REVENUE BUDGET 2012-2013 AND PRUDENTIAL INDICATORS 2011-2012 TO 2014-2015
WDA/05/12

Recommendations

That the Authority:

1. notes the amendment to the Levy mechanism, to remove recycling credits, as agreed by District Councils:
2. agrees to stop making recycling payments to the District Councils;
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; and
9. delegates to the Treasurer, to effect movements between borrowing and other long term liabilities sums under the framework of the Prudential Code.
10. notes the methodology for calculating Minimum Revenue Provisions

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REVENUE BUDGET 2012-2013 AND PRUDENTIAL INDICATORS 2011-2012 TO 2014-2015
WDA/05/12

Joint Report of the Chief Executive and Treasurer to the Authority

Executive Summary

1. Purpose of the Report

1.1 The Authority is required to prepare a budget and to set a levy each year. The level of levy to be charged to each of the constituent local authorities needs to be agreed annually alongside a levy payment schedule. The Authority is also required to approve the prudential indicators annually and as a part of that to delegate authority to the Treasurer to manage the Authority's finances within the overall boundaries established by the limits.

2. Background

2.1 The Authority is required to manage the disposal of household waste for Merseyside District Councils and provides the same service for Halton Council. The Authority delivers this through letting contracts with private sector contractors who provide waste management and disposal facilities. The key contracts are the Landfill Contract held by Mersey Waste Holdings Limited that the Authority has access to and the Landfill Top Up Contract which provide access to landfill for the Authority's residual household waste. The other key contract is the Waste Management and Recycling Contract (WMRC). The WMRC includes provision of transfer stations, transport, household waste recycling centres, material recycling facilities, food waste processing, and has the potential for green waste composting. Together these contracts enable the Authority to manage the disposal of Merseyside and Halton's household waste.

2.2 While the landfill contracts remain important to the Authority's strategic management of waste disposal in the medium term, over a longer term they present a significant financial challenge. The Landfill Tax is a levy imposed by the Government on every tonne of waste that goes to landfill. In 2011-12 the cost per tonne is £56. That cost per tonne is planned to rise at £8 per tonne each year until the cost per tonne reaches £80. For 2012-

13 the cost will be £64 per tonne, for 2013-14 it will be £72 per tonne and for 2014-15 it will reach £80 per tonne. The effect of the increase in tax rate per tonne is to add an additional amount of up to £3.4M to the Authority's base costs each year (based on current tonnage levels). These costs can not be avoided unless the Authority moves away from using landfill.

2.3 In addition the Authority still has to pay for the costs of Landfill Allowances (LATS), although here the environment is changing. The Authority will continue to need to purchase additional allowances, as allocations from the Government continue to reduce. The Authority will have to purchase those additional allowances from the marketplace during 2012-13. A prudent amount has been included in the estimates to reflect the potential purchases, but the eventual costs may vary dependent upon the marketplace at the time. This system will change after 2012-13 and the Authority will not have to purchase the allowances from 2013-14 onwards. At the 2012-13 rates this will save the Authority £2M a year.

2.4 The Authority has been developing options for moving away from landfill for some time and the procurement of the Resource Recovery Contract (RRC) is seen as key. By maximising the diversion of residual wastes from landfill the Authority plans to minimise the costs of waste management and to keep the impact on the Levy to a minimum.

2.5 The RRC has gone through a number of formal EU procurement stages and the Authority is currently in negotiation with two participants as they prepare their final tenders, the preferred bidder will then be selected and soon thereafter the contract will be awarded. It is anticipated that this will happen during 2012.

2.6 The RRC procurement process has not progressed as quickly as anticipated. This is due to the need to ensure that all the legal, financial and technical components of each participant's bid are completed before a final tender can be accepted. Once the final tenders are accepted there is very little scope for any further changes to the bid, hence the significance of ensuing each is complete before they go into the evaluation stage and before a preferred bidder can be appointed. There are some additional costs arising from delays but the benefit of continuing the dialogue will be in bids that are capable of acceptance in terms of their risk profile and which present better options for the Authority.

2.7 The solutions being offered by the remaining participants in the procurement provide the most cost effective options to the Authority for the long term management of residual wastes. For both participants the solution consists of the contractor building an Energy from Waste plant that will then be used to convert the Authority's residual waste into electricity and steam for industrial use. Income from the sale of the energy will be shared with the Authority to keep the costs of the contract down.

