined Benefit Pension Schemes

Participation in Pension Schemes

8.43.1 Employees are eligible to join the Local Government Pension Scheme administered by Worcestershire County Council. This is a funded scheme, which means that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets. Although the benefits will not actually be payable until employees retire, the council has a commitment to make the payments and this needs to be disclosed at the time the employees earn their future entitlement.

Transactions Relating to Post-employment Benefits

8.43.2 Under IAS 19 the cost of retirement benefits is included in the Cost of Services when it is earned by employees, rather than when it is paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of the retirement benefits is reversed out via the Movement in Reserves Statement.

8.43.3 The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government pension scheme 2013/14 £000	Restated 2012/13 £000
Comprehensive Income and Expenditure Statement		
Cost of services:		
• current service cost	8,904	7,229
• past service cost/(gain)	31	63
• (gain)/loss from settlements	(224)	(1,362)
Financing and Investment Income and Expenditure:		
• Net interest expense	7,767	7,520
• Admin expenses	149	113
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	16,627	13,563
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
• actuarial (gains) and losses arising on changes in demographic assumptions	2,795	4,065
• actuarial (gains) and losses arising on changes in financial assumptions	(40,835)	20,237
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(38,040)	37,865
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits	(16,627)	(13,563)
Amount charged to the General Fund Balance for pensions in the year		
Employer's contribution payable to the scheme	9,735	9,717

8.43.4 The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2014 (since the introduction of the statement in the 2009/10 restated accounts) is a loss of £36.3 million.

Pensions Assets and Liabilities Recognised in the Balance Sheet

8.43.5 The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefits plans is as follows;

	Local Government pension scheme 2013/14 £000	2012/13 £000
Present value of the defined benefit obligation	419,603	422,823
Fair value of plan assets	(260,172)	(235,421)
Net liability arising from defined benefit obligation	159,431	187,402

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

8.43.6 The table below shows the movement on the pension liability;

	2013/14 £000	2012/13 £000
Opening balance 1st April	422,823	367,577
Current Service Cost	8,904	7,229
Interest Cost	18,186	17,646
Contributions by scheme participants	2,401	2,535
Remeasurement (gains) and losses;		
• Actuarial (gains)/losses arising from changes in demographic assumptions	2,795	4,065
• Actuarial (gains)/losses arising from changes in financial assumptions	(36,964)	40,643
Past service cost	31	63
Losses/(gains) on curtailment	944	422
Liabilities assumed on entity combinations	17,870	
Benefits paid	(16,219)	(15,387)
Liabilities extinguished on settlements	(1,168)	(1,970)
Closing balance 31st March	419,603	422,823

Reconciliation of the Movements in the Fair value of the scheme assets

8.43.7 The table below shows the movement on the pension assets;

	2013/14 £000	2012/13 £000
Opening fair value of scheme assets	235,421	208,323
Interest income	10,419	10,126
Remeasurement gain: The return on plan assets, excluding amount included in the net interest expense	3,871	20,406
Administration expenses	(149)	(113)
Settlements	0	(186)
Liabilities assumed on entity combinations	14,693	0
Contribution from employer	9,735	9,717
Contributions from employees into the scheme	2,401	2,535
Benefits Paid	(16,219)	(15,387)
Closing fair value of scheme assets	260,172	235,421

The actual return on scheme assets in the year was £12.4 million (2012/13 £30.4 million)

8.43.8 **Local Government Pension Scheme assets comprised:**

	Quoted	Fair value of scheme assets	
	(Y/N)	31 Mar 2014	31 Mar 2013
		£000	£000
Cash			
Cash instruments	Y	2,081	3,767
Cash accounts	Y	1,561	942
Net current assets	N	2,602	4,002
Equity instruments			
UK quoted	Y	67,385	58,384
Overseas quoted	Y	93,662	91,108
Pooled investment vehicle - UK managed funds	N	30,440	26,367
Pooled investment vehicle - UK managed funds (overseas equities)	N	44,489	32,253
Pooled investment vehicle - overseas managed funds	N	1,561	3,767
Bonds			
UK Corporate	Y	1,821	1,883
Overseas Corporate	Y	14,570	12,948
Total assets		**260,172**	**235,421**

Basis for estimating Assets and Liabilities

8.43.9 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.

8.43.10 The liabilities have been estimated by Mercers, an independent firm of actuaries based on the latest full valuation of the scheme as at 1 April 2013.

The principal assumptions used by the actuary have been;

	Beginning of period (p.a.)	End of period (p.a.)
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.0%	7.0%
Government Bonds	2.8%	3.4%
Other bonds	3.9%	4.3%
Cash/liquidity	0.5%	0.5%
Property	5.7%	6.2%
Mortality assumptions		
Longevity at 65 for current pensioners:		
• Men	22.5 years	23.3 years
• Women	25.0 years	25.7 years
Longevity at 65 for future pensioners:		
• Men	24.3 years	25.5 years
• Women	27.0 years	28.0 years

Rate of inflation	2.4%	2.4%
Rate of increase in salaries	3.9%	3.9%
Rate of increase in pensions	2.4%	2.4%
Rate for discounting scheme liabilities	4.2%	4.5%

8.43.11 The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. In practice this is unlikely to occur and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method.

	Increase in assumption £000
Longevity (1 year increase in life expectancy)	8,182
Rate of inflation (increase by 1%)	7,730
Rate of increase in salaries (increase by 1%)	1,376
Rate for discounting scheme liabilities (increase by 1%)	(7,590)

Impact on the Authorities Cash Flows

8.43.12 The council has agreed a strategy with the actuary to recover the deficit over 21 years, resulting in the employer's deficit contribution increasing from £4.2 million in 2014/15 to £7.6 million by 2016/17. The actuary has also requested that the element of the employer's contribution related to clearing the deficit is paid as an annual cash sum. The actuary has confirmed that the future employers service contribution rate, which is paid as a percentage of current employees' gross pay, is to increase from 11.7% to 14.6%.

8.43.13 Total employer contributions expected to be made to the Local Government Pension Scheme by the council in the year ended 31 March 2015 is £9.6 million.

8.43.14 Scheme History

	2009/10 £m	**2010/11 £m**	**2011/12 £m**	**2012/13 £m**	**2013/14 £m**
Present value of liabilities	(379.5)	(361.0)	(367.6)	(422.8)	(419.6)
Value of Scheme assets	216.1	229.2	208.3	235.4	260.2
Surplus/(Deficit) in scheme	(163.4)	(131.8)	(159.3)	(187.4)	(159.4)

History of Experience Gains and Losses

8.43.15 The actuarial gain or loss identified within the movements on the pensions reserve can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March:

	2009/10 %	**2010/11 %**	**2011/12 %**	**Restated 2012/13 %**	**2013/14 %**
Differences between the expected and actual return on assets – gains/(losses)	27.0	(2.4)	(9.4)	8.7	1.5
Experience gains and (losses) on liabilities	0	4.7	0	0	(0.4)

8.44 Contingent Liabilities

8.44.1 Local authorities are required to maintain a register of land charges in so far as they affect properties within their county or district. The purchasers of land within the county or district must obtain a search of the local land charges register. Historically councils have charged varying rates for the provision of land charge searches. A national debate has arisen as to whether this information could or should be provided under the FOI Act or EIR at lesser or indeed no cost to the purchaser. Litigation has been threatened against the council in connection with this issue and may be in receipt of legal proceeding. If the claim succeeded it is estimated to cost the council around £600,000.

8.44.2 The council has the obligation for the after care of a number of closed landfill sites. No reliable estimate can be made of the future costs involved. However, as capital works are identified they are included in the capital programme.

8.44.3 There is a risk in relation to disputed items in the Amey contract. Work is ongoing to resolve these disputes and determine the appropriate outcome.

8.44.4 No estimate for losses of business rates income can be made for future appeals that have not been lodged with the VOA as they have not yet occurred.

8.44.5 There is outstanding litigation from a care home provider following an adverse external inspection.

8.45 Contingent Assets

8.45.1 Following a policy review Her Majesty's Revenues and Customs (HMRC) consider the provision of trade waste collection services to be a non-business activity and excluded from VAT. The council has submitted a claim to HMRC to reclaim VAT previously paid over to HMRC on waste collection and bags, the outcome of the claim is outstanding.

8.46 Nature and Extent of Risks Arising from Financial Instruments

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

a. **Credit risk:** The possibility that other parties may fail to pay amounts owing to the council.

b. **Liquidity risk:** The possibility that the council may have insufficient funds available to meet its financial commitments.

c. **Market risk:** The possibility that the council may suffer financial loss as a result of economic changes such as interest rate fluctuations.

8.46.2 The council has adopted CIPFA's Treasury Management in the Public Services Code of Practice in setting out a Treasury Management Policy and strategies to control risks to financial instruments.

8.46.3 During the year the council's exposure to liquidity risk and market risk was considered to be no greater than previous years. However, the weak economy and the ongoing financial crisis in the Eurozone meant that exposure to credit risk increased. Treasury management sought to control this risk by only investing in the strongest financial institutions and by reducing the length of any term deposits made.

Credit Risk

8.46.4 Credit risk arises from deposits with banks and other financial institutions, as well as credit exposures to the council's customers. Investments are only made in institutions recommended by Arlingclose, the council's treasury adviser. For credit rated counterparties, the council looks at the lowest long-term rating assigned by the three main credit rating agencies and the minimum criteria for UK institutions during 2013/14 was as follows:

Long-term minimum: A- (Fitch); A3 (Moody's); A- (Standard & Poor's)

8.46.5 The minimum criteria for UK institutions was A+ for 2011/12 but this was reduced for 2012/13 due to the downgrade below A+ of many institutions considered to be systemically important to the financial system.

8.46.6 During 2013/14 the council continued to restrict investments to only the largest and strongest of the UK banks, the Nationwide building society, other local authorities and instant access Money Market Funds.

8.46.7 The following analysis summarises the council's potential maximum exposure to credit risk, based on default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

	Amount at 31st March 2014	Historical experience of default	Historical experience adjusted for market conditions at 31st March 2014	Estimated maximum exposure to default and uncollectability 31 Mar 2014	Estimated maximum exposure to default and uncollectability 31 Mar 2013
	£000	**%**	**%**	**£000**	**£000**
Deposits with banks and financial institutions	23,401	0	0	0	0
Customers	18,829	0.37%	0.45%	85	72

8.46.7 The amount outstanding for council debtors as at 31st March can be analysed by age as follows:

	31March 2014	March 2013
	£000	**£000**
Less than 3 months	14,334	16,995
3 to 6 months	967	675
6 months to 1 year	1,387	1,335
More than 1 year	2,141	1,631
	18,829	20,636

Liquidity Risk

8.46.8 The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments. Instead the risk is that the council will need to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. Therefore the strategy is to spread the maturity of the council's loans so that a significant proportion does not require repayment or refinancing at the same time. The maturity analysis of the loan debt is as follows:

		31 March 2014		31 March 2013
	£000	£000	£000	£000
Less than 1 year		**49,228**		**33,855**
More than one year:				
Between 1 and 2 years	8,385		4,139	
Between 2 and 5 years	15,266		19,533	
Between 5 and 10 years	15,316		18,015	
More than 10 years	81,793	**120,760**	83,170	**124,857**
Total borrowing per Balance Sheet		**169,988**		**158,712**

All trade and other payables are due to be paid in less than 1 year.

Market Risk

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

a. Borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services would increase

b. Borrowings at fixed rates – the fair value of borrowings would fall

c. Investments at variable rates - the interest received credited to the Surplus or Deficit on the Provision of Services would rise

d. Investments at fixed rates – the fair value of the assets would fall

8.45.10 Borrowings and investments are not carried at fair value in the Balance Sheet and so nominal gains and losses on fixed rate financial instruments would have no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. The impact is made by changes in interest payable and receivable.

8.46.11 The council's loans are all fixed rate which means that when the Bank Base Rate is low the interest rate paid on borrowing is relatively high compared to the rate received on investments.

8.46.12 The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and is considered at quarterly strategy meetings with the council's treasury advisors. The council sets an annual Treasury Management Strategy which includes analysing future economic interest rate forecasts. This analysis will advise whether new borrowing taken out is fixed or variable and, where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

8.46.13 If interest rates had been 1% higher, with all other variables held constant, the financial impact on the council's borrowings and investments in 2013/14 would have been as follows:

	1% Increase in Interest Rates £000
Increase in interest payable on new borrowing	294
Increase in interest receivable on investment balances	433

As noted above, an increase in interest rates benefits the council in the short-term because, for the majority of the year, the council's investment balances exceed the level of variable rate short-term debt.

8.47 Trust Funds

8.47.1 The council acts as trustee for a number of Trust Funds, which have been established for the benefit of different sections of the community, including several schools. The following summarises the movement on Trust Funds during the year:

	Balance at 31/03/13	Revenue Transactions Income	Expenditure	New funds, Investment Sales and Revaluations	Balance at 31/03/14
	£	£	£	£	£
Education (small funds)	4,503	129	(424)	69	4,277
Sylvia Short Trust	1,217,608	45,000	(50,000)	5,000	1,217,608
Buchanan Trust	1,801,929	73,275	(84,536)		1,790,668
Other Funds	47,634	1,486			49,120
	3,071,674	119,890	(134,960)	5,069	3,061,673

8.47.2 The Sylvia Short Educational Charity was established to provide children with learning experience outside the curriculum. An independent investment manager administers the fund and the accounts are prepared by an external accountant appointed by the trustees. The 2013/14 accounts are not yet available and so the above figures for income and expenditure are estimates based upon the previous year.

8.47.3 The Buchanan Trust is invested in agricultural land around Bosbury for the benefit of tenant farmers.

8.47.4 Other funds include the Hatton Bequest, which is available for Hatton Gallery exhibits.

8.47.5 Assets and liabilities on the funds at 31st March were:

	2013/14 £000	2012/13 £000
Fixed Assets	774	774
Investments	1,260	1,270
Creditors	(36)	(36)
Debtors	21	21
Bad debt provision	(1)	(1)
Cash temporarily invested with Herefordshire Council	1,044	1,043
	3,062	3,072
Represented by Trust Funds	3,062	3,072

9. COLLECTION FUND

9.1 The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and business rates. From April 2013 the system of funding local authorities changed allowing council to retain a percentage of business rates.

2012/13		2013/14 Council Tax £000	Business Rates £000	Total £000
	Amounts required to be credited to the Collection Fund			
94,191	Council Tax Income **(Note 2)**	98,176	0	98,176
13,081	Council Tax benefits Income	0	0	0
44,573	Business Rates Income **(Note 1)**	0	44,740	44,740
	Contribution towards previous year's Deficit			
0	Hereford Council	761	0	761
0	Hereford & Worcester Fire Authority	45	0	45
0	West Mercia Police Authority	110	0	110
151,845		**99,092**	**44,740**	**143,832**
	Amounts required to be debited to the Collection Fund			
	Precepts, Demands and Shares			
12,865	West Mercia Police Authority	11,485	0	11,485
5,301	Hereford & Worcester Fire Authority	4,732	463	5,195
89,441	Herefordshire Council (including parishes)	81,410	22,711	104,121
44,275	Central Government	0	23,175	23,175
0	Transitional Protection Payments Payable	0	181	181
	Charges to collection fund			
298	Cost of collection Allowance	0	299	299
132	Write offs of uncollectable debt	71	136	207
(23)	Increase/(Decrease) of Bad Debt Provision	(16)	80	64
0	Appeals Provision	0	524	524
0	Backdated Appeals Provision	0	1,603	1,603
0	Spreading of Backdated Appeals	0	(935)	(935)
0	Other Transfers to General	0	42	42
152,289		**97,682**	**48,279**	**145,961**
444	**(Surplus)/Deficit for the Year (Note 3)**	**(1,410)**	**3,539**	**2,129**
915	**Balance brought forward**	**1,359**	**0**	**(1,359)**
1,359	**Balance carried forward**	**(51)**	**3,539**	**3,488**

9.2 **Notes to the Collection Fund**

1. The total non-domestic rateable value at the year-end was £123,731,055 and the national non-domestic rate multiplier for 2013/14 was 47.1p

	£000	£000
Non-Domestic Rates Income		
Annual Debit		58,051
Add:		
Re-debits	14,056	
Valuation Changes	752	14,808
Less:		
Empty Allowances	1,969	
Valuation Changes – Reductions	16,003	
Transitional Relief	33	
Discretionary Relief	628	
Mandatory Relief	4,167	
Small Business Rate Relief	5,254	
Enterprise Zone	60	
Interest	5	28,119
		44,740

2. Council tax income is derived from charges raised according to the value of residential properties, which have been classified into eight valuation bands. Estimated values at 1st April 1991 are used for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the collection fund by the council, West Mercia Police and Hereford & Worcester Fire & Rescue Authority, and dividing this by the council tax base (the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts etc.). The amount of council tax for a Band D property is multiplied by a specified proportion to give an amount due for other property valuation bands. The average council tax for a Band D property in 2013/14 was £1,519.24 including fire, police and parish precepts, with a range of between £1,480.35 and £1,591.55. The council tax base used for setting the council tax in 2013/14 was 64,260.20.
.

The Band D equivalents in each valuation band are shown in the table below:

Band	Valuation Range	Charge Factor	Band D Equivalent
A	Up to £40,000	6/9	4,668.80
B	£40,001 to £52,000	7/9	10,392.80
C	£52,001 to £68,000	8/9	11,412.80
D	£68,001 to £88,000	9/9	10,980.10
E	£88,001 to £120,000	11/9	12,199.80
F	£120,001 to £160,000	13/9	8,678.90
G	£160,001 to £320,000	15/9	5,328.00
H	Over £320,000	18/9	313.50
Crown			285.50
	Council Tax Base		64,260.20

Council Taxpayer Income	£000	£000
Council Tax debit at 1st April		121,691
Add:		
Redebits	80,166	
Banding Change	207	
Additional – Second Properties	595	
Additional – Empty Properties	491	
Additional – Property Discounts	601	82,060
Less:		
Discounts	11,070	
Exemptions	2,227	
Council Tax Reduction	12,420	
Disablement Relief	116	
Transitional Relief	(2)	
Void Assessments	1	
Empty Assessments	79,743	105,575
		98,176

3. The Collection Fund (surplus) or deficit as at 31st March 2014 is split as follows;

	Council Tax £000	Business Rates £000
Hereford Council	(42)	1,734
West Mercia Police	(6)	0
Hereford & Worcester Fire Authority	(3)	35
Central government	0	1,770

10. DEFINITIONS

Accounting Policies
Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Assets
A resource controlled by the authority as a result of past events and from which future economic or service potential is expected to flow to the authority.

