

Audit and Governance Committee

Meeting to be held on Thursday, 30 June 2016

Electoral Division affected: (All Divisions);
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Waste Facilities Valuation - Business Decision Analysis

Contact for further information:

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Executive Summary

At the Audit and Governance Committee meeting of May 2016, the external auditors, Grant Thornton, presented the audit plan for the 2015/16 Statement of Accounts for Lancashire County Council. The audit plan introduced to the Committee items the auditors considered potential significant risks of material misstatement from their understanding of the organisation.

The following item pertained to the valuation of 'property, plant and equipment' in respect of the waste plants owned by the Council. This referred to Executive Scrutiny Committee receiving a report on 19 February 2016 which set out several recommendations about the future use of the plants and the changes to the services delivered from these sites.

In the view of the external auditors, the decision to 'mothball' elements of the waste provision at the two waste recovery parks potentially had an impact on the valuation of the assets held by the Council, the following elements formed areas the external auditors wished to explore:

- a) Timeline of the plans; and
- b) Consideration of the impact of these plans on the Council's valuations for the sites

Recommendation

The Committee is asked to agree the conclusions drawn in this report.

Background and Advice

The Waste PFI Project Agreement entered into by the County Council and Global Renewables Lancashire Limited was brought to an end in July 2014 by the mutual consent of the parties. Under this agreement the assets, namely the two strategic waste management facilities at Leyland and Thornton, would be transferred to the County Council and Blackpool Council. The operating company Global Renewables Lancashire Operations Ltd (GRLOL) would be acquired by the County Council and

become a company wholly owned by Lancashire County Council and Blackpool Council.

Following the base budget review undertaken last year, Cabinet in November 2015 took a decision to deliver budget savings in relation to the waste facilities as follows:

- To reduce processing activities and associated costs within the Farrington and Thornton waste recovery parks, where these processes are uneconomic relative to available alternative disposal options.
- In ceasing processing activities any related plant and equipment will be 'mothballed' and maintained to take advantage of future market opportunities.
- Cease composting of co-mingled food and garden waste. Advise waste collection authorities that in future the council will only provide facilities for composting green waste that does not include food.
- Downsize the council's waste company through a transformation and restructuring exercise.
- Cease the Environmental Education service (including adult and community programme) provided by the company
- Cease the waste minimisation and communications services provided by the waste company.
- Undertake market testing and procurement activity to determine potential market opportunities for reconfiguring the entirety of the council's waste services. This will include exploring the release of value from assets including the council's waste recovery parks, transfer stations and long term landfill contracts.

This gave approval to reduce the revenue budget from 1st April 2016 by £8.500m and to use £7.750m reserves in 2016/17 and £4.500m reserves in 2017/18 to fund the 'transition period' to enable service reconfiguration by 1st April 2018.

In February 2016 the Cabinet Member for Environment, Planning and Cultural Services approved:

- The proposed waste processing requirements and specification for services to be provided by GRLOL and
- The authority to make minor amendments to the Service Level Agreement, delegated to the Head of Service – Waste Management

External Audit

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Considerations

The decision taken in November 2015 related to the reduction in processing activities and associated costs within the Farrington and Thornton waste recovery parks, where these processes were uneconomic relative to available alternative disposal options. Where processing activities were ceased any related plant and equipment would be 'mothballed' and maintained to take advantage of future market opportunities.

This report was proposing operating efficiencies relating to waste processing but allowed for the continued use of the preserved plant and equipment where their use was economically beneficial.

The decision taken in February 2016 related specifically to the revised operating agreement with GRLOL which reflected the November decision to downsize the council's waste company. The current transformation plan involves the downsizing taking place in 2016/17.

Cabinet also agreed in November 2015 for market testing to be undertaken to determine potential market opportunities for reconfiguring the entirety of the council's waste services. This was to include exploring the release of value from assets including the Council's waste recovery parks, transfer stations and long term landfill contracts. Market testing has commenced and work continues in June to gather information from respondents.

Conclusion

Given the financial circumstances of the Waste PFI contract, the Council has made every effort through its decisions from 2014 to reduce revenue costs wherever possible whilst delivering its statutory responsibilities. The appraisal and presentation to Cabinet Members of the impact on the asset value in the decision to 'mothball' parts of the facilities is considered to be appropriate given the decision to preserve and protect equipment formed part of wider proposals around the operations. A

further decision would be expected to be taken to Cabinet Members should the market testing work suggest a future course of action that may affect the value of the facilities.

As per the accounting code, the Council is required to revalue its assets within a five year period unless it is considered that a material change in the value has occurred. In recognition that service potential is of primary interest when managing public sector assets because the purpose of acquiring and holding assets within the public sector is to enable the delivery of services, the Code requires operational property, plant and equipment to be measured by their current value to the authority in their existing use. Consequently, the Code requires that property, plant and equipment that are operational will be measured for their service potential at depreciated replacement cost for assets where there is no market and/or the asset is specialised.

It must be noted therefore that the value of property, plant and equipment held in the Council's Balance Sheet does not represent an estimate of how much the authority would receive if they sold the asset. In the event that there is a change in valuation there are a number of accounting rules that have to be followed. These will result in changes in the Balance Sheet but there is no impact on the amount to be funded from taxation.

The major items of plant and equipment were valued by GVA Grimley Ltd in March 2015 at depreciated replacement cost. The Council has requested valuation advice from Hilco Global to support a decision on the appropriate treatment of these assets for the 2015/16 Statement of Accounts. Hilco Global is an independent financial services company considered a leading authority on asset appraisals.

The resolution of this issue has taken longer than originally anticipated due to the complexities around the technical aspects. It is not certain however at this point that any change to the current valuation will be required, but confirmation will be provided at the next committee meeting.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

As set out in the report

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Money Matters – The Financial Strategy for 2016/17 to 2020/21	26/11/2015	Neil Kissock, (01772) 536154, Director of Financial Resources
Proposed waste processing requirements and specification for services delivered by Global Renewables Lancashire Operations Limited	19/02/2016	Steve Scott, (01772) 533755, Head of Service - Waste Management

Reason for inclusion in Part II, if appropriate

N/A