REVENUE BUDGET 2013-2014 AND PRUDENTIAL INDICATORS 2012-2013 TO 2015-2016
WDA/03/13

Recommendations

That the Authority:

1. approves the revised budget for 2012-13;

2. approves the revenue budget for 2013-14, including proposals for additional savings to enable service development;

3. considers the levy option proposals set out in Appendix 2 to this report and agrees the Treasurer's proposal for a Levy of £65.591M;

4. authorises the levy to be made on the constituent District Councils for 2013-14;

5. agrees the payment dates for the levy;

6. agrees to the proposals for closing the Rainford HWRC in line with the end of the current lease and contractual terms;

7. agrees to seek potential savings from interim contracts;

8. agrees to the proposals for returning savings to a service development fund;

9. agrees to proposals for developing the Community Fund and to develop options for an apprenticeship, graduate trainee and a volunteer scheme for Merseyside, subject to Members approval of recommendations 6, 7, and 8;

10. agrees to the proposals in the capital programme to develop HWRCs during 2013-14;

11. Agrees to the removal of recycling credits from the levy and the budget where that option remains available to the Authority after consultation with the constituent District Councils over the impact on their financial position and the DCLG funding calculations;

12. approves the Prudential Indicators for 2012-13 to 2015-16 as set out in the report and detailed in Appendix 4;

13. agree to amend the Prudential Indicators in the event that recommendation 11 is approved;

14. delegates to the Treasurer, within the total limit for each year, to effect movements between the separately agreed prudential indicator limits in accordance with option appraisal and best value for money for the Authority;

15. delegates to the Treasurer to effect movements between borrowing and other long term liabilities sums under the framework of the Prudential Code; and

16. notes the methodology for calculating Minimum Revenue Provisions for the Authority as set out at section 12 of the detailed report.

REVENUE BUDGET 2013-2014 AND PRUDENTIAL INDICATORS 2012-2013 TO 2015-2016
WDA/03/13

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 services on behalf of 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 together provide access to landfill for the Authority's residual household waste. The other key contract is the Waste Management and Recycling Contract (WMRC) operated by Veolia ES. 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 short to 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 2012-13 the cost per tonne is £64. That cost per tonne is planned to continue to rise at £8 per tonne each year until the cost per tonne reaches £80. For 2013-14 the cost 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 £3.3M to the Authority's base costs each year (based on current tonnage levels). These costs will not be avoided until the Authority moves away from using landfill.

2.3 During the remainder of 2012-13 the Authority also continues to pay for the costs of the Landfill Allowances Trading Scheme (LATS). The Authority is allocated allowances by government at a diminishing annual rate and has to top up the allowances annually by purchasing additional allowance on the open market. This is estimated to cost £2M in 2012-13. It has been proposed by government that this system will change after 2012-13 and the Authority will no longer 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 continues to evaluate the final tenders from each of the participants compared with the evaluation methodology. The outcome of the evaluation will be that one of the bidders will be selected to go forward in the procurement process. If the bidder that goes forward is allocated Waste Infrastructure Credits (WICS, formerly PFI credits) from DEFRA then that bidder will become the Authority's preferred bidder and will be taken forward to financial close. The timetable for the next stage of the process is not within the control of the Authority because the bidders' banks will be carrying out their own due diligence on the bid proposals.

2.6 The RRC procurement process has not progressed as quickly as anticipated. This was due to the need to ensure that all the legal, financial and technical components of each participant's bid were completed before the final tenders were accepted. Thereafter the evaluation of each of the bids has taken time as it has been important to demonstrate a full understanding of each of the bids and how they can be measured against the evaluation criteria.

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 (EfW) 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 Waste Infrastructure Credits (WICs) is retained (formerly these were named PFI credits). DEFRA who recommend to Treasury whether WICs are awarded to the scheme have been kept informed of the progress of the project throughout the procurement and have been involved via WIDP (the Waste Infrastructure Delivery Programme) who have been alongside the Authority throughout the process.