Borrowing costs
Interest and other costs that an entity incurs in connection with the borrowing of funds. This includes finance charges in respect of finance leases.

Carrying amount
The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Contingent Liability
A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the authority, *or*

A present obligation that arises from past events but is not recognised because

(a) it is not probable that an outflow of resources embodying economic benefits or

(b) services potential will be required to settle the obligation, or

(c) the amount of the obligation cannot be measures with sufficient reliability.

Creditors
Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied and have been invoiced or formally agreed with the supplier.

Debtors
Financial assets not traded in an active market with fixed or determinable payments that are contractual rights to receive cash or cash equivalents.

Depreciation
The systematic allocation of the depreciable amount of the asset over its useful life.

Exchange Transactions
Transactions in which one entity receives assets or services, or has liabilities extinguished, and gives approximately equal value (cash, goods, services, or use of assets) to another entity in exchange.

Fair value
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Finance lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset.

Financial Instrument
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

Grants and contributions
Transfers of resources to an authority in return for past or future compliance with certain conditions relating to the operation of activities.

Historical cost
The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for any subsequent depreciation or impairment.

IFRIC
International Financial Reporting Interpretations Committee (IFRIC) prescribes accounting treatment within the IFRS standards.

Impairment loss
The amount by which the carrying amount of an asset exceeds its recoverable amount.

Intangible Asset
An identifiable asset without physical substance e.g. computer software.

Inventories
These are assets;

a) In the form of materials or supplies to be consumed in the production process
b) In the form of materials or supplies to be consumed or distributed in the rendering of services
c) Held for sale or distribution in the ordinary course of operations, or
d) In the process of production for sale or distribution

Investment property
Property held solely to earn rentals or for capital appreciation or both.

Liabilities
Present obligations arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Material
Items are material if they could, individually or collectively, influence the decisions or assessments of users. Materiality depends on the nature or size of the item, or both.

Non-Exchange Transactions
Transactions in which an entity either receives value from another entity without giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Operating lease
A lease other than a finance lease

Property, plant and equipment
Tangible assets held for use in the supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one year.

Provision
A liability of uncertain timing or amount.

Related Party
Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Revenue
The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth.

Soft loan
A loan at less than the market interest rate.

Economy, communities and corporate
Geoff Hughes

Grant Thornton UK LLP
Colmore Plaza,
20 Colmore Circus,
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29th September, 2014

Dear Sirs

Herefordshire Council

Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Herefordshire Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

2. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

3. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

4. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

7. Except as stated in the financial statements:

   a there are no unrecorded liabilities, actual or contingent

   b none of the assets of the Council has been assigned, pledged or mortgaged

   c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

8. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.

9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

10 All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

11 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

12 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

13 We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

14 We can confirm that included in the Council's 2013/14 year end accounts were contingent liabilities that could fall due following the conclusion of three on-going litigation cases. A reliable estimate cannot be made of these liabilities as of today's date. We are not aware of any other possible significant litigation claims and no equal pay claims have been raised.

Information Provided

15 We have provided you with:

   a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b additional information that you have requested from us for the purpose of your audit; and

c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

16 We have communicated to you all deficiencies in internal control of which management is aware.

17 All transactions have been recorded in the accounting records and are reflected in the financial statements.

18 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

19 We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a management;

b employees who have significant roles in internal control; or

c others where the fraud could have a material effect on the financial statements.

20 We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.

21 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

22 We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.

23 We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

24 We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 29th September 2014.

Signed on behalf of the Council

Name	Peter Robinson
Position	Chief Finance Officer
Date	29.09.14

Name	Councillor John Jarvis
Position	Chairman: Audit and Governance Committee
Date	29.09.14

Annual Governance Statement 2013/14

Scope of responsibility

1. Herefordshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2. In discharging this duty, the council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. These include arrangements for the management of risk.

3. The council has adopted code of corporate governance that is consistent with the principles of the Chartered Institute of Public Finance & Accountancy ("CIPFA")/Society of Local Authority Chief Executives ("SOLACE") framework for delivering good governance in local government. The council's code is available on the website at the following link: http://councillors.herefordshire.gov.uk/documents/s16041/3Standards%20Committee%20-%20Report%20to%20Council%20on%2031Oct08%20-%20App1%20CoCG.pdf

4. The annual governance statement for 2013/14 explains how the council has complied with its code of corporate governance. It also explains how the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement of internal control have been met.

The purpose of the governance framework

5. The governance framework comprises the systems, processes, culture and values by which the council is managed and controlled. The framework also sets out how the council accounts to, engages with and leads the community.

6. The governance framework enables the council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate and cost-effective services.

7. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives as an individual's failure to comply with policies and procedures, even when provided with comprehensive training on them, can never be entirely eliminated.

8. The system of internal control is based on an ongoing process designed to:

(a) identify the risks to the achievement of the council's policies, aims and objectives;

(b) evaluate the likelihood and impact of the risks should they be realised; and

(c) identify and implement measures to reduce the likelihood of the risks being realised and to negate, or at least mitigate, their potential impact.

The governance framework

9. The council's corporate governance framework was adopted by Council on 31 October 2008 and has been reviewed annually by the section 151 officer to ensure it remains fit for purpose. It seeks to ensure that the principles of good governance are embedded into all aspects of the council's work. The five principles agreed within the code link to the six principles of good governance outlined in the SOLACE/CIPFA publication "Delivering good Governance in Local Government".

10. For ease of reference, the following table matches the council's five principles with those contained in the SOLACE/CIPFA guidance:

SOLACE/CIPFA Guidance - Principle 1	Focusing on the purpose of the authority, on outcomes for the community and creating and implementing a vision for the local area.
Council – Principle 1	Provide the best possible service to the people of Herefordshire.
SOLACE/CIPFA Guidance - Principle 2	Members and officers working together to achieve a common purpose with clearly defined functions and roles.
Council – principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
SOLACE/CIPFA Guidance - Principle 3	Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
Council – Principle 3	Require high standards of conduct.
SOLACE/CIPFA Guidance - Principle 4	Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

Council – Principle 4	Take sound decisions on the basis of good information.
SOLACE/CIPFA Guidance - Principle 5	Developing the capacity and the capability of members and officers to be effective.
Council – Principle 2	Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness.
SOLACE/CIPFA Guidance - Principle 6	Engaging with local people and other stakeholders to ensure robust public accountability.
Council – Principle 6	Be transparent and open: responsive to Herefordshire's needs and accountable to its people.

11. The framework we have in place to ensure adherence to the code is described in more detail below.

Principle 1 – Provide the best possible service to the people of Herefordshire

12. Herefordshire Council's strategic vision for the county is set out in the Herefordshire Council Corporate Plan 2013/15 approved by Council in November 2012. An annual delivery plan is approved by Cabinet and funding to carry out these activities is agreed through the Medium Term Financial Strategy 2014/17 (MTFS). The MTFS is a three year rolling plan, covering both revenue and capital investment, updated annually.

13. During 2013/14 a significant number of savings proposals were proposed and developed through the transformation programme of root and branch reviews and the subsequent chief executive's review of financial savings plans. A cross party review of corporate priorities was conducted through the summer and autumn of 2013 which confirmed the current priorities remained fit for purpose.

14. Overall performance has been reported to Cabinet on a quarterly basis with monthly financial outturn reports. A review of the performance reporting arrangements has led to the development of a quarterly performance review process led by senior management and engaging members of the executive, overview and scrutiny chairs and group leaders; this process is being implemented from July 2014. In addition Cabinet receives in June an annual report on performance, financial outturn and summary of the evidence base captured in 'Understanding Herefordshire' which incorporates the joint strategic needs assessment for the county, and summarises the input received from residents through consultations

completed during the year. All these documents are available on the council website.

15. The council aims to have good governance arrangements in respect of partnerships, and has developed protocols for working with particular sectors such as local councils and the voluntary and community sector.

Principle 2 – Define the roles of members and officers, ensure that they work together constructively and improve their effectiveness

16. The constitution sets out transparently and comprehensively the rules controlling our business including the council's executive arrangements, committee structure, codes of conduct, contract standing orders, financial procedure rules and schemes of delegation. We continue to refine and monitor our decision-making processes and constitutional arrangements to ensure they are robust, consistent, transparent, and fit for purpose.

17. The Audit and Governance Committee's terms of reference encompass responsibility for review of the constitution and in 2014 a cross party working group has been established to inform this work reporting to the committee.

18. The council publishes an annual pay policy statement setting out arrangements for employee remuneration. In Independent Remuneration Panel is established which makes recommendations to Council regarding member allowances.

19. There is a formal staff performance review requirement for all officers.

Principle 3 – Require High Standards of Conduct

20. The council has agreed values, which act as a guide for decision-making and a basis for developing positive and trusting relationships both within the council and between the council and its partners.

21. A regular programme of member training has been delivered and induction provided for new members. Refresher briefing sessions on the code of conduct are held annually both for Herefordshire Council members and for parish and town councillors. During 2013/14 the standards process was reviewed and minor amendments approved by Council to ensure the process remains as efficient and proportionate as possible.

22. Managers are responsible for making sure employees keep to policies, procedures, laws and regulations. There is an employee code of conduct setting out clear expectations and standards; this is supported by employee policies such as whistleblowing, grievances, bullying and harassment.

Principle 4 – Take sound decisions on the basis of good information

23. The council ensures its constitutional arrangements provide for effective council and executive decision-making with clearly defined roles for members and officers. Decision makers are provided with complete information necessary for them to take balanced and informed decisions.

24. The council's two overview and scrutiny committees are provided with the support necessary to enable them to perform all statutory duties required of them.

Principle 5 – Be transparent and open: responsive to Herefordshire's needs and accountable to its people

25. All meetings are held in public unless there are clear legal reasons for confidentiality. All executive decisions, including those taken by officers under delegated authority, are available on the council's website.

26. Public participation through submission of questions is encouraged at Council; the overview and scrutiny committees also provide for public participation both through submission of questions and suggestions for inclusion in the work programme.

27. The council has strategies which support engagement; promote the use of digital technology to increase engagement and self-service; and respond to customer concerns if expectations are not met.

28. The communications team help the council to communicate with all sections of the community in Herefordshire via the media, marketing and through digital channels. Services are making increasing use of social media.

29. The council meets its statutory responsibilities regarding data transparency.

Review of effectiveness

30. Herefordshire Council 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, jointly led by the section 151 officer and the monitoring officer, is informed by reports from internal and external audit, risk and performance reports, analysis of complaints and standards issues through the year, and assurance reviews completed by managers.

31. Internal audit reports include specific agreed action plans to implement improvements identified, these are reported annually to the audit and governance committee. Four areas reviewed by internal audit during 2013/14 were given limited assurance. Three related to service specific issues and the action plans related to these are monitored by the relevant service director; the remaining are (data protection) was of corporate concern and has been reflected in the annual governance statement action plan attached.

32. The results of the review were provided to senior management to consider, and as a result of this review of the effectiveness of the governance framework an action plan has been drawn up (at appendix A) to address the key issues identified and ensure continuous improvement.

Cllr Tony Johnson Leader of the Council	Signed: Date:
Alistair Neill Chief Executive	Signed: Date:

Herefordshire Council

MEETING:	Audit and Governance Committee
MEETING DATE:	29 September 2014
TITLE OF REPORT:	Waste VFM
REPORT BY:	Chief Finance Officer

1. Classification

Open

2. Key Decision

This is not a key decision.

3. Wards Affected

County-wide

4. Purpose

To advise of the conclusion of the waste PFI contract variation value for money assessment.

5. Recommendation

THAT the Audit and Governance Committee note the value for money conclusion.

6. Alternative Options

6.1 There are no Alternative Options, the contract variation has been concluded.

7. Reasons for Recommendations

7.1 Cabinet approved the contract variation for the construction of an energy from waste plant on 12th December 2013. This report provides an update on the final contract variation value for money assessment provided by Delloitte, independent financial advisors.

8. Key Considerations

8.1 Following Cabinet approval in December 2013 to go ahead with the energy from waste plant Herefordshire Council and Worcestershire County Council negotiated with their contractor, Mercia, to agree the revised PFI contract variation. The decision approved allowed for an increase in costs of £1.5m pa which was the best value for money option available for the treatment of residual waste. Following agreement with Mercia an increase was agreed of £0.6m pa, a £0.8m pa saving on the approved figure. The updated business case, with financial data prepared by Deloitte, shows how the actual contract, costing Herefordshire £10.2m pa when the plant opens in Spring 2017, re-enforces that executing the contract variation provides the best value for money solution for Herefordshire residents.

8.2 The new plant will receive up to 200,000 tonnes of residual waste from Herefordshire and Worcestershire per annum and generate 16.5 megawatts of electrical power per hour, enough to power the City of Hereford.

9. Community Impact

9.1 The council is responsible for ensuring the appropriate disposal of waste for the county.

10. Equality and Human Rights

10.1 The content of the report has no direct impact on equality and human rights.

11. Financial Implications

11.1 As set out in the report.

12. Legal Implications

12.1 None.

13. Risk Management

13.1 As set out in the appendix.

14. Consultees

14.1 None

15. Appendices

15.1 Appendix One - Final Variation Business Case

16. Background Papers

16.1 None identified.

Herefordshire & Worcestershire Variation Business Case Version 4.0

Update of Financial Information presented to Cabinet in December 2013, to reflect financial close reached in May 2014

Department for Environment, Food and Rural Affairs (DEFRA)

Waste Infrastructure Delivery Programme (WIDP)

Glossary

AD	Anaerobic Digestion
AWC	Alternate Weekly Collections
BMW	Biodegradable Municipal Waste
CHP	Combined Heat and Power
DEFRA	Department for the Environment and Rural Affairs
DCLG	Department for Communities and Local Government
DSO	Direct Service Organisation
EfW	Energy from Waste
EPC	Engineering, Procurement and Construction
FOI	Freedom of Information Act 2000
HMT	Her Majesty's Treasury
HRC	Household Recycling Centre
IBA	Incinerator Bottom Ash
JMWMS	Joint Municipal Waste Management Strategy
LACW	Local Authority Collected Waste
LATS	Landfill Allowance Trading Scheme
MBT	Mechanical Biological Treatment
MWM	Mercia Waste Management ("Mercia")
NAO	National Audit Office
NPC	Net Present Cost
NPV	Net Present Value
NTP	Notice to Proceed
VBC	Variation Business Case
Optimism Bias	A systematic tendency to under-estimate project costs.
Output Specification	Definition of Service Requirements included in PFI Contract
PFI	Private Finance Initiatives
RSS	Regional Spatial Strategy
SoPC4	HM Treasury: Standardisation of PFI Contracts, Version 4
TPA	Tonnes per annum
UA	Unitary Authority
VFM	Value for Money
WCA	Waste Collection Authority
WDA	Waste Disposal Authority
WIDP	Waste Infrastructure Delivery Programme
WMSC	Waste Management Service Contract
WRATE	Waste and Resources Assessment Tool for the Environment

Contents

Version Control

Version	Date	Status	Notes
V0.8	29 July 2013	Working Draft	The Financial Section (Section 8) is still in draft form. Additional information will be added and Version 1.0 of the VBC will be issued over the next few days.
V1.0	31 July 2013	Draft – Issued to DEFRA	Finance section (8) data now included
V1.1	6 Aug 2013	Draft – Issued to DEFRA	Contents – Page numbers and Appendix details updated
V2.0	10 Sept 2013	Draft – Issued to DEFRA	Finance Section (Section 8) updated (SP) Other updates to reflect clarification points. Covering email to DEFRA outlines sections changed.
V3.1	June 2014	Working draft	Updates following conclusion of the contract variation
V3.2	June 2014	Working draft	Further updates
V3.3	June 2014	Final working draft	Incorporating comments from final review
V4.0	June 2014	Published	Version published

References

The following documents or reports are referenced within this Variation Business Case. Where appropriate, a link has been provided to documents or content on web pages rather than including within appendices.

Section	Document / Subject	Link to Online Version or Content Provided
2.3.2	Joint Municipal Waste Management Strategy	http://www.worcestershire.gov.uk/cms/recycling-and-waste/waste-strategy.aspx
3.2.5	Waste Prevention	http://www.letswasteless.com/cms/default.aspx
3.5.6	JMWMS, Annex D	http://www.worcestershire.gov.uk/cms/recycling-and-waste/waste-strategy.aspx
3.6.2	Environmental Statement	http://www.worcestershire.gov.uk/PublicAccess/tdc/DcApplication/application_detailview.aspx?caseno=L1WFA1RY00800#date-details
4.4.1	EnviRecover	www.EnviRecover.co.uk
7.1.7	Planning Documents	http://www.worcestershire.gov.uk/PublicAccess/tdc/DcApplication/application_detailview.aspx?caseno=L1WFA1RY00800#associated-documents
7.3.1	Secretary of State Letter	http://www.worcestershire.gov.uk/cms/pdf/Secretary%20of%20State%20Decision%20Letter%20and%20Inspectors%20Report%20v1.pdf
9.4.2	Community Liaison Group	http://www.envirecover.co.uk/clg.htm
	Worcestershire County Council Cabinet Report – December 2013	*Worcestershire County Council December 2013 Cabinet Report – Item 4*
	Herefordshire Council Cabinet Report – December 2013	*Herefordshire Council December 2013 Cabinet Report – Item 4*

	DEFRA Letter confirming reassessment of PFI Credits	Worcestershire County Council Report Jan 2014 – Item 7 – Appendix D
	Worcestershire County Council – Loan decision	Worcestershire County Council Report Jan 2014 – Item 7
	Herefordshire Council – Loan Decision	Herefordshire Council – Feb 2014

1 Executive Summary

1.1 Introduction

1.1.1 ***Worcestershire County Council and Herefordshire Council ('the Councils') consider the proposal from its contractor, Mercia Waste Management (MWM), to develop an Energy from Waste (EfW) facility to be a contract variation. The original PFI contract signed in 1998 included provision for an EfW plant. This document focuses on the details regarding the variation.***

1.1.2 ***In December 2013 Cabinets (Herefordshire Council and Worcestershire County Council) agreed to vary the Waste Management Service Contract (WMSC) to have an EfW Plant at Hartlebury Trading Estate.***

1.1.3 ***Since December 2013 and following negotiations with MWM, the Councils concluded the variation in May 2014.***

1.1.4 ***Much of the Variation Business Case information is detailed within the December 2013 Cabinet Reports. The financial section of this document – Section 8 - provides an update further to the December 2013 Cabinet position, based on the position reached at financial close, as part of concluding the variation.***

1.1.5 ***This document, in particular the financial analysis, should be read in conjunction with the December 2013 Cabinet Reports and links to these are provided within the document.***

1.2 Background

1.2.1 In order to meet the targets set out in the Joint Municipal Waste Management Strategy, councils must be working towards achieving 45% recycling by 31st March 2015 and 50% by 31st March 2020.

