

**REVENUE BUDGET 2012-13 AND PRUDENTIAL INDICATORS 2011-2012 TO
2014-2015 - ADDENDUM**
WDA/05A/12

Recommendations

That the Authority:

1. notes that the proposed changes to the Levy mechanism in respect of the recycling credit element which were included in the original budget report have an unforeseen adverse impact on the Council Tax increase calculation for constituent District Councils. This was identified following DCLG guidance to Districts on 23rd January 2012 and was confirmed on 25th January;
2. accepts the resulting amendments to the budget and prudential indicators papers;
3. approves the revised budget for 2011-12;
4. approves the Revenue Budget and Levy for 2012-13;
5. authorises the Levy to be made upon each District Council for 2012-13;
6. agrees payment dates for the Levy;
7. approves the Prudential Indicators for 2011-12 to 2014-15 as set out in the report and detailed in appendix 4.
8. delegates to the Treasurer, within the total limit for each year, to effect movements between the separately agreed limits in accordance with option appraisal and best value for money for the authority;
9. delegates to the Treasurer, to effect movements between borrowing and other long term liabilities sums under the framework of the Prudential Code; and
10. notes the methodology for calculating Minimum Revenue Provisions.

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**REVENUE BUDGET 2012-13 AND PRUDENTIAL INDICATORS 2011-2012 TO
2014-2015 - ADDENDUM**

WDA/05A/12

Report of the Treasurer

1. Purpose of the Report

- 1.1 The Authority's budget report for 2012-13 contained a proposal to amend the Levy calculation to remove the recycling credit element from the Levy. At the same time the report proposed that the recycling credit payments made by the Authority to District Councils should cease, effectively ending a circular flow of funds.
- 1.2 The DCLG issued guidance to Councils on the way they should calculate the Council Tax for the purposes of applying for the Council Tax reduction grant and that advice that was reviewed by St Helens Council on 23rd January 2012. On 25th January the review, as subsequently confirmed by Knowsley Council, identified an unforeseen consequence of the proposed Levy change that was likely to be detrimental to Councils in calculating their Council Tax base and increase for grant purposes.
- 1.3 District Councils have therefore asked for the proposed change to the Levy to be delayed for at least a year while they consider with DCLG how this change could be implemented so as to be equitable.
- 1.4 This report sets out the changes to the budget report that are required to effect the changes so that the Authority has an approved budget and is able to set a Levy that all the Councils agree and which is within the statutory timetable for the Levy to be set.

2. Background

- 2.1 The Authority is required to agree a budget and to set a Levy by 15th February each year.
- 2.2 The budget report that was prepared for the Authority meeting on 3rd February 2012 contained proposals that would enable the Authority to meet this timetable.

Merseyside Waste Disposal Authority
3rd February 2012

- 2.3 The report contained a proposal to change the basis of the Levy by agreement with District Councils. The proposal was to remove the Recycling Credit element of the Levy. At the same time this would also be accompanied by the authority ceasing recycling credit payments to the District Councils. In previous budgets the Authority had included the same amount in total for the Levy from the Districts and the amount paid back to them in recycling credits. Removing the circular flow of funds was seen as a reasonable adjustment to the Levy and the Budget and had the added advantage of handing control of this spending back to the District Councils.
- 2.4 The proposed change was discussed with District Council Treasurers on a number of occasions and was accepted by District Councils as an agreed way forward.
- 2.5 On 23rd January 2012 the DCLG workbook for Districts on how their Council Tax base should be calculated for the purposes of the Council Tax Reduction Grant was reviewed by one of the District Councils. The review highlighted that there may be an unforeseen consequence of the proposed change to the Levy. This impact was confirmed on 25th January 2012. The proposed change would mean that the amount discounted from the district because we no longer Levied the money was seen as a change in the Council Tax base by the DCLG calculation. This gave Districts a problem in that it meant they were in danger of exceeding the boundaries of the change in Council Tax levels required to qualify for the Council Tax Reduction Grant, and possibly also for the 3.5% increase that would lead to a local referendum.
- 2.6 As a consequence the District councils have asked that the proposed changes to the Levy mechanism and to the Authority budget in respect of Recycling Credits be deferred for this budget while they endeavour to work with DCLG on changes to the definitions of Council Tax base that may enable the changes to be brought forward in the future.
- 2.7 This report sets out the changes required to the original budget report that are required to effect the reinstatement of recycling credits to districts which will result in a budget and resultant levy of £65.5M.