2.9 The Authority will continue to work with DEFRA and WIDP to ensure the scheme continues to attract support for the Waste Infrastructure Credit element of the funding, although this will not be confirmed until the pre-preferred bidder final business case has been approved, after which a preferred bidder can be appointed.

2.10 Once the preferred bidder is appointed the Authority will move towards financial close, which is dependent to a greater degree upon the bidder's banks and the extent of the due diligence they have to complete. When the due diligence is concluded successfully the Authority and this bidder can move to conclude the contract and the Authority can present the final business case to DEFRA for ministerial approval of WICs.

2.11 Thereafter the bidder will build their EfW plant, and following a commissioning period the plant will become operational. At that 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 2016.

2.12 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 interim contract was advertised and waste contractors have been appointed to treat waste over a three year period between 2013 and the commencement of the RRC. The effect of the interim contract will be both to reduce the amount of waste going to landfill and to save money for the Authority compared with the cost of landfilling.

2.13 In a separate development the Authority was approached by the Greater Manchester Waste Disposal Authority to see whether there was any mutual benefit to both Authorities from working together to make use of Greater Manchester's temporary surplus waste treatment capacity.

Negotiations have been entered into to establish whether there is any mutual benefit and to see whether there are any short term benefits for this Authority, including the potential for cost savings. These negotiations are ongoing.

3. External factors

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 2012-13 Merseyside Councils continued to face very significant savings targets, and for 2013-14 and beyond additional further very significant savings are required. The Councils have been successful in identifying these additional savings and are already looking forward into 2014-15 and beyond where further savings are required. This Authority has continued to work with the District Councils and their Treasurers to provide such support as we are able to, however, the complexities of the DCLG funding, freeze grant and referendum formula mean that the impact on Councils of any proposal needs to be fully understood before it can be recommended for implementation.

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. The Authority and District Council Treasurers have been discussing the Levy and the strategy for both supporting Districts and releasing the Sinking Fund back to Districts while at the same time enabling this Authority to meet its statutory and fiduciary duties in the most prudent manner.

4. The budget

4.1 The revised estimates for 2012-13 have been established from the Authority's projected activities in the year and the projected levels of savings that have arisen from the initiatives undertaken by the Authority: from effective management of the Authority's contracts; and from reductions in waste tonnages arising. The outcome of the revised estimate exercise is that the projected level of underspend for 2012-13 is £752k. The effect of this under spending is that the Authority will be able to replenish some its General Fund balances after taking into account the additional demand on the Fund approved by Members in respect of the RRC procurement costs reported in November 2012.

4.2 The Authority's proposed budget for 2013-14 is subject to the additional pressure of an increase in the landfill tax of £8 per tonne, taking the tax per tonne for land fill to £72. This additional tax would add up to £3.3M to the Authority's base costs for the year at current tonnage levels. The impact of this cost pressure is offset by a £2M reduction in the budget that arises from the proposed cessation of the LATS. Despite this net impact of a £1.3M cost pressure the proposed expenditure budget increase for 2013-14 has been held to only £133k. This has been achieved through a number of initiatives including savings on the planned costs of the newly built HWRCs; savings arising from the interim contract; savings from vacancy management; management changes in the way the Authority manages its contracts and projected tonnage reductions.

4.3 Additional savings may be available for 2013-14, including taking into account the effect of a proposed closure of the Rainford HWRC. The costs of the Rainford HWRC are currently included in the Authority's proposed budget for 2013-14. The WMRC contract did not include this HWRC beyond September 2013-14 and the current lease of the site expires in September 2013. The local District Council, St. Helens, has been consulted as has the Rainford Parish Council. Neither of these organisations has raised objections to the closure of the Rainford HWRC in line with the WMRC contract. The continued operation of the Rainford site would require the negotiation and acquisition of a new lease for the site, together with new contractual payments to cover operating costs which could be more than the current budgeted costs. If Rainford is closed, then for 2013-14 the Authority could save half a year's costs, some £70k, with a full year's cost savings in future years.