1.2.2 Recognising that a new EfW plant will have a useful life which will extend beyond the end of the contract, the Councils have considered the impact of waste growth over the next 25 years. The resulting analysis indicated that a major treatment facility capable of processing up to 200,000 tonnes per year is required.

1.2.3 A contract variation was proposed; building upon the existing output specification with a view to incorporating the Councils currently assessed requirements and is the subject of this business case.

1.2.4 Failure to obtain planning consent for the EfW Plant in 2002 permitted a no fault termination of the contract but the Councils and the contractor agreed to defer the operation of this clause within the contract to allow an opportunity for an alternative solution to be developed. The contractor offered the possibility of a waste treatment plant or the transport of waste to another Waste to Energy Plant. However the Contractor was also willing to work with a sub-contractor to deliver autoclave technology and the Councils chose to pursue this option.

1.2.5 Autoclaving was however a novel technology. Sites and two planning consents were obtained, however the contractor was unable to meet the Council's requirement to find a long term off take contract for the use of the fibre and a licence to develop the technology.

1.2.6 Following the adoption of the Joint Municipal Waste Management Strategy, the Councils' contractor started to pursue the development of an EfW Plant in accordance with that Strategy. The site at Hartlebury was identified as being the best site available in the two counties for an EfW plant. Worcestershire County Council's Planning Committee considered the application in March 2011 and decided that they were "minded to grant planning permission". The site at Hartlebury is on a trading estate but is within the "Green Belt" and because of this the application had to be passed to the Secretary of State (SoS) for Communities and Local Government to consider whether he wanted to "Call In" the application. The SoS did "Call In" the application and in 2011 a Planning Inquiry took place to consider the application. The SoS made his decision in July 2012 granting planning permission to the applicant, MWM.

1.2.7 In order to maintain a consistent approach to the management and closure of issues and risks, a set of parameters were agreed. These being; planning, financial, contractual and technical parameters within which an agreement with MWM could be reached.

1.2.8 Previous Cabinet Reports (Herefordshire Council and Worcestershire County Council) have demonstrated a progressive satisfaction of the parameters and therefore closing of risks, e.g. Planning Parameters were satisfied / closed when the Secretary of State granted panning consent in July 2012.

1.2.9 In December 2013 the Cabinets of the two councils decided to vary the WMSC to construct and operate an EfW plant at the Hartlebury Trading Estate. This followed consideration of; affordability and a value for money assessment of a number of options including; variation of the contract, continue as is and terminate the contract. In addition a number of financing options were considered. Links to the December 2013 Cabinet Reports is provided below:

Herefordshire Council December 2013 Cabinet Report – Item 4

Worcestershire County Council December 2013 Cabinet Report – Item 4

1.2.10 Following dialogue with DEFRA and Her Majesty's Treasury (HMT), DEFRA confirmed the reassessment of the related PFI credits in December 2013. This recognised the councils' decision based on their preferred option – as per the December 2013 Cabinet Reports – was to vary the existing contract to design, build, finance and operate the EfW plant at Hartlebury, MWM would source financing from the Councils who in turn would use their prudential borrowing to provide a loan MWM.

1.2.11 In early 2014 both councils agreed the financing arrangements to provide a loan totalling £165 million to MWM.

1.2.12 The pre-commencement planning conditions were satisfied in April / May 2014.

1.2.13 In May 2014 the Councils agreed a revised Joint Working Agreement between them.

1.2.14 Following negotiations, the councils with MWM concluded the variation to the existing WMSC in May 2014.

2 Background

2.1 Responsibilities

2.1.1 Herefordshire Council, as a Unitary Council, has two roles in Waste Management; as a Waste Disposal Authority and a Waste Collection Authority.

2.1.2 Worcestershire County Council is an upper tier council, acting as a Waste Disposal Authority. There are six Waste Collection Authorities within Worcestershire:

- Bromsgrove District Council;
- Malvern Hills District Council;
- Redditch Borough Council;
- Worcester City Council;
- Wychavon District Council;
- Wyre Forest District Council.

Waste Disposal

2.1.3 The Waste Management Service Contract (WMSC) is a PFI contract which has a 25 year term. It is a partnership contract between Herefordshire and Worcestershire and was signed in December 1998 and is due to finish in December 2023. The contract is between the two Councils and Mercia Waste Management (MWM). MWM is a company who solely operate this contract. There are two equal shareholders in this company FCC Environment and Urbaser Ltd. The contract is operated by an operating company called Severn Waste Services (SWS) who are owned by MWM.

2.1.4 The contract signed in 1998 was one of the very early PFI contracts for waste management. MWM are required, by the contract, to design, build, finance and operate a number of facilities across the 2 Counties. Under the original contract these facilities included; a Landfill Site at Hill and Moor (between Pershore and Evesham), an EfW Plant (EfW) at Kidderminster, Material Recycling Facilities in Worcestershire and Herefordshire, Composting Sites, Transfer Stations and Household Recycling Centres (which include the 5 operating sites in Herefordshire at Bromyard, Ledbury, Ross-on-Wye, Rotherwas, Leominster and a proposed site at Kington). Most of the sites for these facilities are leased from the Councils by MWM and the sites and facilities will revert to the respective councils at the termination of the Contract. SWS also manage all the logistics associated with the Waste Disposal role.

2.2 History

2.2.1 The Waste Management Service PFI Contract (WMSC) was signed between Herefordshire and Worcestershire Councils and Mercia Waste Management Ltd (Mercia) in December 1998 for 25 years. Various reports to Cabinet have set out the detailed history of subsequent developments under the WMSC, this is summarised for convenience here. It is important to recognise that the WMSC was for an integrated solution to be delivered by MWM for the disposal of all Local Authority Collected Waste (LACW) arising within the 2 counties. The Councils' local authority waste disposal company (Beacon Waste) was transferred at the same time to MWM which took on responsibility for disposing of all 'Contract Waste'.

2.2.2 It is important to remember that the contract duly procured in 1998 included a waste to energy solution for dealing with residual waste. MWM started the process to deliver such a solution at the anticipated British Sugar site in Kidderminster. However, their planning application failed at appeal in 2002 and it was therefore acknowledged that the proposed EfW plant was undeliverable at that particular site.

2.2.3 Accordingly, the Councils and Contractor agreed a "standstill" position whereby the respective rights of the parties to terminate the WMSC as a result of the failure to obtain planning permission for the Kidderminster EfW plant by the anticipated 'longstop' date were 'frozen' to allow the parties to continue to discuss alternative solutions for the treatment of residual waste. The WMSC continued subject to its potential termination should the standstill agreement be brought to an end. This standstill position "dropped away" when the variation to the contract to deliver the EfW Plant at Hartlebury was entered into in May 2014.

2.2.4 The loss of the anticipated EfW facility to divert residual waste from landfill as per the contract meant the landfill site at Hill and Moor was filling considerably more quickly than had been anticipated under the WMSC and therefore some means of diverting waste from landfill needed to be developed. Interim arrangements were made by MWM to dispose of some of the residual waste at EfW plants outside the counties to ease the situation.

2.2.5 Various solutions for the residual waste were investigated including out of county disposal/ treatment and autoclaves. Planning permission was obtained in 2005 for an autoclave solution at Hartlebury Trading Estate (Worcestershire) and Madley (Herefordshire).

2.2.6 In 2006 Worcestershire County Council acquired the land at Hartlebury Trading Estate for the purposes of residual waste disposal, with the intention of developing an autoclave facility there. However, autoclave negotiations with MWM broke down in 2007 due to the uncertainty about the end market for the process by-product. A satisfactory end market was a planning requirement but it became clear that this could not be met with any certainty and so the autoclave option was not deliverable.

2.2.7 The Joint Municipal Waste Management Strategy (JMWMS) sets out the policy approach to waste management in accordance with the Waste Hierarchy. In line with national guidance Waste Prevention is prioritised in order to reduce the amount of waste produced by the two councils. We then, in order of priority, encourage Reuse, Recycling and Composting of waste. Any waste remaining is 'residual waste' which the strategy identified should be treated to recover energy. Only after all these things have been done can we consider landfill as a means of disposing of any waste that remains. Both councils have been very successful at reducing waste with some of the lowest waste per head of population in the West Midlands region. It should also be noted that Central Government has imposed increasing financial penalties through Landfill Tax to promote the diversion of waste from landfill, and landfill is not a medium or long-term solution. Since 1996 landfill tax has risen from £8/tonne to £72/tonne and from April 2014 it is £80/tonne.

2.2.8 The JMWMS was originally adopted in 2004 and the 2009 JMWMS Review included a list of possible options for the treatment of residual waste and an appraisal of these was carried out by Environmental Resources Management Limited (ERM). This included; a financial assessment of Capital and Operational expenditure (CAPEX and OPEX) costs of the various options for comparative purposes and an assessment of the different options against environmental criteria undertaken using the Environment Agency's life cycle assessment tool – Waste and Resources Assessment Tool for the Environment (WRATE).

- Joint Municipal Waste Management Strategy

2.2.9 DEFRA guidance required the appraisal not to be weighted. However in a workshop with the councils' consultants ERM (who were used by DEFRA to prepare the guidance for the preparation of the JMWMS), the councils highlighted that the most important elements to them which were; cost, reliability of deliverability and resource depletion. The outcome of the workshop is reflected in the Residual Waste Options Analysis. Both of the EfW solutions (with and without Combined Heat and Power – CHP) perform well against these criteria when compared to MBT or autoclaving.

2.2.10 The financial assessment was for comparison purposes. The potential incomes from heat supply, electricity export and the sale of recyclate to the market were omitted from the financial assessment. This recognised the figures were subject to considerable uncertainty and was based on the industry expertise of ERM.

2.2.11 The Residual Waste Options Appraisal shortlisted the following potential technologies for the treatment of residual waste in Worcestershire and Herefordshire: Energy from Waste (EfW) with and without Combined Heat and Power, Mechanical and Biological Treatment (MBT) with gasification or Refuse Derived Fuel Autoclave.

2.2.12 The top two treatment solutions as assessed against the fourteen chosen un-weighted criteria were EfW and autoclaving. The Residual Waste Options Appraisal ranked EfW high, particularly with combined heat and power (CHP).

2.2.13 In 2009 the Councils moved to the commingled collection of recyclables using the new facility created under the WMSC by Severn Waste Services at Norton in Worcester. This facility means that the Councils' of Worcestershire and Herefordshire are able to maximise the amount of recycling (excluding garden waste for composting). The success of this approach is borne out by analysing Herefordshire and Worcestershire's performance when compared against the other local authorities in the West Midlands. The performance of Herefordshire and Worcestershire in dry recycling (that is recycling not including green waste) is amongst the best in the West Midlands.

2.2.14 On 17 September 2009, Cabinet adopted the revised JMWMS. This included a new policy to increase diversion away from landfill. The Residual Waste Options Appraisal (Annex D to the JMWMS) informed the method for treatment of residual waste, and MWM was expected to bring forward proposals for disposing of residual waste in response to the JMWMS review.

2.2.15 In line with the JMWMS, MWM proposed an EfW facility to deal with residual waste and commenced a site search. This recognised the previous challenges associated with delivery of an autoclaving solution for Herefordshire and Worcestershire, reference point 2.2.7 above. This resulted in the site at Hartlebury Trading Estate being selected as the best site available in the two counties for an EfW plant.

2.2.16 Entec, now AMEC as specialist technical advisors to the Councils on waste, examined the EfW proposal both in relation to their own assessment of the Councils' requirements and the JMWMS. The Executive Summary concluded that the EfW Proposal was likely to provide the flexibility required for the Counties' ongoing waste management needs over a number of differing waste growth scenarios. This is provided at Appendix 2 to the December 2009 Cabinet Report.

2.2.17 In December 2009 Cabinet noted that MWM's proposals for an EfW facility with CHP on the Hartlebury Trading Estate appeared a good match with the JMWMS and were worth progressing through a planning application with a view to considering a variation to the PFI contract (WMSC) should planning permission be secured.

2.2.18 The report to Cabinet in December 2009 noted that the financial assessments that need to be made are whether the proposal is: (i) affordable and (ii) represents Value for Money. The report outlined how affordability and value for money could be assessed. It was noted that other than giving an indication that, on balance, the EfW Proposal should pass the assessments, it was not possible – at the time – to present a detailed and robust financial assessment. This was due to a number of factors including; time to secure planning permission, volatility in commodity pricing affecting construction costs and market conditions in the banking sector. It was agreed that the Cabinets of the 2 Councils received a further report providing detailed analysis of the financial and waste disposal issues should planning permission be obtained by MWM in respect of the EfW proposal.

2.2.19 The Councils did not consider it necessary in 2009 to undertake detailed value for money assessments based on the absolute costs of other technologies because the relative costs were understood within Annex D of the JMWMS. The market variability's described in paragraph 2.2.18 above would only have distorted those costs, had the caveats not been stated. The fact that EfW with and without CHP were respectively at the top and near the bottom of the relative cost range made any further commitment of resource to value for money studies potentially wasteful and not very informative.

2.2.20 The Director of Environmental Services (now, Director of Business, Environment and Communities) was tasked to negotiate with MWM a variation to the WMSC to give effect to the EfW proposal within certain parameters, and report back to Cabinet should planning permission be obtained. The proposed site at Hartlebury Trading Estate (which had previously been acquired by the Council for the autoclave facility) was appropriated by the Council for planning purposes relating to the EfW proposal.

2.2.21 MWM then sought planning permission for their proposal for an EfW plant at the identified Hartlebury site. Worcestershire County Council's Planning and Regulatory Committee considered MWM's application for planning permission in March 2011 and decided they were "minded to grant planning permission". As the site is situated in the Green Belt, this provisional decision was referred to the Secretary of State for Communities and Local Government who subsequently made the decision to "Call in" the planning application and determine it himself.

2.2.22 The Secretary of State granted planning consent for the EfW Plant at Hartlebury in July 2012 following a comprehensive call-in Planning Inquiry. The consent requires any development on site to commence within three years, i.e. July 2015. All relevant issues associated with site selection, objections and process were dealt with at length in the inquiry and in the decision report.

2.2.23 In granting the MWM planning permission the Secretary of State wrote that:

“there is a compelling and urgent need for the facility as proposed and that there is no other suitable alternative site within Herefordshire and Worcestershire.”

2.2.24 The issue of the health effects of EFWs was considered at the Planning Inquiry and by the Councils in developing the JMWMS. The Councils have followed the authoritative advice on the health effects of EfW plants from the Health Protection Agency, their view is:

“After reviewing the latest literature the Agency's general position remains unchanged: Modern, well managed incinerators make only a small contribution to local concentrations of air pollutants. It is possible that such small additions could have an impact on health but such effects, if they exist, are likely to be very small and not detectable.”

2.2.25 The Councils, have endeavoured to secure capacity at other EfW plants throughout the West Midlands to ensure compliance with the then requirement to divert biodegradable waste from landfill. A purchase of a very small amount of capacity has been achieved at Coventry’s plant; however the only other capacity that was capable of being secured was either near London or in Kent which clearly involved very substantial costs for transport.

2.2.26 In February 2012, the Cabinet had authorised the Director of Business, Environment and Communities (BEC) to negotiate and conclude with MWM a variation to the WMSC to provide the EfW Plant at Hartlebury subject to certain Planning, Financial, Contractual and Technical Parameters.

2.2.27 In December 2012, the Director of BEC reported to Cabinet on progress of the variation negotiations and satisfaction of the Parameters. This report included a refresh by external experts of the JMWMS Residual Waste Options Appraisal which continued to rank EfW highly (with or without CHP).

2.2.28 In December 2012, Cabinet authorised the Director of BEC, in consultation with the Director of Resources (and in consultation with the Cabinet Member with Responsibility for Environment and Waste Management), to pursue proposals for alternative methods of finance for the EfW plant given the relatively expensive bank debt financing which was being proposed.

2.2.29 The Director of BEC Communities in consultation with the Cabinet Member with Responsibility for the Environment and Waste Management was also authorised to procure and commence enabling works at Hartlebury for the proposed EfW up to a maximum capital cost of £1.8M, without prejudice to the final decision on residual waste.

2.2.30 The Director of BEC was asked to report back in 2013 regarding proposals for financing and procuring the proposed EfW plant (either by variation of the existing WMSC or fresh procurement), to enable Cabinet to take a final decision by weighing up the options available.

2.2.31 In December 2013 Cabinets in Herefordshire Council and Worcestershire County Council agreed that the Councils should enter a variation of the exiting WMSC with MWM to give effect to Option 2 (variation to the existing WMSC to design, build and operate an EfW at Hartlebury funded through prudential borrowing) to enable the construction and operation of a new EfW Plant at Hartlebury.

2.2.32 The Director of BEC (in conjunction with the Director of Resources and Herefordshire Council) was authorised to conclude a variation to the WMSC with MWM enabling the construction of the EfW Plant at Hartlebury and to take all necessary steps to put Option 2 (variation to the existing WMSC to build and operate an EfW at Hartlebury, financed through prudential borrowing) into effect.

2.2.33 In most instances similar / equivalent reports were taken to Cabinet in Herefordshire Council.

2.3 Key characteristics of Waste Disposal Authority (WDA) Area and Authorities

2.3.1 Worcestershire and Herefordshire are predominantly rural 'shires' with some urban centres of population mainly to the north of the Worcestershire bordering Birmingham.