3. Changes to the Revenue Budget 2012-13 and Prudential Indicators 2011-2012 to 2014-15 report

- 3.1 The following changes are proposed to effect the changes to the budget report that will reverse the impact of changes to the Levy and Budget arising from the Recycling Credits issues.

Recommendation Page

- 3.2 Replace the Recommendations Page in the original report with the recommendations attached to this addendum.

Executive Summary The Levy Mechanism

- 3.3 Delete paragraphs 4.1 to 4.5 on pages 20 and 21. Replace with the following:
- 4.1 The original budget for 2012-13 included a proposal to make a change to the Levy mechanism. The proposed change would have removed Recycling Credits from the Levy demand on District Councils. At the same time the proposed Budget included removing the payment of recycling credits by the Authority to Districts. The amounts in each case were the same, at £5.7M, and the impact on the Authority was neutral. For the Districts the impact was considered by Treasurers to be broadly neutral and when the proposal was made the District Councils agreed to implement the change.
- 4.2 A District Council review, on 23rd January 2012, of the DCLG guidance to District Councils of the impact of this change identified that there may be an unforeseen consequence of this proposed change. The Council Tax base calculation was likely to be affected by the proposed change in an unforeseen way which would affect the ability of District Councils to claim the Council Tax Reduction Grant from DCLG. As a consequence District Councils have asked for this element of the Authority's budget to be amended and for the proposed changes to the Levy mechanism and budget to be deferred.

Underlying and future costs faced by the Authority

- 3.4 Make the following amendments to the paragraphs on page 22.
- 3.5 Paragraph 5.4 after '...£2.5M and' remove 'taken together with the Recycling Credit changes'.
- 3.6 Paragraph 5.5 replace £8.4M with £2.5M. Same paragraph replace 12% with 3.7%.
- 3.7 Paragraph 5.6 replace £59M with £65.5M.

Budget 2012-13

- 3.8 Page 23, paragraph 7.1, replace £59,637,958 with £65,458,137

Levy 2012-13

- 3.9 Page 23 paragraph 8.1 replace £59,637,958 with £65,458,137.
- 3.10 Page 23, paragraph 8.2 replace 12.3% with 3.7%.

Detailed Report

Proposed Budget

- 3.11 Page 23, paragraph 3.1 replace £59,637,958 with £65,458,137.
- 3.12 Pages 23 & 24 in the table that follows paragraph 3.2, remove the recycling credits comments and the associated -£5,676. Amend the total from -£8,355 to -£2,679.

The Levy

3.13 Remove the table on page 34 and replace with the following table:

District	Levy 2011-12 £	Levy 2012-13 £	Change £	Change %
Knowsley	7,870,555	7,128,483	-742,072	-9.4
Liverpool	22,669,368	22,550,297	-119,071	-0.5
St Helens	8,489,244	8,479,227	-10,017	-0.1
Sefton	12,974,007	12,613,601	-360,406	-2.8
Wirral	15,988,549	14,686,530	-1,302,019	-8.1
	67,991,723	65,458,137	-2,533,585	-3.7

Detailed report

Prudential indicators

3.14 Page 38 and 39 remove the table and replace with the following:

	%
2011-12	2.52
2012-13	3.54
2013-14	3.09
2014-15	3.07

3.15 Page 40 adjust the Authorised Limit for external borrowing by removing the table and replacing with:

	Borrowing £M	Other long term liabilities £M
2011-12	35.850	0
2012-13	34.337	0
2013-14	34.337	0
2014-15	35.009	0