2.8 For each of the solutions the costs to the Authority may be kept to a minimum if the current proposed funding through the Private Finance Initiative (PFI) is retained. Last year the Authority had confirmation that the proposed PFI funding credit of £90M remained in place provisionally, which represented an affirmation of the Government's continuing support for the scheme (PFI funding was withdrawn from a number of similar local authority schemes). Recent announcements about government support via PFI for a waste project in another part of the country and more broadly about the future of PFI are not considered by the team from DEFRA's Waste Implementation Development Programme (WIDP) to have any significance for this project. The PFI credits have since been renamed as Waste Infrastructure Credits, but the terms and the offer have not been amended.

2.9 The Authority will continue to work with DEFRA and their waste team at WIDP to ensure the scheme continues to attract support for the PFI / Waste Infrastructure Credit element of the funding, although this will not be certain until the final business case has been approved.

2.10 At this stage it is anticipated that the Authority will be able to largely move away from using landfill for residual waste, to using the facilities in the RRC during 2015-16.

2.11 In the period between now and the start of the new RRC the Authority is exploring options for both diverting waste from landfill and making savings through the use of an interim contract. The Authority has issued a notice that it intends to explore these options and is seeking to identify whether there is any scope for making any savings on the costs of landfill for the period before the RRC contract commences.

3. <u>External factors</u>

3.1 The general economic climate and the Government's spending review have meant that local government generally, and Merseyside in particular, is facing significant changes in the levels of funding available. The Government has set very challenging financial targets for Councils and they have responded well to the changes in their financial resources.

3.2 In 2011-12 Merseyside Councils faced very significant savings targets, and for 2012-13 additional significant savings are required. The Councils have been successful in identifying these additional savings and are already looking forward into 2013-14 where further savings are required and beyond. If there are any options available to this Authority to contribute to easing the pressure then 2013-14 is the year when District Council Treasurers would seek that contribution.

3.3 The financial climate for the Councils means that the onus on the Authority is to ensure that the Levy agreed does not impose an unnecessary burden on the Council budgets. This is what we seek to achieve through this budget.

4. The Levy Mechanism

4.1 The Levy Mechanism is the methodology used to divide the Levy among the constituent District Councils. The way the levy is divided is statutory and is based on unanimous agreement by the District Councils over the way the Levy should be apportioned (in the absence of an agreement there is a statutory fallback or 'default' mechanism). The current Levy mechanism was agreed in January 2005 and included an element that related to recycling credits.

4.2 The Waste Disposal Authority has continued to provide a system of recycling credits to constituent District Councils at their request despite the mandatory requirement to provide such credits being removed in 2006. In the Authority's budget for 2011-12 the following amounts were provided:

	£
Amount included in Levy via tonnages	**(5,794,132)**
MWDA Expenditure on Recycling Credits	**5,794,132**

4.3 The total amount planned to be spent and the total amount planned to be raised via the tonnage elements of the levy were the same. In effect this has been a circular flow of funds between the Authority and the Waste Collection Authorities. Accepting a proposal to remove the circular flow of funds will reduce the overall Levy on the District Councils, but also reduces the income to the District Councils in respect of their recycling activity.

4.4 The District Councils have agreed to a change to this approach, removing both the levy cost and the payment by the Authority to District Councils. No transitional arrangement has been sought as the impact of the change is not considered to be significant by the Districts.

4.5 The effect of this change is that the District Councils will no longer be required to pay recycling credits to the Authority as part of the Levy and will no longer receive recycling credits back from the Authority. Instead the Districts will be able to take full control of the costs of recycling, using the resources previously paid in recycling credit levy for their own recycling activities, effectively removing the middle man (in this case the Authority) from the process. The change gives District Councils more control over their own resources. The change also reduces the headline Levy cost to the District Councils. For 2012-13 this change will take £5.7M off the headline Levy charged to the District Councils.

5. Underlying and future costs facing the Authority

5.1 The Authority has kept its funding and affordability model under review as the process of letting the new contracts has progressed. At the outset a funding envelope that set an annual levy increase at 15.4% was agreed with District Council Treasurers. That envelope allowed the Authority to provide for a Sinking Fund and to plan to use the fund over time to offset future very significant rises in the Levy. (If the Levy had continued at that level of increase the Authority would currently be seeking funding of over £100M from District Councils.)