2.3.2 Two of the collection authorities, Herefordshire and Wychavon operate under collection contracts and the other five have their own DSO's.

2.4 Analysis of Waste Arisings

2.4.1 The table below provides a summary of Waste Arisings.

Table 1: Waste Arisings

Year	Household Waste from WCA's	Waste from Commercial Collections	Household Waste from HRC's	Other LACW (C&I at HRCs, Bring sites & Fly tipping)	Total LACW	Percentage change on previous year
2006/7	257,234	16,293	108,248	38,837	420,613	n/a
2007/8	253,701	16,481	93,273	32,445	395,902	-5.9%
2008/9	246,559	16,115	92,321	32,633	387,626	-2.1%
2009/10	243,045	15,773	90,357	27,142	376,317	-2.9%

Year	Household Waste from WCA's	Waste from Commercial Collections	Household Waste from HRC's	Other LACW (C&I at HRCs, Bring sites & Fly tipping)	Total LACW	Percentage change on previous year
2010/11	249,671	11,855	85,623	24,801	371,951	-1.2%
2011/12	244,206	7,686	81,999	33,293	367,184	-1.3%
2012/13	243,987	11,489	81,009	25,788	362,273	-1.3%

2.5 Details of current arrangements for collection and disposal

Current collection arrangements

2.5.1 Current waste collection arrangements within the two Counties are summarised below:

Bromsgrove District Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected on alternate weeks in 240 litre wheeled bins
- Subscribed garden waste service.
- Commercial collection service operated by DSO.

Malvern Hills District Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected weekly in sacks.
- Subscribed garden waste service.
- Commercial collection service operated by DSO.

Redditch Borough Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected on alternate weeks in 240 litre wheeled bins.
- Commercial collection service contracted out.

Worcester City Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected on alternate weeks in 190 litre wheeled bins.
- Subscribed garden waste service.
- Commercial collection service operated by DSO.

Wychavon District Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected on alternate weeks in 180 litre wheeled bins.
- Food waste collected weekly (although on the residual collection week the food waste is landfilled and not sent to IVC as it is on the recycling week) – this was terminated in January 2014
- Subscribed garden waste service.
- Commercial collection service operated by collection contractor.

Wyre Forest District Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected on alternate weeks in 240 litre wheeled bins.
- Subscribed garden waste service.
- Commercial collection service operated by DSO.

Herefordshire Council

- Commingled recyclables collected on alternate weeks in 240 litre wheeled bins.
- Residual waste collected weekly in sacks.
- Commercial collection service operated by collection contractor.

Current disposal arrangements

2.5.2 Current disposal arrangements across both Worcestershire and Herefordshire are summarised below;

- Recyclable waste is either; (i) sorted at the Material Reclamation Facility near Worcester, before going on to re-processors for recycling or (ii) directly delivered to re-processors having been separated at one of the Household Recycling Centres (HRC).
- Garden waste is processed at composting facilities near Abergavenny, Pershore, Ledbury, and Leominster.
- Residual waste is either sent for treatment at the EfW facility in Coventry or landfilled at sites near Kidderminster and Pershore.
- Commercial residual waste collections are either sent for treatment at the EfW facility in Coventry or landfilled at a site near Pershore.
- Commercial recycling collections are being trialled by some WCA's and the waste collected is disposed of through the standard contractual routes.

2.6 Performance of existing recycling and composting services

2.6.1 The table below shows a summary of both recycling and composting performance for Worcestershire County Council.

Table 2: Summary of Recycling and Composting Performance for Worcestershire County Council

Year	Tonnage Recycled	Tonnage Composted	Percentage of household waste recycled and composted
2006/7	64,825	28,155	32.3
2007/8	75,822	28,702	38.3
2008/9	77,848	33,503	41.6
2009/10	75,421	32,796	41.7
2010/11	75,815	34,107	42.8
2011/12	76,407	32,896	43.3
2012/13	75,390	34,747	43.6

2.6.2 The table below shows a summary of both recycling and composting performance for Herefordshire Council.

Table 3: Summary of Recycling and Composting Performance for Herefordshire Council

Year	Tonnage Recycling	Tonnage Composted	Percentage of household waste recycled and composted
2006/7	16,877	6,657	25.9
2007/8	19,710	6,594	30.2
2008/9	20,057	7,359	33.2
2009/10	21,249	7,250	35.6
2010/11	23,717	7,400	39.8
2011/12	23,659	7,251	40.1
2012/13	22,579	7,653	39.7

2.7 Residual Waste Treatment – recent performance trends

2.7.1 The tables below provide a summary of Residual Waste Treatment for both Worcestershire County Council and Herefordshire Council.

Table 4: Summary of Residual Waste Treatment for Worcestershire County Council

Year	Tonnage Thermally Treated	Tonnage of LACMW Landfilled	Percentage Diversion Rate	Tonnage of BMW Landfilled	Landfill Allowances
2006/7	25,857	181,100	43.1	133,044	164,466
2007/8	25,513	155,859	48.0	112,113	152,250
2008/9	31,317	137,200	53.5	96,701	136,980
2009/10	31,895	130,670	54.3	91,975	118,656
2010/11	18,617	137,695	51.5	99,083	105,448
2011/12	17,268	134,891	52.0	99,083	92,241
2012/13	13,588	136,678	50.7	87,616	79,033

Table 5: Summary of Residual Waste Treatment for Herefordshire Council

Year	Tonnage Thermally Treated	Tonnage of LACMW Landfilled	Percentage Diversion Rate	Tonnage of BMW Landfilled	Landfill Allowances
2006/7	1,189	70,142	31.3	53,549	50,681
2007/8	85	64,340	33.0	48,000	46,635
2008/9	83	59,664	35.4	44,146	41,577
2009/10	82	56,198	37.7	41,911	35,508
2010/11	83	50,664	42.4	38,647	31,555
2011/12	84	49,076	43.2	37,903	27,603
2012/13	84	49,099	42.1	33,474	23,651

LACMW: Local Authority Collected Municipal Waste

BMW: Biodegradable Municipal Waste

3 Strategic Waste Management Objectives

3.1 Reviews / amendments to Joint Municipal Waste Management Strategy (JMWMS) since Financial Close

3.1.1 The first Joint Municipal Waste Management Strategy (JMWMS) for Herefordshire and Worcestershire was developed in 2004. It was drafted to form the framework for the management of municipal waste in the counties of Herefordshire and Worcestershire for the next thirty years until 2034. It was prepared jointly by all Local Authorities responsible for managing municipal waste across the two counties.

3.1.2 In 2009, the Strategy was reviewed and it is the aspiration of the authorities to continue to review this every five years. This will ensure the Strategy is adapted to reflect changes and remains relevant as waste management in the United Kingdom continues to evolve. During the most recent review the Local Authority partners and stakeholders were invited to give their opinions on the direction that the revised Strategy should take with the adopted version being published in August 2011.

http://www.worcestershire.gov.uk/cms/recycling-and-waste/waste-strategy.aspx

Strategy Development

3.1.3 The Strategy review first assessed Herefordshire and Worcestershire's current position and any changes in drivers from the original 2004 strategy document. In response to this, a number of principles which govern the way municipal waste should be managed in Herefordshire and Worcestershire were identified.

Summary of Principles

Table 6: 10 Principles

Principle 1	**Meeting the challenge of climate change by viewing waste as a resource**
Principle 2	**Commitment to the waste hierarchy of which waste prevention is the top**
Principle 3	**Influencing Government, waste producers and the wider community**
Principle 4	**Continued Commitment to Re-Use, Recycling and Composting**
Principle 5	**Minimising the Use of Landfill**
Principle 6	**Partnership**
Principle 7	**Monitoring and Review**
Principle 8	**Customer Focus**
Principle 9	**Value for Money**

Principle 10	Consideration of Social, Environmental and Economic Impacts

3.1.4 The above principles were used as a framework to guide the creation of 24 policies and 6 targets by which the strategic principles will be delivered. The full range of policies can be found in the web based documentation and a brief summary of targets are presented below.

Target Summary

Table 7: Targets

Target 1	Climate change target measured against NI185, 186 and 188)
Target 2	To achieve the national reduction in kg/head of household waste (not re-used, recycled or composted) of 35% by 2015 and 45% by 2020 based on 2000 levels
Target 3	To achieve national recycling / composting levels of household waste of 45% by 31 March 2015 and 50% by 31 March 2020.
Target 4	To achieve the requirements of the Household Waste Recycling Act 2003 to provide a kerbside collection of at least 2 recyclable materials from all households by 31 December 2010.
Target 5	By 2015, or earlier if practicable, recover value from a minimum of 78% of municipal waste. The aim of this is to achieve the Best Practicable Environmental Option (BPEO) that was identified in July 2003 through a portfolio of treatment options, i.e. a minimum of 33% of waste to be recycled and / or composted, an additional 45% of waste to be recovered with a maximum of 22% landfilled. BPEO continues to be a policy of the Councils
Target 6	To reduce the amount of biodegradable municipal waste landfilled in order to meet the yearly allowances set by the Government under the Landfill Allowance Trading Scheme. In particular target years as below: 102,684 tonnes during April 2012 – Mrch2013 71,851 tonnes during April 2019 to March 2020

3.1.5 The range of options available to enable Herefordshire and Worcestershire to meet their targets was studied as part of the review. Options appraisals were conducted covering: waste prevention, recycling, composting and residual waste treatment.

3.2 Waste minimisation schemes

3.2.1 Over the next 20–25 years it is aimed to change the way that municipal waste is managed in Herefordshire and Worcestershire and this is encompassed within the refresh of the JMWMS. The principle upon which the Strategy is built is ***waste prevention***, the top of the Waste Hierarchy

3.2.2 Through making opportunities available, designing appropriate collection systems and raising awareness, the Partnership will endeavour to ensure that everyone in communities can play an active role in ensuring that the amount of waste is reduced before it enters the waste stream. The Partnership will continue to promote waste prevention through a variety of campaigns and initiatives that will be reviewed to ensure that the most effective targeting of key waste streams are implemented.

3.2.3 As a result of the waste prevention measures introduced in the JMWMS in 2004, the growth in municipal waste arisings in the two counties had stopped and waste was starting to decline. More recently this has started to grow. In future years to 2034, it is estimated that municipal waste will only grow in line with the increase in the number of households across the counties identified in the Regional Spatial Strategy.

3.2.4 An important way of minimising residual waste is through a combination of alternate weekly collections and/or decreasing container capacity over time. A "core" level of service has therefore been developed and introduced by all WCA's. This ensures continuity and consistency of service across the Counties

3.2.5 The assessment of options carried out when refreshing the Strategy indicated that; home composting, food waste prevention, 'smart shopping', and both re-use and junk mail initiatives could have the biggest impact in terms of reducing both waste collection and disposal costs. Consequently a website has been developed that promotes these and other initiatives and a link is as follows:

http://www.letswasteless.com/cms/default.aspx

3.2.6 Home composting continues to provide potentially the single most effective prevention measure. Our approach is to promote home composting in order to reduce the environmental impact of disposing of compostable waste. Promotion of home composting through the sale of subsidised compost bins and provision of advice to residents through the 'Master Composter' scheme will continue. Home composting also reduces collection and disposal costs and ensures that value is recovered from the waste material.

3.2.7 The authorities are working with agencies on national waste prevention campaigns. The Waste Resource Action Programme food waste reduction and 'Shop Smart' campaigns are examples. Work is also underway at a local level to develop initiatives to recruit and train volunteers to advise and promote waste prevention.

3.2.8 One measure of success in this area can be found on WRAP's website in their case study entitled 'Love Food Hate Waste' campaign (Herefordshire & Worcestershire).

3.2.9 Herefordshire and Worcestershire have been and will endeavour to continue to be innovative in developing and promoting campaigns such as the 'Sink your Waste' campaign which offered a cash back incentive for residents who fitted a food waste disposer in their home and reduced the volume of food waste entering the municipal waste stream.

3.2.10 The authorities will continue to build upon the success of current waste prevention initiatives where practicable and financially viable, ensuring that they continue to deliver effective results. The approach will be to encourage and achieve waste prevention.

3.3 Recycling and composting performance figures

3.3.1 The table below shows the recycling and composting figures for Herefordshire and Worcestershire combined.

Table 8: Recycling and Composting Figures

Year	Recycling Actual Figures		Year	Composting Actual Figures	
	Tonnes	% HHW		Tonnes	% HHW
2001/02	30,750	8.2	2001/02	19,075	5.1
2002/03	26,673	7.1	2002/03	20,487	5.5
2003/04	52,549	13.7	2003/04	20,451	5.3
2004/05	65,255	16.4	2004/05	28,552	7.2
2005/06	70,058	18.6	2005/06	33,909	8.9
2006/07	81,702	21.5	2006/07	34,812	9.2
2007/08	95,531	26.6	2007/08	35,296	9.8
2008/09	97,905	27.9	2008/09	40,862	11.7
2009/10	96,670	28.5	2009/10	40,045	11.8
2010/11	99,532	29.7	2010/11	41,507	12.4
2011/12	100,066	30.4	2011/12	40,148	12.2
2012/13	97,969	29.8	2012/13	42,400	12.9

3.3.2 The original contracted recycling and composting performance is 26.5%, this has increased to 37.5% through the recently concluded contract variation. This is not directly comparable with the national statistics shown above. This is because the composting performance is based on the product produced and not the quantity of waste input into the processing facility. To clarify, the rates shown in Table 8, are calculated based on the old Best Value Indicators 82a and 82b, which in essence are similar to National Indicator 192. In terms of composting they are based on inputs to the compost facility and not outputs. Whereas contractually, the performance is measured against outputs from the composting facility and therefore the contractual recycling performance is recorded as being lower for essentially the same level of performance.

3.4 Landfill objectives

3.4.1 The original contract had a recovery rate of 52.5%, this has increased to 65.63% in the recently concluded contract variation.. The end of the Landfill Allowance Trading Scheme in September 2013 means that there are no devolved targets for landfill diversion; however there is a target within the JMWMS (Target 5) to recover value from 78% or more of municipal waste.

3.5 Appraisal of technology options for residual waste treatment

3.5.1 It has long been recognised within the two counties, that reliance on landfill is not a sustainable option and the principle of reducing the use of landfill for disposal of residual waste has been followed. Whatever alternative treatment methods are used, the aim is to recycle and recover value from the maximum amount of waste possible and reduce reliance upon landfill.

3.5.2 During the JMWMS review, an appraisal of residual waste treatment options was conducted by ERM – Technical Advisors to the Councils - on the following residual waste treatment options:

Option A	a single Energy from Waste (EfW) facility
Option B	a single EfW facility with combined heat and power (CHP)
Option C	two Mechanical Biological Treatment (MBT) facilities, located on two separate sites, one with onsite combustion
Option D	two MBT facilities each with offsite combustion
Option E	a single autoclave
Option F	two autoclaves, located on separate sites
Option G	EfW located out of county

3.5.3 The options listed above were assessed against a range of environmental, social and economic criteria. Assessment of the different options against the environmental criterion was undertaken using the Environment Agency's life cycle assessment tool; Waste and Resources Assessment Tool for the Environment, (WRATE). The assessments against the remaining criteria were undertaken using both quantitative and qualitative appraisal methods in accordance with best practice DEFRA requirements.

3.5.4 Option B (EfW with CHP) was identified as the highest ranking technology, scoring the highest marks in; global warming, transport, reliability, compliance with policy, flexibility and end product liability. Whilst all the criteria assessed were seen as important; cost, reliability and resource depletion were seen as key criteria. Option B scored well against these key criteria with the exception of cost, where it was ranked fifth, although income from the heat generated had not been taken into consideration.

3.5.5 It was therefore concluded that the two counties would, with the adoption of the JMWMS, seek to pursue a strategy including the provision of EfW with CHP.

3.5.6 The full appraisal can be found in Annex D to the JMWMS:

http://www.worcestershire.gov.uk/cms/recycling-and-waste/waste-strategy.aspx

3.6 Assessment of environmental impact of the proposed solution

3.6.1 During the public inquiry following the 'call in' of the Worcestershire County Council Planning Committee decision, who were 'minded to approve' the facility, the environmental impact of the facility was subject to further scrutiny. The Secretary of State decision notice states in paragraph 7.13 (iv):

'……….EnviRecover has been the subject of a full environmental impact assessment which concludes that there are no significant or unacceptable impacts remaining following the adoption of appropriate mitigation measures. No party has challenged the adequacy of the ES.'

3.6.2 The full environmental statement can be found as part of MWM's planning application in Documents 51 to 126 inclusive: Link to the documents below.

http://www.worcestershire.gov.uk/PublicAccess/tdc/DcApplication/application_detailview.aspx?caseno=L1WFA1RY00800#date-details

4 Variation Strategy for the EfW Contract Variation

4.1 Value for Money is covered in Section 8

4.2 Introduction

4.2.1 The 1998 contract requires the contractor to dispose of the municipal waste arising within Herefordshire and Worcestershire. From this waste the contractor must recycle a minimum of 26.5% and recover value from a minimum of 52.5%.

4.2.2 In order to meet the targets set out in the JMWMS, household recycling/composting must be working towards achieving 45% by 31 March 2015 and 50% by 31 March 2020. Since commencement of the contract, discussions with the contractor have resulted in a number of variations to the contract to drive up the level of recycling. A summary of the contract variations is detailed in ***Appendix A.*** The JMWMS also requires the recovery of value from a minimum of 78% of municipal waste by 2015 or earlier and also seeks to reduce the amount of biodegradable municipal waste (BMW) landfilled in order to meet the yearly allowances under the Landfill Allowance Trading Scheme.

4.2.3 With a requirement to achieve a 78% recovery of value and increased BMW diversion from landfill to ensure that the Councils are not penalised for landfilling more than their allocated LATS allowance, the contractor – Mercia Waste Management (MWM) - was asked to develop proposals to meet the Councils' revised strategic objectives.

4.2.4 The contractor proposed the development of an EfW facility with a capacity of 200,000 tonnes per annum. Their proposals have been tested against a number of differing waste arising growth scenarios and other criteria, and it has been concluded that they are in accordance with the JMWMS, are robust and offer the councils the flexibility to deliver sustainable waste management services going forwards.