4.4 If the decision is made to close the Rainford site in line with the contract and the lease, then the saved costs arising would be available to contribute to a modest service development fund. A modest service development fund would provide scope for the Authority to expand existing services in priority areas and to assess whether there were further service developments that may be beneficial to Merseyside in the medium to longer term. In the event that future benefits could be identified further reports would be made to the Authority for Members to decide on how best to take these matters forward.

4.5 In addition to the potential savings outlined above the proposed Greater Manchester contract has potential to provide savings or cost reductions to the Authority in the short term and over the next two years. Anticipating a further £100k saving from this scheme in 2013-14 is a reasonable assumption and if this amount is delivered it could also be used to contribute to the proposed service development fund.

4.6 If a service development fund is made available then one of the options for Members would be to invest up to £70k to increase the size of the Community Fund. The purpose of the Community Fund is to invest in local schemes which have waste reduction as their priority. A growth in the Community Fund would enable the Authority to engage more widely across Merseyside and to promote waste minimisation and the waste hierarchy more effectively.

4.7 There are options for utilising the proposed service development fund to assess the future benefits of further service developments. These options include: the development of an approach to Waste Apprenticeships for Merseyside; assessment of the merits of a Graduate Training programme; and consideration of how to develop the Authority's capacity to support a Volunteering Programme. If these proposals were to bear fruit then they would help the Authority to continue to work towards minimising waste arisings across Merseyside. Before funds are released, further reports to Members on the potential for any service development proposals arising from these initiatives would be bought to the Authority for fuller consideration.

4.8 As part of the Authority's continuing drive for efficiency the way the organisation utilises its resources will continue to be reviewed during the next budget cycle. Where there is scope for additional outcomes to be delivered then a business case will be developed to outline for Members the costs and benefits of any proposal on an invest to save basis. Where there may be benefit to the Authority from a proposed service development Members will be asked to approve the release of funds where they are necessary to deliver additional efficiency. Normal improvements in services that may be achieved at no additional cost will be implemented as part of the normal business of the Authority.

5. The sinking fund and Levy options

5.1 Before the procurement of the WMRC and the RRC, the Authority and the constituent District Councils predicted that there was very likely to be a significant increase in the costs of managing waste disposal across

Merseyside. Therefore the Authority and Districts agreed to establish a Sinking Fund made up of contributions over time that could then be used to offset the impact of future very significant levy increases.

5.2 The District Councils agreed to increase the levy by 15.4% a year over a seven year period in order to build an adequate Sinking Fund, and to avoid potential cost increases of up to 26%. In the event rather than delivering seven years of 15.4% levy increases the Authority had two years at that level before reducing the levy to 12%. Since 2010-11 the levy has been held at a zero increase or has reduced each year. Despite this due to a combination of factors including the successful negotiation of the WMRC at a price that provides value for money, continuing active management of all aspects of the Authority's performance and reductions in tonnages, the Authority's Sinking Fund reached a balance of over £28M at the start of 2012-13. During 2012-13 no Sinking Fund contributions were planned and no funds were taken from it. Therefore the Fund stands at over £28M.

5.3 In the current financial climate District Councils and their Treasurers have stressed the need for the Authority to provide a means of repatriating the Sinking Fund in a managed way, that allows them to maximise the funding available to the Councils. At the same time this transfer of funding can only happen in a way that ensures the Authority's financial position is managed prudently and that the fiduciary duty of the Authority and its Members to the Council Tax payers of Merseyside is upheld. For example, a decision to return the whole of the £28M in one tranche would be likely to be an imprudent option as the next year would see the Levy increase by at least the same £28M to ensure a legally balanced budget was set. So to ensure the funds are utilised most effectively the impact not just on 2013-14 but also on future years needs to be taken into account. Any very large contribution from the sinking fund in one year which offsets the impact of the Authority's costs on the Districts in that year would inevitably lead to substantially above inflation increases in the levy in future years as the levy would need to 'catch up' with the budget either immediately or over a measured term.