5.2 In reviewing the model the Authority was able to reduce the Levy increase to 12% in 2009-10 and then in 2010-11 it was able to introduce a zero increase in the overall Levy. In 2011-12 the Authority reduced the Levy by almost £3M with the ‘maximum of zero’ levy for all constituent Districts.

5.3 The WMRC contract has successfully reduced costs to the Authority and together with reductions in waste arisings the Authority has been able to manage with lower than expected levels of Levy. The costs of the landfill will continue to present a significant challenge as with the escalating cost of landfill tax they increase by at least £3.4M a year. When the RRC contract is concluded and Landfill ceases, it is expected that there will not be a significant increase in the Authority’s disposal costs. This is because the proposed solutions are both single stage Energy from Waste Plants that are recognised in the sector to present a significantly less costly solution than alternative two stage MBT and EFW solutions.

5.4 The underlying costs of the Authority have been reduced by some £2.5M and taken together with the Recycling Credit changes the Authority has been able to review its planned Levy for 2012-13.

5.5 The proposed Levy gives a headline reduction for the District Councils of £8.4M. The reduced Levy level allows the Authority to provide all constituent District Councils with a significant reduction in their headline Levy for 2012-13. On average the reduction is over 12%. While the amount of the reduction is dependent upon changes in tonnages and populations according to the Levy formula it should be emphasised that all Councils receive a reduction in the Levy under this proposal.

5.6 Over the two budget cycles the Authority will have delivered cost reductions of over £5M at a time when its costs continue to increase. At the same time the headline Levy has gone from £70M to £59M. This reflects the concern at the Authority to minimise the cost of the Levy to District Councils in a very difficult financial period. This approach to minimising the cost of the Levy to districts will continue to underpin the Authority's financial planning in the medium term, although continued Levy reductions are unlikely. District Councils will need to ensure that their future budget plans include prudent assessments of Levy increases at more normal levels.

5.7 Until the RRC contract is settled it is not possible to project what level of Levy is likely to be required in future years and hence it is important that in protecting District Councils from significant increases the Sinking Fund is maintained. When the RRC costs become clearer then it will be possible to plan with District treasurers the best profile for the release of the funds to ensure the Levy impact is minimised over an agreed period.

5.8 The Sinking Fund is planned to be used in future years to smooth the effect of future costs increases on the Levy. By releasing the Sinking Fund over time the Authority will be able to manage and minimise the effect of increases in the cost base on the need to raise the levy. Without using the Sinking Fund in this planned way the Authority may have to raise the Levy very significantly over a short period. The need to use the Sinking Fund to smooth the Levy remains as the Authority faces potential cost increases from Landfill taxes that add up to in excess of £20M over the next three years (the cumulative effect of an escalation in the landfill tax of £8 per tonne per year). The Sinking Fund will contribute to minimising the financial impact on the Levy in that period.

5.9 The Authority has sufficient landfill allowances up to the end to 2011-12, with a budgeted cost of £1.7M. For 2012-13 the cost is estimated to increase to £2M. After this the landfill allowances scheme is scheduled to stop which will save the Authority the equivalent £2M which will contribute to keeping future Levy costs down.

5.10 If the Authority is successful in implementing the RRC then any additional costs of the new technology will be partially offset by savings arising as the authority stops sending its waste to landfill and stops incurring the cost of landfill tax.

5.11 The Authority will monitor the financial position very carefully over the next two years to ensure it keeps Levy increases to a minimum.

6. Capital costs

6.1 The estimated costs of the capital programme are shown at Appendix 3 of the report. There are no significant changes in the programme, which represents the cost of renewing the Authority's infrastructure to enable it to meet its commitment to Districts to manage the disposal of waste.

7. Budget 2012-13

7.1 The Authority is asked to set a revenue budget of £59,637,958 which is a significant decrease compared with the previous year.

8. Levy 2012-13

8.1 The Levy for 2012-13 is set at £59,637,958 which means there is a significant decrease for the year.

8.2 The level of Levy varies for each District dependent upon population and tonnages; this is as a result of the agreed Levy apportionment methodology. Overall there is a 12.3% reduction in the Levy compared with the previous year.