4.3 Overall Strategy for executing the Variation

4.3.1 The strategy for executing the variation focuses on delivery of the original intent of the contract and the final main component of the required Waste Management Infrastructure required to deliver the JMWMS – the EfW facility, ensuring it is affordable and demonstrates value for money.

4.3.2 Under the terms of the existing PFI Contract between MWMMWM and the councils, MWM are procuring an EfW facility in order to fulfil their contractual obligations for the management of waste arising within the two counties. The inclusion of the EfW facility will be the subject of a variation to the existing contract.

4.3.3 A number of options for the financing of the EfW have been considered. The appraisal of these options and an explanation regarding funding proposals are detailed in Section 8.

4.3.4 Under the terms of the existing contract, MWM are procuring the EfW facility directly via an engineering, procurement and construction (EPC) contractor. The councils have used their advisors (as detailed in Section 6) to confirm that the procurement is evaluated on an appropriate value for money basis. MWM engaged Fichtner to run the procurement process as a fair and transparent competitive process. The following stages of procurement have been followed:

#	Stage
1	Pre-selection and identification of potential bidders
2	Prequalification
3	Preparation of the tender specification and contract conditions
4	Issue of the tender enquiries
5	Tender clarifications
6	Tender assessment
7	Tender submission clarifications
8	Short listing of preferred bidders
9	Call for best and final offers (BAFO)
10	Tender assessment of BAFO
11	Clarifications
12	Short listing of final preferred bidders – Revised and Confirmed Bid (RACB)
13	Final Contract Negotiation
14	EPC Contract Award

4.3.5 A Project Team was in place to deliver the planned variation. Details of the governance, project team, advisors and the approval steps are detailed in Section 6.

4.4 Changes to the Output Specification

4.4.1 The output specification originally sought in 1996 was the subject of the WMSC signed in December 1998. It included:

- Taking ownership of the Councils' wholly owned waste disposal company;
- Becoming responsible for the treatment and disposal of all the domestic waste arising within Herefordshire and Worcestershire;
- Recycling at least 26.5 % of waste arising;
- Recovering value from at least 52.5% of waste arising;
- Refurbishing and managing all of the Household Waste Sites; and
- Assets are to revert to the Councils upon termination of the contract.

4.4.2 Since the contract was signed, national targets for recycling have increased and it is necessary to increase the level of the diversion of waste from landfill. Recognising that the new EfW plant will have a useful life which will extend beyond the end of the contract, the Councils have considered the impact of waste growth over the next 25 years. The resulting analysis indicates that a major treatment facility capable of processing up to 200,000 tonnes per year is required.

4.4.3 The contractor has produced a specification for the EfW facility based on the initial contract requirements and incorporating more recent waste growth information from the review of the JMWMS. This specification was evaluated by the Council's Technical Advisors Entec, now AMEC, and following clarification of specific areas accepted as a suitable design specification in terms of life span and deliverability of the Councils requirements.

4.4.4 The existing contract pre-dates SOPC4 therefore the drafting of the variation, where appropriate, draws on WIDP standard guidance.

4.5 Technical solution proposed by the Contractor

4.5.1 MWM propose a single 200,000 tonne per annum EfW facility with an operational commencement date in 2017, CHP enabled, with electricity generation linked to the National Grid. Further details of the proposal can be found on MWM website here:

www.EnviRecover.co.uk

4.6 Waste Flow Model

4.6.1 The key annual waste-flow related performance measures included in the original contract are to:

- Recycle at least 26.5% of Local Authority Collected Waste (LACW); and
- Recovering value from at least 52.5% of LACW.

4.6.2 The contract variation concluded in May 2014 revised these performance measures;

- Recycle at least 35.78% of LACW; and
- Recovering value from at least 65.63% of LACW.

Table 9: Summary of Forecast Waste Flows

		2018	2019	2020	2021	2022	2023
Inputs							
WCA	Residual	173,111	174,843	176,591	178,357	180,141	181,942
	Recycling	71,906	72,626	73,352	74,085	74,826	75,574
	Green	14,582	14,727	14,875	15,023	15,174	15,325
HRC	Residual	31,861	32,180	32,502	32,827	33,155	33,486
	Recycling	51,508	52,022	52,543	53,068	53,599	54,135
	Green	28,564	28,850	29,138	29,430	29,724	30,021
BRING	Recycling	5,373	5,373	5,373	5,373	5,373	5,373
TOTAL		**376,905**	**380,620**	**384,373**	**388,163**	**391,991**	**395,857**
Outputs							
Landfill	EfW	46,923	47,279	47,639	46,872	48,368	48,739
	TS	4,018	4,467	4,920	9,447	5,840	6,307
	MRF	7,190	7,989	8,802	9,631	10,476	11,336
	HRC	31,861	32,180	32,502	32,827	33,155	33,486
Energy	EfW	121,832	122,756	123,689	121,699	125,584	126,545
Recycling	Bring	5,373	5,373	5,373	5,373	5,373	5,373
	HRC	51,508	52,022	52,543	53,068	53,599	54,135
	MRF	64,716	64,637	64,550	64,454	64,350	64,238
	EfW	338	341	343	339	349	351
Compost	Compost	43,146	43,577	44,013	44,453	44,898	45,346
TOTAL		**376,905**	**380,620**	**384,373**	**388,163**	**391,991**	**395,857**

4.7 Approval process to execute the variation

4.7.1 Councils have progressively built on Cabinet decisions, actively addressing areas of risk as detailed in the Parameters document (referred to in Section 5). The summary of the key steps are shown below:

- The Environment Agency granted the proposed EfW Plant (EnviRecover)an Environmental Permit and issued notification of that fact on the 18th April 2011.
- Feb 2012 Cabinet Decision
- July 2012: Following the Planning Inquiry, the Secretary of State for Communities and Local Government issued planning permission for the EfW facility in Hartlebury.
- The contractor – MWM – carried out a procurement for the EPC Contractor.
- Options Appraisal – Value for Money Assessment (progressively updated)

- July 2013: Submission of draft Variation Business Case to DEFRA
- December 2013: Feedback from DEFRA and Treasury
- December 2013: Close / address outstanding "Parameters"
- December 2013: Cabinet decisions for both Herefordshire Council and Worcestershire County Council. The reports focused on; satisfaction of the parameters, affordability, value for money and funding.
- December 2013: DEFRA reassessment of PFI Credits
- Jan / Feb 2014: Councils agree to provide funding via a loan
- May 2014: Negotiations with MWM
- May 2014: Discharge of the pre-commencement planning conditions
- Conclude legal drafting.
- May 2014: Conclude variation to the contract with MWM
- May 2014: Loan Agreement in Place
- May 2014: Joint Working Agreement between the two councils revised and agreed

5 Risk Management, Risk Allocation and Contractual Structures

5.1 Councils overall approach to risk management

5.1.1 The Councils' overall approach to risk management has been via a defined list of Parameters. Progressively addressing ("closing") each of the parameters is required to enable decision making and financial close for the EfW Variation. The parameters are categorised as follows:

- Planning;
- Financial;
- Contractual; and
- Technical.

5.1.2 Previous Cabinet Reports (Herefordshire Council and Worcestershire County Council) have demonstrated a progressive satisfaction of the parameters and therefore closing of risks, e.g. Planning Parameters were satisfied so closed when the Secretary of State granted panning consent in July 2012.

5.1.3 The latest published parameters report is detailed in the December 2013 Cabinet Reports.

5.1.4 Day to day issues and risks are managed by the Programme Team. A summary of the overall "Programme" Risks associated with completion of the Variation are shown in ***Appendix B***.

5.2 Proposed changes to the Waste Management Service Contract (WMSC)

5.2.1 Since Financial Close of the existing WMSC, a number of contract Variations have been progressed. A summary of these is shown at ***Appendix A***.

5.2.2 A number of outstanding variations were encompassed into the single variation concluded in May 2014, the primary purpose of which relates to the design, construction and operation of an EfW Plant at Hartlebury Trading Estate.

5.3 Markets for new process outputs

5.3.1 The EfW facility will have a number of process outputs for which markets will be required e.g.

a) **Electricity**: The facility should provide 15.5MW of electricity, which is sufficient to power in the region of 20,000 homes.

b) **Heat/steam**: The facility will be CHP enabled and MWM continue to investigate a local use from the heat/steam on the trading estate. As part of the permit conditions MWM will have to re-evaluate potential uses for the heat/steam every two years.

c) **Recovered metal**: Work will continue to encourage residents to recycle their scrap metal; however a proportion will remain in the residual waste stream. The EfW facility will be configured to recover this material from the IBA before it is sent for reprocessing or disposal.

6 Project Team and Governance

6.1 Legal Context

6.1.1 The involvement of both Councils in the contract is as a WDA. The vires context for this variation is as follows:

- As WDA's they have a duty under the Environmental Protection Act 1990 (Section 30) and have a duty to make arrangements for such in accordance with the provisions of that act and in particular section 51 (disposal)
- The Councils have a duty under section 3 of the Local Government Act 1999 to make arrangements to secure Best Value in the manner in which its functions are exercised
- Under section 1 of the Localism Act 2011 the Councils have the power to do anything that individuals generally may do,
- The Councils have the power to enter into contracts for the purposes of or in connection with the discharge of its functions under section 1 of the Local Government (Contracts) Act 1997
- The Councils have the power to certify the contract pursuant to section 3 of the Local Government (Contracts) Act 1997

6.2 Project Governance

6.2.1 The two councils have an established working arrangement that is governed under the **Joint Working Agreement** between Herefordshire Council and Worcestershire County Council. This agreement set out the governance arrangements used for the management of the existing contract with MWMMWM. Specific governance arrangements are in place for the project, including reporting updates via the normal operational routes. **This agreement was revised in May 2014.**

6.2.2 The project was overseen by the **Waste Advisory Steering Group (WASG**) which includes Cabinet Members with Responsibility for Waste, Directors responsible for Waste, Chief Executives, Chief Finance Officers, Council Solicitors, Project Director and other members of the Project Team as required. This met 3 or 4 times per year or as necessary around strategic points within the project. **Some revisions to the Governance arrangements are detailed in the revised Joint Working Agreement.**

6.2.3 Regular updates were provided to the Directors responsible for Waste and also Chief Finance Officers as well as Cabinet Members.

6.2.4 The **project was structured** via a series of workstreams including:

- Financial: Financial Model and Value for Money;
- Funding;
- Legal and commercial;
- Technical, including EPC contract;
- Joint Agreement – changes to the existing agreement between Herefordshire Council and Worcestershire County Council;

- Programme, including communications and stakeholder management; and
- Reporting, including formal reporting to Cabinet etc.

6.2.5 Each **workstream** had a lead officer, officers from the councils and where appropriate, was supported by advisors. The workstream leads, other officers and advisors made up the Project Team lead by the Project Director.

6.2.6 The **Project Team** held weekly conference calls to provide workstream updates and to progress key matters.

6.2.7 Regular sessions were held between the **client and contractor** on key aspects of the project as required, e.g. EPC, Commercial Issues, Technical.

6.2.8 In addition to this, specific **workstream meetings** / sessions were held as required in order to progress the variation.

6.3 External Advisors

The Councils appointed advisors in key areas to assist them with the Variation. The advising organisations are as follows. There was a lead advisor from each of the organisations with other colleagues supporting workstream work as required.

Advice	Organisation
Finance - Purchaser	Deloitte
Legal - Purchaser	Eversheds
Technical – Purchaser	AMEC
Insurance - Purchaser	Marsh
Finance - Funder	Deloitte
Legal - Funder	Ashurst
Technical – Funder	Fichtner
Insurance - Funder	Aon

6.4 Outline of partnership arrangements with other WDAs

6.4.1 There is an existing partnership agreement – Joint Agreement - between Worcestershire County Council and Herefordshire Council for the management of the WMSC that was signed at contract close in 1998. This agreement has been revised to deal with arrangements following the end of the current contract term to recognise the useful life of the EfW Facility. The main areas of change within the agreement are: Governance, Payment Mechanism, Funding, Property / Assets, Extension.

6.5 District Council involvement in their capacity as WCAs

6.5.1 The two WDA's and the six WCA's within Worcestershire meet under the auspices of the Strategic Waste Management Board. This is a group of Councillors and senior officers who monitor and review the strategic development of waste management within the two Counties. This group were actively involved in the development of the JMWMS and are kept informed of progress against strategic targets and the delivery of infrastructure.

7 Sites, Planning and Design

7.1 Identification of site(s) for new facilities/activities

7.1.1 In 2007 MWM commissioned a specialist waste planning consultancy to identify possible sites for a residual waste treatment facility or facilities within the Counties of Herefordshire and Worcestershire.

7.1.2 This process is referred to as the Site Search Exercise (SSE) and was carried out in five stages resulting in a number of reports and executive summary. The Stage 3 assessment identified only two sites which were likely to be suitable for an EfW facility:

- Ravensbank Business Park, Bromsgrove; and
- Hartlebury Trading Estate, between Kidderminster and Worcestershire County Council.

7.1.3 At this stage the Ravensbank Site was judged to be marginally preferable. During the course of investigations and negotiations that MWM undertook, to secure a freehold interest in the site, it became apparent that the Ravensbank site was subject of a number of restrictive covenants preventing the site being used for the intended purpose. As a consequence, it was dismissed.

7.1.4 It then followed that the Hartlebury site should be pursued. A Stage 4 study was undertaken to; (1) ascertain whether any new sites had become available or could be identified and (2) review sites previously commercially not available in order to establish if now potentially available.

7.1.5 This identified seven sites plus Hartlebury for detailed assessment, however Stage 4 concluded none of these other seven locations were suitable.

7.1.6 Following third party scrutiny of the whole SSE and a Stage 5 update study, it confirmed that the land at Hartlebury Trading Estate was the only suitable and available site for the EfW proposal.

7.1.7 An executive summary and the full report (in documents 10 – 27 inclusive) can be found using the link below as part of MWM's planning application:

http://www.worcestershire.gov.uk/PublicAccess/tdc/DcApplication/application_detailview.aspx?caseno=L1WFA1RY00800#associated-documents

7.2 Legal Titles to the Sites

7.2.1 The identified site for the EfW Plant had previously been secured by Worcestershire County Council under a 999 year lease from March 2006 and has been made available to MWM for the development of the EfW facility under a licence. This licence has been converted into a lease. Herefordshire Council holds a deed of trust interest in the same site.

7.3 Points arsing under the Planning Health Framework

7.3.1 The Secretary of State for Communities and Local Government issued planning permission for the EfW facility on 19 July 2012, his decision letter can be found here:

http://www.worcestershire.gov.uk/cms/pdf/Secretary%20of%20State%20

Decision%20Letter%20and%20Inspectors%20Report%20v1.pdf

7.3.2 The Environment Agency issued an Environmental Permit for the EfW facility on 18 April 2011.

7.4 Design Issues

7.4.1 MWM have retained responsibility for the design of the EfW facility, commissioning both experienced engineering and architectural support. This process has been monitored throughout by the Councils technical team including advisors.

7.4.2 Detailed designs were included with the planning application submitted in May 2010, which can be found via the link below:

http://www.worcestershire.gov.uk/PublicAccess/tdc/DcApplication/application_detailview.aspx?caseno=L1WFA1RY00800#date-details

7.4.3 The pre-commencement planning conditions were discharged on 29 April 2014.

7.5 Realising environmental benefits deriving from the project

7.5.1 The major environmental benefit from the project will be realised when the EfW facility becomes operational as it will be capable of diverting up to 200,000 tonnes of residual waste away from landfill giving rise to the associated environmental benefits identified in both the residual waste options appraisal and the planning process.

8 Costs, Budgets & Finance

8.1 Introduction

8.1.1 This section provides an update of the cost analysis detailed in the December 2013 Cabinet Reports (links below). This is based on the Cabinet decisions and the position reached at Financial Close (May 2014) in terms of the EfW Variation solution submitted by the Sponsors of MWM (the Solution) and compares this against both the budget available and the cost of a range of alternatives ('options') open to the Councils to assess the affordability of the Solution.

Herefordshire Council December 2013 Cabinet Report – Item 4

Worcestershire County Council December 2013 Cabinet Report – Item 4

8.1.2 The analysis within this Variation Business Case does not seek to duplicate that detailed within the December 2013 Cabinet reports. It is aimed at providing an update following Financial Close. The analysis has been carried out on a consistent basis as that used for the December 2013 Cabinet decisions and leads to a consistent conclusion.

8.1.3 Between the December 2013 Cabinet decisions and Financial Close in May 2014, the Councils monitored how modelled project costs changed from those previously considered and continued to proceed to Financial Close on that basis.

8.1.4 The EfW Solution has a forecast Useful Asset Life of approximately 25 years. However, given the issues obtaining planning consent, the EfW Variation, is to cover the period 2014 to the end of 2023, a period of ten years to the end of the contract period. This section summarises the cost of the proposed Solution over the remaining PFI Project Period with the Value for Money analysis later considering the EfW Variation not only within the remaining PFI Project Period but also across the Useful Life of the EfW Plant to ensure Value for Money is considered on a whole life cost basis.

8.1.5 It is usual to compare the EfW Variation cost to the cost of the reference case at the OBC stage. However, there have been a number of changes in the fifteen years since Financial Close was reached on this Project in 1998. These include changes to:

a) Waste tonnage and growth rate assumptions made by the Councils in respect of the average annual tonnage of residual waste requiring treatment in the EfW Facility;

b) Technical Specifications required of a modern EfW Facility are different to those in 1998;

c) EfW Plant inflation has increased well above the index used in this contract, the GDP deflator; and

d) Alternative waste sorting facilities have been introduced alongside other Contract Variations to cater for changes to legislation or operational requirements of the Contract.

8.1.6 Therefore, the cost of the EfW Variation is primarily compared to the range of alternative decisions that could be made by the Councils at this point. These options are summarised in the following table and are expanded further later in this section.