3.16 Page 41 adjust the Operational Boundary for external borrowing by removing the table and replacing with:

	Borrowing £M	Other long term liabilities £M
2011-12	32.150	0
2012-13	30.700	0
2013-14	30.652	0
2014-15	31.224	0

Changes to Appendices

Appendix 1

3.17 Page 43 the Line 5 the recycling credits line – remove the whole line and replace it as follows:

	Original Budget 2011/12 £	Revised Budget 2011/12 £	Allowed Budget 2012/13 £	Forward Budget 2013/14 £	Forward Budget 2014/15 £
5. RECYCLING CREDITS	5,794,132	5,764,719	5,937,868	6,116,004	6,299,484

3.18 Page 43 net Cost of services – remove the whole line and replace it as follows:

	Original Budget 2011/12 £	Revised Budget 2011/12 £	Allowed Budget 2012/13 £	Forward Budget 2013/14 £	Forward Budget 2014/15 £
NET COST OF SERVICES	63,392,723	60,923,294	64,620,865	65,817,853	70,170,529

3.19 Page 43 Net Operating Expenditure – remove the whole line and replace it as follows:

	Original Budget 2011/12 £	Revised Budget 2011/12 £	Allowed Budget 2012/13 £	Forward Budget 2013/14 £	Forward Budget 2014/15 £
NET OPERATING EXPENDITURE	63,802,364	61,172,421	65,550,800	66,645,462	71,031,822

3.20 Page 43 – total cost of service – remove the whole line and replace it as follows:

	Original Budget 2011/12 £	Revised Budget 2011/12 £	Allowed Budget 2012/13 £	Forward Budget 2013/14 £	Forward Budget 2014/15 £
TOTAL COST OF SERVICE	67,991,723	64,690,455	65,458,137	67,424,705	71,409,060

3.21 Page 43 – Levy income – remove the whole line and replace it as follows:

	Original Budget 2011/12 £	Revised Budget 2011/12 £	Allowed Budget 2012/13 £	Forward Budget 2013/14 £	Forward Budget 2014/15 £
LEVY INCOME	-67,991,723	-67,991,723	-65,458,137	-67,424,705	-71,409,060

3.22 Page 49, Recycling Credits – replace the whole table with:

	Original Budget 2011/12 £	Revised Budget 2011/12 £	Allowed Budget 2012/13 £	Forward Budget 2013/14 £	Forward Budget 2014/15 £
<u>Expenditure</u>					
<u>Recycling credits</u>					
RC Liverpool	989,265	1,050,618	1,082,174	1,114,639	1,148,078
RC Wirral	1,098,418	1,149,919	1,184,458	1,219,991	1,256,591
RC Sefton	2,240,912	2,136,041	2,200,199	2,266,205	2,334,191
RC Knowsley	392,211	313,584	323,003	332,693	342,674
RC St Helens	1,073,326	1,114,558	1,148,035	1,182,476	1,217,950
<u>Net Expenditure</u>	5,794,132	5,764,719	5,937,868	6,116,004	6,299,484

Appendix 2

3.23 Page 57 – replace the whole page with:

Levy Apportionment

2012-13

	Tonnage Based Cost		Recycling Credit Cost		Population Based Cost		Abatement	Total
	Tonnes 1	£	Tonnes 2	£	No. 3	£	£ 4	£
Knowsley	55,800	4,440,720	6,104	346,800	150,139	2,507,174	-166,212	7,128,483
Liverpool	173,181	13,782,230	19,432	1,103,940	445,758	7,443,722	220,405	22,550,297
St Helens	53,867	4,286,887	20,450	1,161,789	177,503	2,964,126	66,424	8,479,227
Sefton	73,304	5,833,738	37,835	2,149,437	270,327	4,514,196	116,229	12,613,601
Wirral	108,491	8,634,018	20,699	1,175,901	306,213	5,113,457	-236,846	14,686,530
	<u>464,643</u>	<u>36,977,593</u>	<u>104,520</u>	<u>5,937,868</u>	<u>1,349,940</u>	<u>22,542,676</u>	<u>0</u>	<u>65,458,137</u>

Notes

- 1 Last complete year of waste managed tonnages 2011/12. Adjustment to be made when 2012/13 tonnages are known.
- 2 Last complete year of recycling credit tonnages 2011/12. Adjustment to be made when 2012/13 tonnages are known.
- 3 Estimated population figures June 2012.
- 4 2010/11 Adjustment.