REVENUE BUDGET 2012-13 AND PRUDENTIAL INDICATORS 2011-12 TO 2014-15

REVENUE BUDGET 2012-13

1. Introduction

1.1 The Authority is required to set its Levy for 2012-13 by 15 February 2011. In so doing, it needs to consider the financial effects of all factors which impact on the Authority, its Budget, the Levy and the consequential effects on the District Councils on Merseyside. These factors are summarised in the Executive Summary to this report.

1.2 The Authority's Levy calculation is based on its budget estimates and the Local Government Act 2003 which imposes a requirement (under section 25) that:

- 'The Chief Finance officer of the Authority must report to the Authority on the following matters:

    a) the robustness of the estimates made for the purposes of the calculation; and

    b) the adequacy of the proposed financial reserves.'

1.3 The adequacy of the Authority's reserves are illustrated in paragraphs 3.4 and 3.5 of this report. The General Reserve is at a level that covers unforeseen costs whereas the Sinking Fund is in accordance with the Authority's Revised Financial Model for its new procurement of contracts. The capital reserve was created to contribute towards the costs of capital schemes offsetting the costs of borrowing. The earmarked reserve smoothes the costs of funding the costs of advisers for the procurement.

1.4 The robustness of the Authority's budget for 2012-13 is demonstrated against a table of components with the Authority's position identified against them.

COMPONENT	COMMENTS
Availability of reliable information	The budget is based on realistic assumptions of pay, price and contract increases and tonnage throughputs to

	recycling or landfill. This is coupled with an assessment of the major financial risks and how they are to be managed.
Guidance and strategy	The Authority's Financial Procedural Rules cover the management of its budget. The Budget timetable is well communicated and the Strategy is clearly outlined
Corporate approach and integration	Section managers identify budget pressures and risks at an early stage in the process, particularly the financial effects of landfill taxation, changes to waste management processes and litigation risks.
Flexibility	Flexibility in budget management is built into the Authority's Constitution.
Monitoring	The Authority operates a quarterly published monitoring regime, whilst monthly monitoring is undertaken by Section Managers.

1.5 Based on the above arrangements it is reasonable to consider that the Authority has a robust budget process.

2. Revised Budget 2011-12

2.1 The Authority monitors its revenue and capital budgets on a quarterly basis and uses this to monitor the position at the end of the third quarter of the year to predict the outturn for the year in a Revised Budget for 2011-12 which Members are asked to approve.

2.2 The Revised Revenue Budget for 2011-12 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £64,690,555 which is a reduction of £3,301,268 from the Original Revenue Budget for 2011-12 (Column 1 of the respective pages of Appendix 1) which totalled £67,991,723. This reduction has enabled the Treasurer to propose making the following additional contributions to balances and reserves.

	£m
General Fund – additional contribution beyond planned levels	3.3
General Fund – contribution to costs of former NTDP at Huyton	0.1

2.3 The final balance on the General Fund is forecast to be at £18.3M at 31 March 2012.

2.4 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2011-12 are as follows:

	£000
Establishment – savings arising from holding posts vacant and savings on premises and supplies and services costs	-132
Contracts – savings from effective contract management and reduction in tonnages	-1,326
Landfill tax – savings from reduced tonnages	-2,370
Closed landfill – savings from managing trade effluent costs effectively	-49
Rents, rates, depreciation – additional costs from loss of tenant and rental income at former Huyton NTDP some of which are offset by a General Fund contribution	+397
Recycling credit payments – lower than expected	-29
Communications – minor savings	-4
Landfill allowances – additional allowances required during the year at additional cost	+469

Procurement – additional costs due to additional time to finalise procurement – offset by contribution from balances	+574 -574
Interest – net saving due to reduced rates payable in year	-161
Capital Adjustment account – technical accounting adjustment to reflect change in depreciation treatment arising from NTDP	-181
LATS fund – contribution from balance to fund procurement of additional allowances in the year	-279
TOTAL NET SAVINGS	-3,303

3. Proposed Budget 2012-13

3.1 The proposed budget for 2012-13 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £59,637,958 which is a reduction of almost £8.4M from the allowed budget for 2011-12, i.e. there is a significant reduction in the budget for 2012-13.