8.1.7 The options considered:

Option	Detail
1	Execution of the Energy from Waste Facility Variation to the Contract with the Senior Term Loan Facility financed by a Commercial Bank
1a	Execution of the Energy from Waste Facility Variation to the Contract with co-financing (Senior Term Loan Facility financed by the Private Finance AND the Councils through a drawdown from the Public Works Loans Board)
2	Execution of the Energy from Waste Facility Variation to the Contract with the Senior Term Loan Facility financed by the Councils through a drawdown from the Public Works Loans Board
3	Continue 'As is' with the existing Contract and do not execute the Energy from Waste Variation
4	Terminate the existing Contract with Mercia Waste Management, procure an Energy from Waste plant as a separate Design, Build, and Operate procurement and procure all other services
5	Terminate the existing Contract with Mercia Waste Management, do not procure Energy from Waste plant and procure all other services.

8.1.8 The EfW Variation Financial Model has been updated to reflect all changes agreed since Financial Close in 1998 as well as this proposed Variation for the EfW Facility. The execution of this EfW variation also allows the formalisation of changes made over the life of the contract as the contract moves out of "Standstill". The structure of the 1998 Project was for the Councils to pay MWM a Baseline fee for each tonne of contract waste they handle and then supplements for the diversion from landfill. Examples of supplements include:

- Recycling;
- Composting;
- Energy from Waste.

8.1.9 The payment for this EfW Variation will therefore be through an EfW Supplement rather than a Gate Fee. This will result in a step up of the Unitary Charge once the EfW Plant is operational.

8.1.10 From the Quantitative Analysis (**updated to reflect the position at Financial Close**) carried out by the Councils, supported by the council's financial advisors Deloitte, the options that include a variation to the WMSC to construct and operate an EfW Plant at Hartlebury Trading Estate (Options 1, 1a and 2) are between £152 million and £163 million lower in Net Present Cost (NPC) terms than the option to continue as is (Option 3). This shows an improved position since Cabinet in December 2013 when the Options 1, 1a and 2 were between £106 million and £128 million lower in NPC terms than Option 3.

8.1.11 From the Quantitative Analysis (**updated to reflect the position at Financial Close**), referenced above, the options that include a variation to the WMSC to construct and operate an EfW Plant at Hartlebury Trading Estate (Options 1, 1a and 2) are between £564 million and £577 million lower in Nominal Cost terms than the option to continue as is

(Option 3), over the useful life of the EfW. This shows an improved position since Cabinet in December 2013 when the Options 1, 1a and 2 were between £458 million and £517 million lower in Nominal Cost terms than Option 3.

8.1.12 Based on the similar Net Present Costs of the differing financing routes (Options 1, 1a and 2), the Cabinets also considered a number of qualitative matters.

8.1.13 Based on the analysis, **the preferred option as per the December 2013 Cabinet Report was Option 2**, i.e. Execution of the EfW Facility Variation to the contract with the Senior Term Loan Facility financed by the Councils through a drawdown from the Public Works Loans Board. This is the Option progressed to reach financial close and the variation agreed with MWM in May 2014.

8.1.14 Following work with DEFRA it was confirmed, in December 2013, that the level of Waste Infrastructure Grant (WIG) credits received by the Councils reduce by £30million from 1 April 2014 to the end of the WMSC in December 2023. This reduction does not affect the Value for Money assessment as, per the Her Majesty's Treasury Green Book does not consider WIG credits. However this was a consideration in relation to affordability.

8.1.15 To mitigate the impact of the reduction in WIG Credits, as required the councils intend to use a portion of their accumulated Reserves that have been established, to smooth the uplift in costs for the EfW Plant together with the anticipated surplus from the Councils' provision of debt finance for this variation.

8.1.16 At the point of the Cabinet decision in December 2013, the uplift in Unitary Charge was £6.55million. This was £0.55 million greater than the affordability envelope of £6.0 million. Following negotiations with MWM the position at financial close in May 2014, shows a much improved position in terms of affordability with the **contract uplift in Unitary Charge being £2.7million.**

8.1.17 The remainder of this section sets out key financial information, updated to reflect the position reached at Financial Close in May 2014. **It does not attempt to repeat the full set of financial details as per the December 2013 Cabinet Reports.**

8.2 The Cost of the Mercia Waste Management Solution

8.2.1 The proposal incorporates:

a) The design, construction and operation of the EfW Plant (as envisaged by the WMSC albeit on a different site and with a different start date) until the contract comes to an end in 2023; followed by

b) The Councils taking on or re-procuring lifecycle replacement and operational and maintenance services for the remaining useful life of the EfW Plant until 2042.

8.2.2 The Value for Money assessment focused on the 6 options as detailed below.

8.2.3 **Option 1: EfW Variation procured through PFI with commercial finance**

As envisaged in the WMSC this includes the requirement for MWM to construct, finance and be responsible for the operations and maintenance of an EfW Plant albeit on a different site – Hartlebury Trading Estate, and at a different time.

This would be until the end of the WMSC at December 2023 and then the Councils would take on these responsibilities after 2023 to 2042.

This option has been modelled on a delay in reaching Financial Close of 9 months recognising the due diligence required for this option.

In addition, the Councils would need to manage the risk that it is exposed to, where interest rates may increase by 2023.

The payment for the EfW Variation would be through an "EfW Supplement" as envisaged in 1998 rather than a Gate Fee. This is payable based on the £/tonne incinerated and is in addition to the Baseline Fee of £25 payable on all tonnes of waste passed to MWM to recognise the cost of discharging the Councils overall waste disposal responsibilities.

8.2.4 **Option 1a – EfW Variation financed by Council's Prudential Borrowing and Private Finance (co-financing)**

This Option includes an EfW variation that would be made to the existing WMSC, including the requirement for MWM to construct and be responsible for the operations and maintenance of an EfW Plant until the end of the WMSC and then for the Councils taking on these responsibilities after 2023 to 2042.

The payment for the EfW Variation would be through an EfW Supplement rather than a Gate Fee, as envisaged in the 1998 Contract. This is payable based on the £/tonne incinerated and is in addition to the Baseline Fee payable on all waste tonnes.

This would be included within the Unitary Charge paid by the Councils and would be used by MWM to service the debt. This element of the Unitary Charge would be passed through MWM and repaid to the Council and a Commercial Bank in its role as the lender to the scheme. This is required to ensure the contractual mechanisms agreed in 1998 are not changed materially in relation to debt finance, with particular reference to the Council's reliance on WIG credits and Central Governments Balance Sheet Accounting rules around risk recognition.

Similar to Option 1, the project would suffer a delay, and therefore attract additional costs due to delay. In addition, and again similar to Option 1, the Councils would need to consider how to manage the risk that it is exposed to, where interest rates may increase by 2023.

The Councils do generate cash sums and have cash shortfalls prior to 2023 due to MWM paying interest and capital repayments per the financial model to the Councils that is based on a different profile to that which Councils will use to repay PWLB debt until later years. The impact of this in terms of interest gained on cash balances or interest paid on in effect overdrawn balances has been included in the financial model.

8.2.5 **Option 2 – EfW Variation financed by Council's Prudential Borrowing**

This Option includes an EfW variation that would be made to the existing WMSC, including the requirement for MWM to construct and be responsible for the operations and maintenance of an EfW Plant until the end of the WMSC and then for the Councils taking on these responsibilities after 2023 to 2042.

The payment for the EfW Variation would be through an EfW Supplement rather than a Gate Fee as envisaged in the 1998 Contract. This is payable based on the £/tonne incinerated and is in addition to the Baseline Fee payable on all waste tonnes.

This would be included within the Unitary Charge paid by the Councils and would be used by MWM to service the debt. This element of the Unitary Charge would be passed through MWM and repaid to the Council in its role as the sole lender to the variation. This is required to ensure the contractual mechanisms agreed in 1998 are not changed materially in relation to PFI debt finance.

The Councils can move more quickly to financial close when compared to Options 1 and 1a as all required due diligence has been undertaken by the Councils as the sole provider of funding for the project.

In this scenario, there is no requirement to purchase any financial products to manage interest rate risks in 2023 as the Councils will purchase debt at the end of construction. The Councils borrowings are repaid in a similar way to a repayment mortgage until 2042. As such there is no need to purchase new debt in 2023. In this option, the Councils do generate cash sums and have cash shortfalls prior to 2023 due to MWM paying interest and capital repayments per the financial model to the Councils that is based on a different profile that the Councils will use to repay PWLB debt until later years. The impact of this in terms of interest gained on cash balances or interest paid on in effect overdrawn balances has been included in the financial model.

8.2.6 **Option 4 - Termination of the Waste Management Services Contract (WMSC) and for the Councils to procure an EfW Plant and other services through a new Design, Build, and Operate contract.**

The Councils would terminate the existing WMSC and procure separately the construction and operation of an EfW Plant, financed by Councils' prudential borrowing together with associated operational and maintenance services.

8.2.7 **Option 5 - Terminate the Waste Management Services Contract (WMSC) and re-procure existing services without the construction of an EfW Plant.**

The Councils would terminate the existing WMSC and procure all existing waste disposal services but **not**_including procurement of an EfW Plant.

8.2.8 These options have been considered against one key comparator as would normally be expected within a value for money assessment, that is:

Option 3 – Continue As Is

Continuing within the current WMSC without executing the proposed EfW variation.

Following the expiry of the WMSC in 2023 the current forecasts are for the Councils only landfill site to be full or nearly full. The Councils would procure new waste disposal services that may include the procurement of a new EfW Plant or purchasing spare capacity from the merchant market. Whilst, this option is agnostic to the choice of how the Councils residual waste is disposed of, these services post 2023 have been modelled at a capped price of £125 per tonne based on appropriate technical advice and therefore the choice of waste disposal route would be made within a capped budget.

The £125 per tonne price cap is calculated by taking the current baseline gate fee paid for the disposal of all waste plus a forecast of landfill tax costs in 2023 in accordance with most recent Central Government guidance.

8.2.9 DEFRA and HMT undertook a review of the models, since July 2013. Their scrutiny process has added significant value to the Councils in terms of support and challenge and has resulted in some improvements to the analysis undertaken.

8.2.10 Given the degree of difference in the Quantitative Analysis between 'Continuing As Is' and procuring an EfW Plant variation the Councils were clearly able to arrive at a judgement around Value for Money. However, at the point of the Cabinet decision in December 2013, from a commercial perspective the requirement remained for further negotiations with Mercia to obtain a better price than currently contained in the financial models as the year 1 step up in Unitary Charge was £0.55 million above the Councils indicative affordability envelope.

8.2.11 The information used to support the quantitative value for money analysis was sufficient to be considered as a ceiling price in order to demonstrate the preferred option.

Value for Money – Methods of Financial Evaluation

8.2.12 Even though only 10 years of the WMSC remain, it was important to undertake the Value for Money assessment over the estimated useful life of the EfW Plant to ensure there is comparability across each option. Whilst this is the focus for the Quantitative Analysis, a comparison was made of costs incurred to the end of the WMSC to understand the impact of the preferred option in the short term.

8.2.13 Reliance is placed on the comparison over the useful life of the EfW plant together with all other waste disposal / management services, as this sets out the whole life cost of the different options. This allowed for a full analysis of the costs and benefits of each option to be undertaken on a comparable basis. The accepted basis by HMT of undertaking this quantitative analysis is on a Net Present Cost Term to ensure the different timing of cash flows in each option are set out in an equivalent present cost today.

8.2.14 To arrive at Net Present Costs, Nominal costs are established that describe the actual forecast cash flows of each option after taking account of inflation forecasts. This is to ensure the time value of money and the opportunity cost of spending that money is taken into account, e.g. you can buy more for £1 today than £1 in ten years' time.

8.2.15 The HMT's Green Book sets out how these nominal costs are then adjusted to consider risks relevant to each Option to arrive at the nominal costs included below. Each relevant risk has been considered by the Councils' Advisor Team alongside Council Officers to ensure there has been independent rigour to the development of each Options Nominal costs.

8.2.16 Within the Options considered, the Councils will spend cash at different times and be exposed to different risks at different points. In order for these different cash flows to be comparable the Councils have reviewed the Options over the forecast asset life of the EfW Plant and rebased those costs to determine their present day equivalent value in Net Present Cost terms.

8.2.17 The Councils' Net Present Cost analysis has been undertaken in accordance with HMT Green Book to ensure that the Councils make a decision based on a comparable methodology to similar projects across the UK.

8.2.18 The Councils' Financial Advisor, Deloitte, is one of only a few accredited Green Book practitioners and so the Councils can take comfort that the methodology used is consistent with HMT and DEFRA requirements.

Value for Money – Outcome of Financial (Quantitative) Analysis

8.2.19 Set out below is the outcome of the Councils' quantitative assessment of Value for Money in respect of its role as the Waste Disposal Authority. The provision of funding for Options 1a, 2 and 4 is intended to come from the Councils and should the Councils become the funder of any variation it would be taking on some new risk, as a lender rather than as Waste Disposal Authority. This was covered within the December 2013 Cabinet Report.

8.2.20 The table below summarises the outcome of this Quantitative Analysis, updated to reflect the position at Financial Close (May 2014). This has been developed with the support of the Councils Financial Advisors, Deloitte and describes:

a) Net Present Cost calculated over the estimated useful life of the EfW Plant (until 2042) on a whole life cost basis to be used as the basis for decision making;

b) Nominal Cost calculated in accordance with the HMT Green Book: appraisal and evaluation in Central Government over the estimated life of the EfW Plant (until 2042) on a whole cost basis for information; and

c) Nominal Cost calculated in accordance with HMT Green Book: appraisal and evaluation in Central Government' over the remaining life of the WMSC (2023) to provide a sense of the short to medium term impact for information.

Table 10: Financial Analysis summary (risk adjusted) – **The December 2013 figures are shown in brackets**

Option	Net Present Cost	Nominal Cost	
£ million	Whole Life Cost to 2042	Whole Life Cost to 2042	WMSC – to 2023
1	**691** (722)	**1,637** (1,689)	**502** (543)
1a	**688** (720)	**1,632** (1,685)	**497** (539)
2	**680** (700)	**1,624** (1,656)	**485** (512)
3	**843** (828)	**2,201** (2,173)	**491** (475)
4	**755** (752)	**1,645** (1,649)	**610** (599)
5	**826** (851)	**1,949** (2,043)	**602** (604)

8.2.21 **The conclusion of the updated analysis remains as per the December 2013 Cabinet Reports, albeit the absolute numbers are slightly different. A significant change is that the final negotiated position now shows that as well as over the whole life, executing the variation is cheaper within the remaining PFI term than continue as is.**

8.2.22 The key headlines from the table above are:

- In terms of Net Present Cost over the useful life of the EfW Plant, the Option with the lowest Net Present Cost is Option 2, execution of an EfW Variation supported by Councils' provision of debt finance. In accordance with acknowledged best practice in the financial assessment of projects, this represents the best value for money option for the Councils from a quantitative perspective.
- The Net Present Cost of Option 2 is £680 million over the full asset life of the EfW Plant. This was £700 million in December 2013. The options analysis demonstrates that Options 1, 1a and 2 all have a significantly lower net present cost than Option 3, 'continuing as is'. This illustrates the delivery of a residual waste solution demonstrates clear value for money when considered against not doing anything.
- Option 3, Continue as is, is now ranked the lowest of the options in Net Present Cost terms over the forecast asset life of the EfW Plant.
- **Option 2 now has the lowest Net Present Cost and Nominal Cost over the forecast life of the plant AND within the remaining contract term / PFI concession period**

8.2.23 The above analysis does not incorporate the effect on each Option of any changes to the current Waste Infrastructure Grant (WIG) credits which were formerly known as PFI Credits that the Councils have received since 1998. This is due to the HMT Green Book not permitting these to be included to arrive at a Value for Money conclusion as this conclusion is reached on a pan-public sector basis with WIG credits at this level cancelling out. The Councils have therefore not included WIG credits to ensure Green Book Compliance with DEFRA and HMT.

Value for Money - Sensitivity Analysis

8.2.24 As part of the value for money analysis carried out in 2013, the Councils assessed the impact of changes in some key assumptions used to model the costs of each Option. A series of sensitivities have been included within the financial analysis that include:

a) Changes to waste volumes;

b) Increases to Landfill Tax;

c) Increase to Landfill Gate fee; and

d) Increases to termination costs.

8.2.25 In all cases where more pessimistic assumptions were modelled, Option 2 remained the preferred option from a financial value for money perspective.

Qualitative Analysis

8.2.26 This remains unchanged since the December 2013 Cabinet Reports.

Councils Affordability and Deliverability of Option 2

8.2.27 The forecast completion of construction of the EfW Plant is Spring 2017. The Councils will need to pay an increased Unitary Charge form that point, incurring full year uplift costs from the 2017/18 financial year.

8.2.28 In the absence of formally setting their budgets, each Council indicated a potential affordability envelope of £6.0 million uplift in the first full year post construction.

8.2.29 In December 2013, at point of the Cabinet decisions, the uplift position was £6.55 million and therefore above the Councils affordability envelope. **Following the cabinet decision and further negotiation with MWM the position at financial close is an uplift of £2.7 million, well within the affordability envelope.**

8.2.30 As part of the negotiations with MWM there are two elements that the Councils need to account for outside of the Unitary Charge. As part of the negotiations, the Councils have chosen to account for the final build-up of the maintenance reserve separately to improve VfM. However to ensure that the VfM analysis is comparable this has been added back in to the "uplift" taking the uplift from £2.7 million to £2.9 million. In addition, the Councils removed a 'loan buffer' from their lending as would normally happen on any bank financed deal. This too has been added back to the uplift to ensure it is comparable with the December 2013 Cabinet Reports. This means a total equivalent uplift of £3.8 million. **This is £2.2 million lower than the affordability envelope set** resulting in a good outcome for the Councils.

8.2.31 The value for money analysis presented to Cabinet in December 2013 demonstrates that Option 2 is the best value for money. The position reached at Financial close confirms this and also delivers a more affordable solution. In addition there are a number of other benefits over the other options in terms of deliverability and mitigating risk. These are:

a) Enabled the Councils to conclude the variation in the first half of 2014.

b) Enables planning permission to be secured.

c) Construction can start in 2014 to deliver a plant that is operational thereby diverting waste from landfill in 2017.

d) Provides certainty of future costs.

e) Allows for letting of an Operate and Maintain contract in 2023 when the WMSC expires.

f) Certainty over the cost of the Engineering, Procurement and Construction (EPC) contract let by MWM.

g) Makes use of proven technology.

h) Removes uncertainty regarding future landfill and waste treatment capacity and costs.