Appendix 4

3.24 page 62 replace the Estimated Financing Costs as a proportion of revenue stream, total expenditure figures, and the ratios with the following:

	Revised 2011/2012 £M (unless stated otherwise)		Forward 2012/2013 £M (unless stated otherwise)		Forecast 2013/2014 £M (unless stated otherwise)		Forecast 2014/2015 £M (unless stated otherwise)	
<i>Estimate of Financing Costs to Net Revenue Stream</i>								
-Debt Management Costs	1.457		1.330		1.233		1.268	
-Investment Interest (net of costs)	-1.208		-0.399		-0.405		- 0.406	
-Minimum Revenue Provision (MRP)	<u>1.466</u>	1.715	<u>1.386</u>	2.317	<u>1.257</u>	2.084	<u>1.328</u>	2.190
-Estimated Financing Costs as a proportion of Net Revenue Stream		÷		÷		÷		÷
		67.992		65.458		67.424		71.409
Ratio %		2.5%		3.5%		3.1%		3.1%

3.25 page 63, indicator 6, adjust the figures in respect of the Authorised Limit for External Debt, by replacing the figures on the line representing 5% of the Net Revenue Stream – and then by amending the total for the Authorised limit as follows:

	Revised 2011-12 £M (unless otherwise stated)	Revised 2011-12 £M (unless otherwise stated)	Revised 2011-12 £M (unless otherwise stated)	Revised 2011-12 £M (unless otherwise stated)
Allowance for unanticipated cashflow items calculated as 5% of the Net revenue stream	3.400	3.273	3.371	3.570
Authorised Limit for External Debt	35.850	34.337	34.337	35.009

3.26 page 64, indicator 7, adjust the figures in respect of the Operational Boundary for External Debt by replacing the figures on the line representing 2.5% of the Net Revenue Stream – and then by amending the total for the Operational Boundary as follows:

	Revised 2011-12 £M (unless otherwise stated)	Revised 2011-12 £M (unless otherwise stated)	Revised 2011-12 £M (unless otherwise stated)	Revised 2011-12 £M (unless otherwise stated)
Allowance for unanticipated cashflow items calculated as 2.5% of the Net revenue stream	1.700	1.636	1.686	1.785
Operational Boundary for External Debt	32.150	30.070	30.652	31.224

4. Risk Implications

- 4.1 The risk is not to this Authority but is to the constituent District Councils who may find themselves outside the scope of the Council Tax Reduction Grant if the proposals are not adopted.

5. HR Implications

- 5.1 There are no HR implications

6. Environmental Implications

- 6.1 There are no environmental implications

7. Financial Implications

- 7.1 The financial implications are that by retaining the recycling credit part of the levy mechanism and the recycling credit payment to Districts both the Levy and the Authority budget are set at £65,459,538.
- 7.2 For the District Councils this response to their request for a change protects them and enables them to contain their budgets and Council Tax rises within the boundaries that enable them to qualify for the Council Tax Reduction Grant.

8. Conclusion

- 8.1 The budget report as drafted removed the recycling credit part of the Levy mechanism and the recycling credit payments made by the Authority to Districts. On 23rd January the DCLG Council Tax Reduction Grant mechanism was provided and was reviewed by a District Council. The review identified an unforeseen consequence arising from this agreed change. The impact would have been to take Councils outside the boundaries of the Council Tax Reduction Grant. Councils requested therefore that the agreed changes to the Levy mechanism and the system of Recycling Credit payments be deferred.
- 8.2 This report sets out the proposed changes to the budget report that will effect the changes requested by the constituent District Councils.
- 8.3 The recommendations set out in this report reflect the proposed amendments and is put forward for Members' approval.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.