3.2 The main reasons for the reduction in the budget are as follows:

	£000
Establishment – maintaining vacant posts, offset by reduction in income as cost savings are shared with Halton Council	-45
Contracts – costs for the landfill and WMRC contracts are projected to fall as tonnages decline and the contracts are managed effectively	-441
Landfill tax – increases but less than previously thought – due to decline in tonnages	+1,019
Rents, rates & depreciation – loss of former NTDP income offset by reduction in	+36

associated depreciation charges and contribution from General Fund	
Recycling credits – removal of credit payments as agreed with Districts and associated with reduction in Levy	-5,676
Communications – small saving mainly attached to IT costs	-9
Strategy and development – savings from removal of JMWMS as this has been delivered and other savings including reduction in contribution to Envirolink	-78
Landfill allowances – additional cost of the allowances required as the allocations diminish	+781
Procurement – additional costs offset by contribution from Earmarked reserve	+180 -180
Interest – reduction in rates of interest on cash balances held by St Helens, no significant change in rates payable	+520
Capital adjustment account – technical accounting adjustment offsetting saving in depreciation on service line above	+744
Sinking Fund – no contribution to Sinking Fund – reducing cost of budget provision	-5,206
Total	-8,355

3.3 The proposed Revenue Budget for 2012-13 has been prepared on the basis of the following assumptions:

- No inflation unless contractually unavoidable
- No pay inflation increase
- Capital financing costs based on the Capital programme investment as identified at Appendix 3

- That procurement costs are increased due to the protracted nature of the procurement
- That contingency sums are adequate

In addition each of the budgets has been reviewed in detail by budget managers and savings have been identified which have contributed to ensuring the budget is kept to a minimum.

3.4 The Authority's Balances are shown at the bottom of the second page of Appendix 1 with the various amounts anticipated to be held at 31 March 2013 as follows:

	£M
General reserve	17.0
Earmarked reserve	0
Sinking Fund	28.9
Capital reserve	0.5

3.5 The General Fund reserve has been applied for three purposes:

- Contribution to temporary unforeseen costs of maintaining the site of the former NTDP at Huyton - £115k
- Additional contribution to the Earmarked Reserve to meet the additional costs of the procurement due to the additional work required during the competitive dialogue stage - £993k
- Provision for the cost of moving to Mann Island earlier than envisaged which has been provided for in future years and for which equivalent savings will accrue in future - £250k

3.6 The level of General Reserve needs to be maintained at this higher than 'normal' level to reflect the very significant risks of unforeseen costs emerging during the year in terms of contractual obligations or additional procurement costs. The RRC is the largest local authority procurement that Merseyside has seen there may be unforeseen events that may lead to the Authority incurring significant additional costs. Given the scale of the proposed contract it is important to maintain a higher than normal but prudent level of working balances in the event of the unforeseen events materialising. When the procurement is concluded and the risks of significant unforeseen events are reduced then the General Reserve will be bought back to a lower level to reflect normal operational risks.

Risks

Risk	Potential impact	Risk category
Contract prices in RRC contract are higher than anticipated	Future reduction in balances from that predicted attend of 2012-13 or reduction in services.	High
Cost of procurement of the RRC contract is higher than anticipated	Reduction in balances predicted at the end of 2012-13	High
Procurement takes longer than expected so additional cost arise from continuing to landfill for a longer period	Future reduction in balances predicted at the end of 2012-13	Medium
Contingency sums prove to be inadequate	Reduction in balances predicted at end of 2012-13	Medium
Additional Waste arisings as the economic downturn diminishes	Contract payments increase and exceed expected levels	Low

3.7 The final costs of the RRC contract and the length of time it will take to finalise an agreement are not certain and depend upon the negotiation of the detailed contract terms with the remaining bidders before the contact can be finalised. There are a number of uncertainties and the outcome cannot be accurately forecast at this stage. The Authority will manage the procurement through the procurement process and through its risk management procedures.

4. Capital programme

4.1 The Capital programme is set out at Appendix 3 of the report. The programme represents the continued development of the Household Waste Recycling Centres across Merseyside as well as ensuring that there is a continuing programme of site works and developments at the closed landfill sites managed by the Authority.

4.2 The funding for the capital programme will be through a contribution from the capital reserve and then by a contribution from Prudential Borrowing in 2013-14, and largely from Prudential Borrowing thereafter. The impact of the prudential borrowing is set out in the next section of this report and in Appendix 4.