8.3 Waste Flow Forecast

8.3.1 All EfW Variation costs are based on an EfW Facility capable of dealing with circa 200,000 tonnes per annum – dependent on the calorific value of the waste inflow.

8.3.2 In 2012/13 the total Local Authority Collected Waste (LACW) in Herefordshire and Worcestershire was: 362,273 tonnes of which:

- 120, 425 tonnes were Recycled;
- 42,400 tonnes were composted;
- 199, 448 tonnes was Residual Waste.

8.3.3 Taking account of planned housing growth in the two counties, by 2023/4 it is forecast that the Local Authority Collected Waste in the two counties will be: 404,177 tonnes / year of which it is forecast:

- 134,555 tonnes would be Recycled;
- 47,304 tonnes would be composted;
- 222,518 tonnes would be for Residual Waste treatment / disposal.

Third Party Income

8.3.4 The EfW Variation Solution proposes the generation of Third Party Income from (i) gate fees relating to the acceptance of Third Party Waste, and (ii) revenue from the sale of electricity generated by the Facility through the treatment of both contract and Third Party Waste.

8.3.5 Third Party Income included in the base case EfW Variation Financial Model is guaranteed by MWMMWM. and any shortfall will not impact on the cost to the Councils.

8.4 Affordability and Value for Money Analysis

Financial Analysis

8.4.1 The following table provides an update of the position following Financial Close.

8.4.2 These figures cover only the costs associated with the proposed EfW Variation and include the impact on the Unitary Charge across the other Waste Disposal Services provided by MWM. It is important to consider each decision point across each option as the timings and nature of decisions differ dependent on the Option chosen, for example, when contracts are re-procured and any time related risks in that decision point. This is necessary as the analysis has to be undertaken across the Useful Life period of the EfW Plant (25 years post construction) which runs significantly beyond the remaining period of the contract – seven years post construction.

8.4.3 The analysis has been undertaken in accordance with the H.M Treasury's Green Book with the support of the Councils' financial advisors Deloitte. An optimism bias risk workshop attended by AMEC, Deloitte and the Councils enabled Deloitte to apply risk evaluations to each option. Optimism Bias is the judgement of the risk associated with each option converted to a cash amount.

8.4.4 Risk Adjustments were considered under each of the following areas:

a) Risk Area 1: price risk relating to the Engineering, Procurement and Construction 9EPC) contract for the EfW Facility;

b) Risk Area 2: the future cost of landfill and the availability of landfill void space;

c) Risk Area 3: the future merchant facility rate;

d) Risk Area 4: termination costs;

e) Risk Area 5: operation risk of future waste service contracts following the completion / termination of the existing WMSC;

f) Risk Area 6: EPC fall away risk.

<u>Table 11: Comparison of Nominal Charges for each Option across different time horizons excluding Optimism Bias</u>

£ million	Pre – commissioning	Year 1 Post Construction	Year 2 Post Construction to end of Contract	Post Contract Period	TOTAL
	1 Jan 2013 – 31 Dec 2016	1 Jan 2017 – 31 Dec 2017	1 Jan 2018 – 31 Dec 2023	1 Jan 2024 – 31 Dec 2042	
Option 1	162	43	291	1,040	1,536
Option 1a	167	39	280	1,040	1,526
Option 2	161	41	266	1,045	1,513
Option 3	155	42	268	1,558	2,023
Option 4	198	42	270	950	1,460
Option 5	196	52	349	1,252	1,849

Table 12: Comparison of Nominal Charges for each Option across different time horizons inclusive of Optimism Bias

£ million	Pre – commissioning	Year 1 Post Construction	Year 2 Post Construction to end of Contract	Post Contract Period	TOTAL
	1 Jan 2013– 31 Dec 2016	1 Jan 2017 – 31 Dec 2017	1 Jan 2018 – 31 Dec 2023	1 Jan 2024 – 31 Dec 2042	
Option 1	163	44	295	1,135	1,637
Option 1a	169	40	288	1,135	1,632
Option 2	163	43	279	1,139	1,624
Option 3	155	43	293	1,710	2,201
Option 4	273	51	286	1,035	1,645
Option 5	196	53	353	1,347	1,949

8.4.5 The following table compares the Net Present Value of each Option over the construction period and 25 year life of the proposed EfW Facility Variation.

Table 13: Comparison of Net Present Value of each Option excluding Optimism Bias

Option	£ million
Option 1	661
Option 1a	654
Option 2	642
Option 3	780
Option 4	650
Option 5	796

Table 14: Comparison of Net Present Value of each Option inclusive of Optimism Bias

Option	£ million
Option 1	691
Option 1a	688
Option 2	680
Option 3	843
Option 4	755
Option 5	826

8.4.6 As per the December 2013 Cabinet Reports, the table above shows that Option 2, to deliver the EfW Facility financed by a Prudentially Financed Senior Term Loan Facility, offers a lower cost alternative for the Councils relative to the "continue as is" case scenario and other options open to the Councils at this time.

8.4.7 The Councils have estimated termination costs on a no-fault termination basis based on advice from its legal advisors and through without prejudice support from MWM in accordance with Schedule 13 (Compensation on Termination) of the WMSC.

8.4.8 For the purpose of the Treasury Green Book exercise PFI credits (now Waste Infrastructure Grant Credits) have been disregarded in the analysis above. However, from a Councils perspective it is important that we do consider how PFI credits in each of the options affect the Net Present Value Analysis as detailed in the December 2013 Cabinet Report.

8.4.9 The table below provides updated information following financial close to illustrate the impact on the Treasury Green Book Analysis of the inclusion of assumptions on PFI Credits. Whilst this does not formally feed into the Economic Case it was relevant for the Councils' affordability analysis.

Table 15: Impact on Net Present Value Analysis of PFI Credit assumptions excluding optimism bias

£ millions	Future Availability of WIG (formerly PFI) Credits	Green Book	Adjustment for Credit Assumptions	
		NPC	Impact	NPC
Option 1	No change to Credits	661	(41)	620
Option 1a	No change to Credits	654	(41)	613
Option 2	Partial allocation of PFI Credits due to absence of privately financed EfW facility	642	(22)	620
Option 3	Partial allocation of PFI Credits due to absence of EfW facility	780	(22)	758
Option 4	No PFI Credits following contract termination	650	(5)	645
Option 5		796	(5)	791

Table 16: Impact on Net Present Value Analysis of PFI Credit assumptions including Optimism Bias

£ millions	Future Availability of WIG (formerly PFI) Credits	Green Book	Adjustment for Credit Assumptions	
		NPC	Impact	NPC
Option 1	No change to Credits	691	(41)	650
Option 1a	No change to Credits	688	(41)	647
Option 2	Partial allocation of PFI Credits due to absence of privately financed EfW facility	680	(22)	658
Option 3	Partial allocation of PFI Credits due to absence of EfW facility	843	(22)	821
Option 4	No PFI Credits following contract termination	755	(5)	749
Option 5		826	(5)	821

8.4.10 **The Councils reached agreement with DEFRA in December 2013 regarding the reassessment of WIG Credits.** From 1 April 2014 the Councils WIG Credits will be reduced by £30 million to the end of the PFI Concession period (end of 2023). This was part of the consideration as detailed in the December Cabinet Reports. Whilst the reduction in WIG Credits was a major factor for the Councils to consider, it was viewed that a reduction would make the preferred option deliverable and acceptable for Central Government whilst remaining (1) Value for Money for local tax payers when considered against the alternative options and (2) affordable.

Risk Analysis

8.4.11 Each Option in the Affordability and Value for Money analysis presents different risks to the Councils. The Councils' advisors have supported a risk analysis to enable the Councils to consider the risk inherent in each of the Options described in this section.

8.4.12 The outcome of this analysis is set out in the following table.

Table 17: Summary risk analysis for each VFM Option

Option	Risk Assessment
Option 1	**Standard Risk Transfer as envisaged in the 1998 deal** This option is in line with the risk allocation as set out in the 1998 deal. The 1998 deal represented the first Waste PFI in England and therefore was more Contractor friendly than more recent waste PFI deals. For instance, in cases of no fault or Councils' default the senior term loan facility would have to be repaid by the Councils. Construction risk is retained by MWM subject to the adequacy of the Security Package in place.
Option 2	**Construction Period EPC Default** An analysis has been undertaken by Legal and Technical Advisors to inform the Councils of the additional risks that the Councils can either decide to mitigate or absorb. In the majority of cases mitigation strategies have been put into place. The main change, given the Contractor Friendly position of the 1998 Deal in the operating period is the need to consider risk of EPC Contractor Default in the Construction Period. This would be deemed Contractor Default and would therefore not attract the protections from the Councils under the No Fault and Councils Default regime. The Councils as lenders have agreed to absorb and mitigate this risk in the following ways: • Engage appropriate Financial, Legal, Technical and Insurance Advice where all advisors are engaged on terms that would be expected by a Commercial Bank in a similar position pre EfW Variation Financial Close. • Undertake appropriate Due Diligence on the EfW Variation and EPC provider including ensuring that a commercial position is achieved that would at least be expected by a Commercial Bank pre EfW Variation Financial Close. • Agree a Security Package with MWM to be provided by the EPC Contractor and MWM that is at least what was envisaged within the 1998 deal and is at least what Commercial Banks demand in similar deals at this time. This includes the agreement of further protections to be provided by MWM. where the EPC Contractor risk position leaves the lenders at risk, e.g. initial period of time before any Delay and Start Up Insurance is activated. • Demand a commensurate rate of interest on the Senior Term Loan and Equity Bridge Facility that creates a 'risk reserve' from which any unmitigated risks can be met in a financial sense. • Engage Technical and Financial advice post EfW Variation Financial Close to oversee the operation of the EPC (Construction and Operation) as well as existing Operations in line with how a

Option	Risk Assessment
	Commercial Bank would exercise this duty.
Option 3	**Overall Risk Position** **Potential Default costs** Planning Permission has now been achieved and whilst the Councils may choose not to agree the EfW Variation, MWM may argue that any refusal on the part of the Councils to execute the EfW Variation having presented a 'suitable' proposal. In these cases, the Councils run the risk of either having to pay reasonable breakage costs and payout against the indemnities issued separately from the formal standstill arrangement against all unamortised Capital Expenditure and maybe liable for loss of profits under a Council Default scenario. **Capacity of Waste Disposal Streams** An assessment of the Councils existing landfill capacity has confirmed that all landfill capacity within the Councils area is likely to be used by 2023/24. Therefore under this option the Councils are likely to be exposed to both the cost and availability of alternative out of Counties waste disposal options post 2023/24. Assessments have been made on the likely availability and costs of disposal from the out of County market post 2023 but with recent failures by neighbouring local authorities and the potential for the landfill market to be both high cost (given Landfill Tax) and a Supplier biased market as demand outstrips supply in post 2023 it is likely that the Councils would be exposed to increased costs. In addition, the environmental impact of hauling waste to out of County disposal sites would have a detrimental impact on the Counties of Worcestershire and Herefordshire as well as surrounding Counties.
Option 4	**Potential Default costs** In this option, the Councils choose to terminate the whole contract. The Councils would seek a no fault termination and therefore would have to meet reasonable breakage costs and any unamortised capital expenditure within MWM. MWM may argue that the termination is in fact a Council Fault Termination as the terms of the existing operations have been met and both planning permission and a 'suitable' scheme has been presented to the Council. In this case there is a possibility that the Councils are required to pay MWM for loss of profits. **Re-procurement costs** The re-procurement of all services including a Design, Build, Finance and Operate for EfW Facility will incur significant additional costs. The price certainty, currently achieved under Option 1 and 2 would now not be achieved. Therefore an appropriate level of risk is reflected in the Optimism Bias adjustments to the VFM options. **Expiry of Planning Permission conditions** The Planning Permission for the EfW Facility at Hartlebury comes with a number of planning conditions. One places a time limit on the construction requiring the construction to have begun by July 2015. In the case where the Councils look to procure a new EPC through a Design, Build, Finance and Operate Contract there is a high risk that the EPC contractor would not meet the requirements of the Planning Permission in terms of time period and therefore planning permission may need to be obtained again. In this scenario it would be appropriate

Option	Risk Assessment
	to reflect that it has taken around 15 years to obtain current planning permission and there may be a significant risk to the Councils achieving their required waste disposal within the Counties by the end of the current PFI Contract (2023).
Option 5	**Potential Default costs** In this option, the Councils choose to terminate the whole contract. The Councils would at least be in the position of executing a no fault termination and therefore would have to meet reasonable breakage costs and any unamortised capital expenditure within MWM. MWM may also argue that the termination is in fact a Council Fault Termination as the terms of the existing operations have been met and both planning permission and a 'suitable' scheme has been presented to the Council. In this case there is a possibility that the Councils are required to pay MWM for loss of profits. **Re-procurement costs** The re-procurement of all services will incur significant additional costs and price certainty, currently achieved under Option 1 and 2 would now not be achieved. Therefore an appropriate level of risk is reflected in the Optimism Bias adjustments to the VFM options. **Expiry of Planning Permission conditions** The Planning Permission for the EfW Facility at Hartlebury comes with a number of planning conditions. One places a time limit on the construction requiring the construction to have begun by July 2015. In the case where the Councils look to procure a new EPC through a Design, Build, Finance and Operate Contract there is a high risk that the EPC contractor would not meet the requirements of the Planning Permission in terms of time period and therefore planning permission may need to be obtained again. In this scenario it would be appropriate to reflect that it has taken around 15 years to obtain current planning permission and there may be a significant risk to the Councils achieving their required waste disposal within the Counties by the end of the current PFI Contract (2023). **Capacity of Waste Disposal Streams** An assessment of the Councils existing landfill capacity has confirmed that all landfill capacity within the Councils area is likely to be used by 2023. Therefore under this option the Councils are likely to be exposed to both the cost and availability of alternative out of Counties waste disposal options post 2023. Assessments have been made on the likely availability and costs of disposal from the out of County market post 2023 but with recent failures by neighbouring local authorities and the potential for the landfill market to be both high cost (given Landfill Tax) and a Supplier biased market as demand outstrips supply in post 2023 it is likely that the Councils would be exposed to increased costs. In addition, the environmental impact of hauling waste to out of County disposal sites would have a detrimental impact on the Counties of Worcestershire and Herefordshire as well as surrounding Counties.

8.5 Funding Approach for the EfW Facility Variation

<u>Summary Strategic Case</u>

8.5.1 The preferred option, Option 2, in December 2013 required that the Councils act in the Capacity of Funders. This required that the Councils:

a) Make changes to their Treasury Policy Strategy and associated Treasury Management Statements to permit the provision of funding to MWM including the increase in Authorised Borrowing Limits and council credit ceilings;

b) Make changes to their Statement of Prudential Indicators Minimum Revenue Provision Plans and Capital Programmes in advance of the years where funding will be advanced to MWM to support the construction payments profile.

8.5.2 The Strategic Case for the Councils becoming lender is clear and summarised below:

- Market Failure in the provision of a Commercial Bank Senior Term Loan Facility within the time needed to execute the Contract Variation;
- The market for the provision of Commercial Bank Finance has been tested on two occasions by the Financial Advisor to MWM Credit Agricole (CACIB).

8.5.3 Further information regarding the Councils as Lender is detailed in the December 2013 Cabinet Reports and also a report to Worcestershire County Council in January 2014, link below.

Worcestershire County Council Report Jan 2014 – Item 7

8.5.4 In December 2013, Cabinets recommended that Full Council approve the provision for Lending for the variation (Option 2), including consideration that the risks to the Councils do not outweigh the financial benefits to the Councils of becoming the Lenders. Worcestershire County Council approved this at full Council in January 2014 and Herefordshire Council approved this at Council in February 2014.

8.5.5 The Councils established a separate advisor team to support negotiations with MWM on the EfW Variation from a Funding perspective as set out below:

- Lenders Technical Advisor Fichtner
- Lenders Insurance Advisor Aon
- Lenders Financial Advisor Deloitte
- Lenders Legal Advisor Ashurst

Post Financial Close - Deliverability of Solution

8.5.6 The Councils as lender have made arrangements post Financial Close to ensure appropriate technical and financial advice is available to fulfil its oversight role of MWM.

8.5.7 Ultimately this service will be responsible to the Chief Finance Officer in Worcestershire and the Chief Officer (Finance and Commercial Services) in Herefordshire who will in turn be responsible to the arrangements established in each authority to ensure there is sufficient separation of roles between the Councils as Funder and the Councils as a Waste Disposal Authority.

8.5.8 The Cabinets will continue to be responsible for exercising the role of the Councils' executive, acting as a waste disposal authorities within the overall budget and policy framework set by the Council. It will have no supervisory or other responsibility for the WMSC Lending arrangements.

8.5.9 The Councils recognise that ultimately all decisions either flow up to (if required) or are delegated from Full Council. However, knowing that this scenario is fixed then effort has been made to ensure that delegated separation of duties for Members is as clear as possible.

8.6 Councils' Budgets

Revenue Budgets

8.6.1 The Councils budgets are set out in their Medium Term Financial Plans (MTFP) which covers the current year plus a three year period for both Worcestershire County Council and Herefordshire Council.

8.6.2 The level of any borrowing by each Council is controlled by its borrowing limits set as part of its prudential indicators. These indicators incorporate the plans set out in the MTFP and require each Council to undertake an affordability assessment to ensure that the Councils are not able to over borrow. Prudential Indicators are incorporated into each MTFP and approved by each Full Council in February each year at the same time as the budget is approved. Any subsequent changes to the prudential indicators in year will be by the approval of Full Council.

8.6.3 The commitment to the EfW Variation and the impact will be incorporated into the Councils MTFP process and will therefore be taken into account when determining what each Council can do with regards to other projects.

8.6.4 The expected additional budget for the disposal of waste covered by this solution was set at £6 million in 2016/17 (the "affordability envelope"). This was the level currently modelled in the MTFP. The position at Financial Close shows a total requirement (including uplift in unitary charge) of £3.8 million.