5. Future budget levels

5.1 Future budget levels remain difficult to predict as the costs and timing for the RRC contract are not yet certain. The finalisation of the RRC contract including the time it will take to implement, the eventual cost of the contract and the ongoing costs to continue current activity until the new contract is in place are all matters that remain uncertain.

5.2 The costs of procuring the RRC contract include additional costs associated with employing professional advisers. Their involvement was critical in ensuring the WMRC contract costs were minimised and will be again in the RRC process. Because the contract is procurement is on track the costs of the advisers have been largely removed from the budget for future years.

5.3 The Authority re-affirms its commitment to the District Councils to an ‘open-book’ process and will ensure that if the costs of the RRC contract are anticipated to go beyond the envelope already provided then the Councils will be informed at an early stage.

5.4 Other budget pressures on the Authority stem from the ongoing costs that will continue to accrue until the RRC is concluded. These include the costs of continuing to landfill and in particular the significant increases in the Landfill tax that the Authority will be required to pay as the rate per tonne moves from £56 in 2011-12, to £64 in 2012-13, £72 in 2013-14 and £80 in

2014-15. The costs based on current projections of waste flow are as follows:

Year	Cost of Landfill Tax £M
2011-12	23.3
2012-13	26.7
2013-14	30.0
2014-15	33.4

5.5 At the same time as the Authority is likely to use up the LATS it has procured and for one more year it will need to enter the market to procure additional allowances if it is to avoid penalties.

6. The Levy

6.1 The Authority is required under section 74 of the Local Government Finance Act 1988, as amended, to issue its Levy demands upon the District Councils of Merseyside before 15 February 2012.

6.2 The Levy is made by the issue of demands stating the dates on which instalment payments are to be made and the amount of each instalment. For the purpose of standardisation it is recommended that the Levy be paid by way of ten equal instalments on the following dates, in line with the Levying Bodies (General) Regulations 1992 payment schedules:

20 April 2012	25 October 2012
29 May 2012	30 November 2012
6 July 2012	8 January 2013
13 August 2012	11 February 2013
19 September 2012	15 March 2013

6.3 It is proposed that a levy of £59,637,958 is set for 2012-13. This represents a reduction on the prior year’s levy, but for each of the constituent Districts there are changes in the levy rate as calculated through the levy apportionment methodology. The change is a reduction compared to 2011-12. This has been achieved through the effective operation the WMRC and landfill contracts and still enables the Authority to maintain the sinking fund to enable it to mitigate the effect of cost pressures for District Councils in future years. The cost pressure from landfill and the RRC contract still remain and the levy increase is likely to return to normal levels in future as the Sinking Fund is released keeping the increases to reasonable levels.

6.4 Members will recall that the levy apportionment methodology is based in the 'polluter pays' principle which means that tonnage based costs are based on the last full financial year's tonnages (subsequently adjusted to actual in the year), and the balance of costs is apportioned on population. The recycling credit element of the Levy has been removed from this proposal.

6.5 The levy for 2012-13 for each District is shown below, with comparisons to 2011-12. There is an average reduction on 12.3% in the Levy and no District receives an increase. The methodology used to establish the District Levy is attached at Appendix 2.

District	Levy 2011-12 £	Levy 2012-13 £	Change £	Change %
Knowsley	7,870,555	6,787,310	-1,083,245	-13.8
Liverpool	22,669,368	21,483,854	-1,185,514	-5.2
St Helens	8,489,244	7,335,602	-1,153,642	-13.6
Sefton	12,974,007	10,480,793	-2,493,304	-19.2
Wirral	15,988,549	13,550,491	-2,438,058	-15.2
	67,991,723	59,637,959	-8,353,764	-12.3

PRUDENTIAL INDICATORS 2011-12 TO 2014-15

1. Background

1.1 The Prudential Code for Capital Finance in Local Authorities came into effect on 1 April 2004 and is intended to play a key role in the way that the Authority determines its own programme of capital investment in fixed assets which are central to the service delivery of waste management.

1.2 It sets out a clear framework which demonstrates that the Authority's capital investment plans are affordable, prudent and sustainable. If it does not, the Authority needs to consider remedial action.

1.3 A further key objective is to determine that Treasury Management decisions are taken in accordance with good professional practice and in a manner which supports prudence, affordability and sustainability. The Authority's Treasury Management and Strategy function is carried out by St Helens Council who have developed the requisite prudential indicators for this purpose and have clear governance procedures for monitoring and revision of the indicators.

1.4 The Authority's own indicators need to be set and revised by the body which takes decisions for the Budget (the Authority) and there is a need for the establishment of procedures to monitor performance by which deviations from plan are identified. This report contains a review of the Prudential Indicators for 2011-12 and for the medium term as required by changes to the Capital Programme and the availability of grants.

2. Matters to be taken into account in setting the Prudential indicators

2.1 In setting the Prudential Indicators the Authority is required to have regard to the following matters:

- Affordability – the impact on the Levy for each of the District Councils in order that they can assess the implications for the Council Tax;
- Prudence and sustainability e.g. the implications for external borrowing;
- Value for money e.g. option appraisal;
- Stewardship of assets e.g. asset management planning;
- Service objectives e.g. strategic planning for the Authority; and
- Practicality e.g. achievability of the Forward Plan.

3. The Prudential Indicators for Capital Investment

3.1 The main objective in considering the affordability of the Authority's capital investment plans is to ensure that the level of investment is within sustainable limits by considering the impact on budgetary requirements.

3.2 The Authority needs to assess all resources available to it and estimated for the future against the totality of capital investment plans and net revenue forecasts.

3.3 The Prudential indicators are:

- Estimates of capital expenditure;
- Estimates of capital financing requirement;
- Net borrowing and capital financing requirements;
- Ratio of financing costs to net revenue stream;
- Impact of capital investment on the Levy;
- Authorised limit for external debt; and
- Operational boundary for external debt.

4. The specific indicators

4.1 The Prudential Indicators for 2011-12 to 2014-15 are shown in Appendix 4 but are summarised as follows.

5. Estimates of Capital Expenditure

5.1 The Authority is preparing for the provision of a long term solution to waste management and under that process the nature of the assets it may require in the longer term can be estimated but is not finalised. At this stage last year a significant capital investment was assumed to be required, that is no longer the case as bidders have identified their own sites and no Authority land procurement is required. At the same time the Authority continues to develop a short to medium term capital investment programme that takes into account the need to consider the supply of waste streams, equality of provision across the Districts, external funding and operational changes in waste disposal. In effect the capital programme is reviewed annually to determine whether it will be affordable after considering the effect on the levy. The proposed three year Capital Programme is shown at Appendix 3 of the Authority's budget report.

Summary Capital Programme

	£m
2011-12	3.093
2012-13	1.403
2013-14	1.641
2014-15	1.800

6. Estimates of Capital Financing Requirements

6.1 The Capital Financing Requirement is an indicator which seeks to measure the underlying need of the Authority to borrow for a capital purpose i.e. it is an aggregation of historic and cumulative capital expenditure not financed by other means (capital receipts, grants revenue contribution, other earmarked reserves etc.) less the sums statutorily having to be set aside to repay debt (Minimum Revenue Provision and reserved receipts)

6.2 The Capital Financing requirement is as follows:

	£m
2011-12	35.039
2012-13	33.653
2013-14	33.555
2014-15	34.028

7. Estimates of gross borrowing

7.1 The Capital Financing Requirement needs to be considered alongside the actual levels of external borrowing. This will show the relationship between the underlying need to borrow and the actual borrowings which are made, demonstrating that long term borrowing is only undertaken for capital purposes and is in accordance with the approved Capital programme financing requirements.

	Capital Financing Requirement £m	External Gross Borrowing £m	+/- £m	+/- %
2011-12	35.039	30.150	-4.889	-13.9
2012-13	33.653	28.764	-4.889	-14.5
2013-14	33.555	28.666	-4.889	-14.6
2014-15	34.028	29.139	-4.889	-14.4

7.2 The fact that the difference is planned to remain stable shows that additional in year borrowing will be in respect of the Capital Financing Requirement only.