Landfill Tax

8.6.5 Over the period of the procurement, the cost of landfill has escalated in accordance with Central Government published guidance. At the start of the project, in 1998, the Landfill Tax rate was set at £7 per tonne. At the time of considering the EfW Variation in the 2013/14 financial year, Landfill Tax is currently set at £72 per tonne. Central Government has issued guidance to confirm that this will escalate to £80 in 2014/15 but has not confirmed future rises beyond 2014/15. For the purpose of financial modelling, Landfill Tax increase at the rate of inflation from 2015/16 onwards and sensitivity analysis has been undertaken to confirm the impact on the Options Appraisal of any further changes. These assumptions have been applied in the EfW Variation Financial Model (Options 1, 1a &2) in respect of unrecyclable residues and the portion of waste which cannot be treated and across all applicable waste streams in Options 3-5.

8.6.6 Rising Landfill Tax costs have been the key driver in encouraging the Councils to seek alternative waste treatment and disposal options through executing this EfW Variation – originally envisaged in 1998. While rates beyond 2014/15 have not yet been announced, it is considered unlikely that rates would decrease sufficiently to alter the affordability position of the Solution relative to the "as is" scenario, with rate increases being more likely. However, the Councils are mindful of potential socio-economic and political changes which may occur in the short to medium term which may affect the affordability position or the "continue as is" scenario.

8.7 Cost Impact of Carbon

8.7.1 MWM is responsible for compliance with the Carbon Reduction Commitment (CRC) Energy Efficiency scheme as the holder of the supply contract for energy consumed in operations of the facility. Severn Waste (MWM O&M Subcontractor) has indicated that they do not qualify for the scheme and therefore no costs will apply.

8.8 Position at Financial close

8.8.1 Following the Cabinet decisions in December 2013 and the approval for the councils as Lenders (Jan / Feb 2014), the Councils progressed the conclusion of the Contract Variation with MWM in line with Option 2 as approved. Financial Close was reached on 21 May 2014 and the final position is reflected in this document. This shows:

- The EfW Variation Options Analysis shows that the MWM Solution (Option 2) represents a cost to the Councils of:
    - c£680 million in Net Present Cost terms across the Useful Life of the EfW Plant;
    - an uplift of circa £2.7 million in Unitary Payment in Year 1 following construction (with an additional £1.1 million commitment from the councils, totalling £3.8m); and
    - a saving in nominal terms of £577 million across the Useful Life of the EfW Plant when compared with the “continue as is” option (Option 3).

8.8.2 The Net Present Cost of £680 million therefore includes the repayment of the PWLB debt principle, the financing costs, contract management costs, business rates and the monthly gate fee payable during the operational phase of the project.

8.8.3 The base case "continue as is" scenario, which assumes the Councils' residual waste flow is sent directly to landfill during the same period, represents a Net Present Cost to the Councils of £843 million over the assumed Useful Life of the EfW Plant. This indicates that the MWM. Solution is £163 million cheaper than the "continue as is" alternative for the disposal of Councils' residual waste over a 25 year period post construction in Net Present Cost terms.

9 Stakeholder Communications

9.1 Changes to the communications strategy since Financial Close

9.1.1 All the major operational facilities provided under the Joint Municipal Waste Management Strategy (JWMSC) have an established Community Liaison Group (CLG) chaired by the Local County Councillor. These groups consist of:

- The local County Councillor
- Representatives of MWM
- Representatives of the client team
- Representatives from the local Parish Councils
- Representatives from local interest groups
- Representatives from the Environment Agency

9.1.2 From time to time other parties will be invited to attend these meetings to discuss specific concerns or developments e.g. planning, permitting and nuisance.

9.2 Staff Transfers

9.2.1 As this is a variation to the original contract that was signed in 1998 there are no staff transfers required.

9.3 Engagement with other relevant authorities

9.3.1 Engagement with the statutory consultees started prior to the planning application being submitted, continued through discharging the pre-commencement conditions and into the operational phase of the EfW facility. This engagement has proven to be successful on other waste projects helping all parties to obtain the best results for those involved in operating, policing and living with the facility.

9.4 Engagement with local population since Financial Close

9.4.1 Through the period before the planning application was submitted and during the planning process MWM undertook a series of consultation events in the vicinity of the proposed plant and established a Community Liaison Group.

9.4.2 A link to the Contractors Community Liaison Group webpage is available below.

http://www.envirecover.co.uk/clg.htm

9.5 Engagement with any community groups or NGOs involved or interested in waste management in the area

9.5.1 A local opposition group was established in the early stages of the process to co-ordinate opposition of local people. W.A.I.L - Worcestershire Against Incineration and Landfill - have been the focal point of local objection. Members of this group have attended the CLG previously mentioned.

9.5.2 In addition there have been a number of FOI and EIR requests all dealt with by various teams within the Councils. Both Herefordshire and Worcestershire have ensured a consistent approach to communications and responses to information requests where appropriate.

9.6 Details of any public consultations

9.6.1 The review of the JMWMS was widely consulted on and the details of that consultation can be found here in Annex H:

http://www.worcestershire.gov.uk/cms/recycling-and-waste/waste-strategy.aspx

10 Timeline

10.1 Timetable

Activity	Date
Submit Draft Variation Business Case to DEFRA	July 2013
VBC Clarification	August 2013
VBC Feedback from DEFRA and Treasury	Sept 2013
Ongoing dialogue with DEFRA and HMT	December 2013
Cabinets – Herefordshire and Worcestershire	December 2013
DEFRA confirmed reassessment of WIG Credits	December 2013
Councils (Funding) – Herefordshire and Worcestershire	Jan / Feb 2014
Discharge of pre-commencement Planning Conditions	May 2014
Negotiations with MWM concluded	May 2014
Financial Close	May 2014
Agree Variation to WMSC	May 2014
MWM agree EPC Contract	May 2014
Site Mobilisation	May 2014
EfW Operational	2017
Handback to Councils (end of Contract)	2023

11 APPENDICES

APPENDIX A: Contract Variations

APPENDIX B: Programme Risk Register

APPENDIX C: Organisation

APPENDIX A: Summary of Contract Variations

Variation Number	Subject of Variation	Date of expiry
1	Alternative arrangements for the collection, storage and treatment/disposal of fridges/freezers.	01-Jan-08
2	Delay of refurbishment of Malvern Household Waste Disposal Site.	13-Jan-03
3	Confirmation of date to complete Hill & Moor Landfill Site and Rotherwas MRFs.	31-Mar-03
4	Dealing with the cost consequences of sending waste to landfill rather than to an EFW plant.	
5	The Source Separation Service no longer been required under the Contract.	30-Sep-03
6	Extending the opening hours at Upton Household Waste Site.	
7	Variation to excess rejects drafting in Variation 5.	28-Feb-03
8	Trial use of the Coventry EFW and the cost of transporting waste to the same.	30-Sep-03
9	Approval to apply for planning permission at the Worcester East Household Waste Site.	
10	Provision of Recyclate Bulking Facilities in Bromsgrove, Redditch and Wyre Forest.	
11	Extended opening hours for Tenbury Household Waste Site and licence fee for the same.	21-Nov-03
12	Extended opening hours of Upton on Severn Household Waste Site.	
13	Extended opening hours for Tenbury Household Waste Site.	21-Feb-04
14	Store and load kerbside recycling bags at Leominster Transfer Station and Rotherwas Materials Reclamation Facility.	
15	Extended opening hours for Tenbury Household Waste Site.	
16	Trial of additional staff, improved signage and wood recycling on the household waste site recycling rate.	01-May-05
17	Separate collection system at Household Waste Sites and an alternative disposal route for all tyres received in the contract waste stream.	

Variation Number	Subject of Variation	Date of expiry
18	Extra transport and tipping cost through the use of licensed third party sites for the disposal of asbestos.	31-Mar-06
19	Introduction of new demountable waste collection system at Bromsgrove District Council.	01-Apr-08
20	Extra transport and processing cost through the use of third party sites for composting green waste.	31-Mar-05
21	Extra transport and processing cost through the use of third party sites for composting green waste.	31-Mar-06
22	Provision of additional staff, improved signage, site modifications and wood recycling.	31-Mar-06
23	Extra collection, transport and tipping costs through the use of third party sites for the disposal of cathode ray tubes.	01-Jan-08
24	Use of third party contractors for the collection and disposal of fluorescent tubes.	01-Jan-08
25	Not used	
26	Use of the Coventry EFW and the cost of transporting waste to the same.	
27	Use of bulking bays as a bulking facility for commingled recyclables delivered by Redditch Borough Council, Worcester City Council and Wyre Forest Borough Council.	
28	Allocation of cost for administration and consignment fee for collection of hazardous waste.	
29	Allocation of costs arising under the Aggregates Levy.	
30	Allocation of costs arising from the requirement to have a PPC permit.	
31	Initiation of negotiations with a developer to agree the purchase of land and the development of a Commingled Materials Reclamation Facility.	
32	Additional staff, signage and site modifications.	31-Mar-07
33	Acquisition of land and progression of planning application for commingled MRF.	
34	Initiation of negotiations with a developer to agree the purchase of land and the development of a Commingled Materials Reclamation Facility.	

Variation Number	Subject of Variation	Date of expiry
35	Extra transport and processing costs for the composting of green waste.	31-Mar-07
36	Allocation of costs for modifications to the site licences and working plans to enable the handling of CRTs, fluorescent tubes and equipment containing ozone depleting substances.	
37	Input Restrictions on Household Waste Sites.	
38	Extra transport and processing costs for the composting of green waste.	31-Mar-08
39	Provision of additional staff, improved signage, site modifications and wood recycling.	31-Mar-08
40	Not used	
41	Not used	
42	Extra transport and processing costs for the composting of green waste.	31-Mar-09
43	Adjustment in respect to WEEE.	31-Dec-09
44	Food Waste	10-Jan-14
45	Introduction of new collection vehicles.	26-Aug-09
46	Introduction of new collection vehicles.	31-Mar-12
47	Extra transport and processing costs for the composting of green waste.	31-Mar-10
48	Mercia to enter into a lease for use of Kington Household Waste Site.	04-Dec-09
49	MWM to enter into a lease for use of Rotherwas Composting Plant.	02-Dec-13
50	Plasterboard	31-Mar-12
51	EnviroSort	
52	WEEE	31-Mar-12
53	Additional staff, signage and site modifications.	31-Mar-12
54	Landfill permit	31-Mar-12

Variation Number	Subject of Variation	Date of expiry
55	Extra transport and processing costs for the composting of green waste.	31-Mar-11
56	Battery Directive	31-Dec-09
57	Extra transport and processing costs for the composting of green waste.	31-Mar-12
58	Timber	
59	Asbestos	31-Mar-12
60	Additional staff, signage and site modifications.	
61	Allocation of cost for administration and consignment fee for collection of hazardous waste.	
62	Introduction of new collection vehicles.	
63	Kington Household Waste Site lease	
64	Plasterboard	
65	Green Waste (Wyre Forest)	
66	Landfill permit	
67	WEEE	
68	Tyres	
69	Third party landfill	
70	Extra transport and processing costs for the composting of green waste.	
71	Asbestos	
72	Rotherwas Composting Plant lease termination.	30-Apr-14

APPENDIX B:

Herefordshire & Worcestershire Waste Management Contract Variation: Risk Register (Summary)

Programme: EfW Contract Variation

#	Subject / Workstream	Risk Description	Mitigation
1	Planning	**Parameter - Planning**: No planning conditions that degrade the performance of the plant to such an extent it is not suitable to meet the output specification.	Planning Conditions will have no impact on the performance of the Plant.
2	Planning	**Parameter - Planning**: No planning conditions that render the Variation not value for money for the Authorities	Conditions will have no impact on the Value for Money of the Plant
3	Finance	**Parameter - Financial**: Not affordable for HC	Financial plans incorporate likely increase in costs. Improved position at Financial Close more favourable.
4	Finance	**Parameter - Financial**: Not affordable for WCC	Financial plans incorporate likely increases in costs. Improved position at Financial Close.
5	Finance	**Parameter - Financial**: Total cost of Waste contract and Variation (for life of waste contract) is within overall affordability envelope	Negotiations with Mercia. Well within affordability envelope at Financial Close.
6	Finance	**Parameter - Financial**: Affordable in relation to likely costs of ownership and operation beyond the life of the Waste Contract	Included in financial plans (WCC and HC). Improved position at Financial Close/
7	Finance	**Parameter - Financial**: Additional cost of the Variation represents value for money	Mercia's competitive procurement process for EPC Contract – reviewed by advisors
8	Finance	**Parameter - Financial**: Satisfactory EPC contractor procurement (managed by Mercia)	Competitive process operated by Mercia. Oversight by authority and input from advisors to authority. EPC Contract now in place (May 2014)
9	Finance	**Parameter - Financial**: IRR over the whole life of the contract shall not exceed the IRR used in the financial model in the original procurement	IRR is lower than the original WMSC
10	Finance	**Parameter - Financial**: DEFRA (WIDP) approval of the Variation Business Case	Draft VBC submitted end of July 2013. Progressed points of clarification with DEFRA. Value for Money assessment included within December 2013 Cabinet Report. DEFRA reassessment of WIG credits in December 2013.

#	Subject / Workstream	Risk Description	Mitigation
11	Finance	**Parameter - Contractual**: DEFRA / HMT – approval of the variation on grounds of VFM	VBC included VFM assessment. Progressed points of clarification with DEFRA and HMT. Value for Money assessment included within December 2013 Cabinet Report. DEFRA reassessment of WIG credits in December 2013.
12	Legal	**Parameter - Contractual**: No alterations to Waste Contract (structure or financial basis) resulting from incorporation of the variation other than changes necessary to (a) give effect to the variation, (b) bring Waste Contract into compliance with current and foreseeable legislation and (c) net effect of which is to deliver commercial benefit to the Councils	Variation drafted on basis of minimal change other than where necessary. All parties agreed. Updated to reflect current legislation and good practice provisions.
13	Legal	**Parameter - Contractual**: Execution of the variation by the authorities seen as ultra vires the power of the Councils	Legal opinion from Leading Counsel
14	Legal	**Parameter - Contractual**: Procurement challenge resulting in delay	Legal opinion from Leading Counsel
15	Legal	**Parameter - Contractual**: Extension of the period of the Waste Contract	Authorities have confirmed that the Waste Contract will not be extended beyond 2023
16	Legal	**Parameter - Contractual**: WCC and HC Agreement to extend the Joint Agreement	Revised Joint Working Agreement in place (May 2014) between Herefordshire Council and Worcestershire County Council.
17	Technical	**Parameter - Technical**: Reliability, Availability, Maintainability and Safety and Life Cycle Costs are such that the costs of running the facility no worse than the market	Evaluation by Authorities Technical Advisors. Part of competitive procurement process.
18	Technical	**Parameter - Technical**: Reliability, Availability, Maintainability and Safety and Life Cycle Costs are such that the costs of running the facility are not deflated during the period in the run up to the end of the Waste Contract	Evaluation by Authorities Technical Advisors. Part of competitive procurement process.
19	Technical	**Parameter - Technical**: Handback condition of the facility at the end of the Waste Contract to be: • In accordance with specifications pursuant to which procured • In a condition consistent with proper use to that time	Evaluation by Authorities Technical Advisors. Full details of Handback finalised as part of the contract variation agreed with Mercia (May 2014)

#	Subject / Workstream	Risk Description	Mitigation
		• Capable of being operated for the remainder of their design life • Capable of being refinanced at commercial rates • In a condition having regard to the maintenance reserve	
20	Technical	**Parameter - Technical**: Incorporation of any prescriptive specification items	No prescriptive restrictions currently required.
21	Technical	**Parameter - Technical**: Incorporation of an operating restrictions required by the authorities	No operating restrictions currently required
22	Technical	**Parameter - Technical**: component warranties requested in Mercia' contract documents	Evaluated by Councils' Technical and Legal Advisors.
23	Technical	Financing arrangements "	Legal opinion from Leading Counsel
24	Programme / Planning	Impact on planning permission should construction be delayed	Mandate to carry out pre-engineering / advanced works secured (WCC Cabinet Dec 2012). Advanced works contact scoped (not entered into) and some enabling work authorised Pre-commencement planning conditions discharged May 2014. Contract Variation agreed May 2014 Site Mobilisation started May 2014
25	Operation	Trespassers on site	Covered under conditions of licence. Fencing in place. Lease in place.
26	Finance	Contractors become insolvent	Sponsors and EPC Security Package in place and financial due diligence completed.
27	Programme	Delay in Cabinet Decision - WCC	Cabinet date – 12 December 2013
28	Programme	Delay in Cabinet Decision - HC	Cabinet date – 12 December 2013
29	Lending	Prudential Borrowing cannot be secured - HC	Full Council – February 2014
30	Lending	Prudential Borrowing cannot be secured - WCC	Full Council – January 2014
31	Finance	Foreign exchange rate movements	Once Financial Model finalised assessed the risk to financial close. Monitor Forex Rates.

#	Subject / Workstream	Risk Description	Mitigation
32	Finance	Inflation changes - increases further	Inflation is fixed at agreed indexation from 1998.
33	Finance	Escalation of EPC contractor costs	Fixed Price with defined escalations
34	Programme	Cabinet decide not to progress with the contract variation	Consider alternative options Cabinet decisions reached – December 2014
35	Operational	Changes in Waste tonnages	Financial Model and plans built on forecast waste tonnages – reviewed by authorities
36	Finance	Third party income levels are below levels assumed in the model	Various sensitivities considered. The C&I waste represents a fairly small element of the total waste processing plant capacity.
37	Operational	Waste is not accepted	As per the Waste Management Services Contract, the EfW is only one element of an integrated waste service management contract. Mercia has overall responsibility for the waste to be disposed of including the Mixed MRF, EfW and Landfill.
38	Operational	Changes in the composition of waste	Details covered within the contract
39	Legal	Changes in law in relation to waste	Details covered within the contract
40	Legal	Land appropriation	WCC has 'appropriated' the site for planning purposes. Mercia will benefit from WCC appropriation. Lease agreed as part of concluding the contract variation
41	Legal / Finance	Damage to facility	Insurances in place. Insurance advise to authorities as WDAs and as Lenders
42	Programme	Under Performance	Covered by the contract
43	Operational	Landfill options beyond 2023	Consideration of various options
44	Programme	Delay in concluding the contract variation	• Cabinet and Council decisions in each authorities • DEFRA reassessment of WIG Credits • Communications – Members, Mercia, WCC / HC, DEFRA, HMT • Mercia progressed EPC contract • Keep Programme Team engaged, including advisors

APPENDIX C: GOVERNANCE