7.3 The borrowing position represents the Authority's gross external borrowing.

7.4 The estimated gross borrowing for the respective financial years are:

	£m
2011-12	30.150
2012-13	28.764
2013-14	28.666
2014-15	29.139

8. Estimates of the Ratio of Financing Costs to Net Revenue Stream

8.1 The estimate of the ratio of financing Costs to the Net Revenue Stream is a measure which indicates the relative effect of capital financing costs, arising from capital plans and Treasury Management decisions, as a proportion of the Authority's overall projected budget requirement.

8.2 Based on estimates of net borrowing, the likely prevailing interest rates and future budget projections, the Ration of Financing Costs to Net Revenue Stream are as follows:

	%
2011-12	2.5
2012-13	3.9
2013-14	3.4
2014-15	3.4

9. Estimate of Impact of Capital Decisions on the levy

9.1 The effect of Capital Decisions upon the Levy payable (Net Revenue Stream). Because of the distribution methodology the impact on the Districts and their Council, differs:

	£m
2011-12	1.715
2012-13	2.317
2013-14	2.084
2014-15	2.190

10. Authorised Limit for External Debt

10.1 The Authorised Limit is a Prudential Code requirement which reflects an estimate of the most likely, prudent, but not worst case scenario of external debt, with additional and sufficient headroom over and above this to allow for operational management issues.

10.2 This is to say that is an absolute limit for potential borrowing on any one particular day. The reasons for this limit being significantly in excess of any projected year end borrowing requirement is due to the potential profile of new borrowings, maturities and rescheduling activity during the year. It is not, nor is it intended to be, a sustainable level of borrowing but represents the highest point borrowing could reach under these possible timing scenarios.

10.3 The level needs to be consistent with the Authority's current commitments, existing plans and the proposals in the Budget report and with the proposed Treasury Management practices.

10.4 Based on an assessment of such factors the limits recommended for Authority approval are as follows

	Borrowing £M	Other long term Liabilities £M
2011-12	36.850	0.0
2012-13	34.046	0.0
2013-14	34.038	0.0
2014-15	34.700	0.0

10.5 These limits separately identify borrowing from other long term liabilities such as finance leases. The revaluation of the leases as at 1 4 2009 shows they are included at nominal values and so there is no need to recognise any other liability arising from those leases. Delegation is sought to the Treasurer to the Authority, within the total limit for the individual year, to effect movements between the separately agreed limits in accordance with option appraisal and value for money for the Authority.

11. Operational Boundary for External Debt

11.1 The Operational Boundary is similar in principle to the Authorised Limit, differing only to the extent of the fact that is excludes additional headroom included within the Authorised Limit to allow, for example, for unusual cash movements and borrowing in advance of related repayments when financing or restructuring loan debt.

11.2 The Prudential Code states that 'it will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above it would be significant and should lead to further investigation and action as appropriate'.

11.3 The boundary figures proposed for approval are:

	Borrowing £M	Other long term Liabilities £M
2011-12	32.150	0.0
2012-13	30.555	0.0
2013-14	30.502	0.0
2014-15	31.069	0.0

11.4 As with Authorised Limits, delegation is sought in relation to the authority to effect movements between the Borrowing and Other Long Term Liabilities sums.

12. Minimum Revenue Provision

12.1 The Authority is required to set aside a statutory amount from revenue budgets in respect of the equivalent of repaying for the cost of capital expenditure. This amount is called the Minimum Revenue Provision (MRP). There are a number of ways that the MRP can be calculated. The authority uses a methodology that equates MRP to the depreciation charges on assets, where they are depreciable, or the estimated timescale of borrowing where assets are not depreciable (i.e. land) as a proxy. This gives an MRP that is equivalent to the cost of paying for capital and which is charged to revenue accounts.

13. Risk Implications

13.1 The risks to the Authority have been considered in the preceding paragraphs and are addressed through the Levy and reserves strategies.

14. HR Implications

14.1 The budget is based on the projection that the temporary position to support the Procurement Director during the RRC procurement will not be filled. The budget also includes the assumption that the Authority will maintain a vacancy in the post of Environmental and Planning Manager that arose when the previous post holder left the Authority.

15. Environmental Implications

15.1 There are no additional environmental considerations arising from the budget.

16. Financial Implications

16.1 These are considered throughout the report.

17. Conclusion

17.1 Members are requested to approve the revised budget for 2011-12, to approve the budget for 2012-13 and to approve the prudential indicators and the delegation to the Treasurer as set out in the report.

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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.