5.4 A number of levy and sinking fund options which have been shared with and discussed by District Council Treasurers are set out for Members in Appendix 2 to this report. The levy and sinking fund options are shown together with the amount of levy increase required to 'catch-up' to the projected level of expenditure over time. In each case the projected level of spend is the same and is based on a prudent assessment at this stage of the future costs faced by the Authority over the period.

5.5 In the case of each of the levy options shown in the appendix, the 2013-14 impact on the levy under the current mechanism, is shown for each District Council. It is not possible to project the individual Council impacts any further into the future with any degree of accuracy as the elements of the levy and their interdependencies change each year with tonnage and population changes.

5.6 The adoption of any of the levy options identified in the appendix depends very significantly on the impact of the levy on the constituent District Councils. As the DCLG guidance on how the Council Tax freeze grant and the referendum calculation works has become clearer since the end of December it has also become clearer that there is very little scope in 2013-14 for the Councils to accept any contribution from the Sinking Fund. If the Councils were to accept a contribution from the Sinking Fund during 2013-14 then there would be an adverse effect on their Council Tax base affecting not just 2013-14 but future years as well.

5.7 When the effect of the DCLG guidance became clear it was apparent that in terms of the Councils' financial positions some of the Council Treasurers would be able to accept an increase in the levy as that could have had a beneficial effect on their Council Tax base calculations. Given that the effect of this would be to increase the level of balances held at this Authority that option was not considered to be beneficial for this Authority. The balances held in the Sinking Fund are already adequate and further contributions to them would not be prudent. The issue of how and when to make contributions from the Authority's Sinking Fund to District Councils would be amplified by further planned increases in the Fund. The meeting of Treasurers, including this Authority, agreed that the option that would be most acceptable to Council finances was the option where no financial contribution was made from Sinking Fund balances, where the Levy was set at the budgeted level of expenditure. While the effect of this is not the same for all the Councils, this is seen by this Authority and Treasurers as the option that creates least pressure for the Districts as a group.

5.8 The issue that remains is how to return sinking fund balances to District Councils without having a negative impact on Council finances. This has been under discussion by the Merseyside Treasurers group since the Authority's last budget. Due to the uncertainties of the DCLG Council Tax calculations and despite reviewing a number of options over the year, no realistic and workable solution has been found for 2013-14 that does not have a significant detrimental financial effect on the Districts. The Treasurers group have agreed to commit to reviewing the balances with the Authority and to identify a legally and financially workable solution that returns the Sinking Fund in a planned way and which is capable of gaining political support as the best way forward for Merseyside.

5.9 The levy options are set out at Appendix 2. The model proposed by the Treasurer for the Authority to adopt will be to set the Levy at the same level as Authority's proposed budget. This option, as recommended by the Treasurer, provides a solution that ensures District Council financial positions are supported most effectively this year. This was the approach endorsed by Treasurers.

6. The Levy Mechanism and recycling credits

6.1 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.

6.2 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.The Authority agreed with the Districts that this continued arrangement incentivised Districts to move away from collecting waste for Landfill. In the Authority's budget for 2012-13 the following amounts were provided:

	£
Amount included in Levy via tonnages	**(5,937,869)**
MWDA Expenditure on Recycling Credits	**5,937,869**

6.3 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.

6.4 The removal of the recycling credit levy element and payment to Disticts option was included in the Authority's budget report for 2012-13, as it had been discussed with and welcomed by District Councils. At the last minute the proposal was withdrawn as it could have had an unplanned and significant detrimental effect on the Council Tax base calculations for the Districts. The District Councils recognised the impact very late in the day and so the proposal was withdrawn and the budget re-set.

6.5 This year the proposal is put forward again, but should only be considered if the District Councils have confirmed before any Authority decision that adopting it will not have a detrimental effect on their financial position. At this stage this is considered unlikely but it may be confirmed on 31 January 2013 and is dependent upon DCLG clarification. If the DCLG position proves to be unhelpful this option will not be recommended as it will have a detrimental effect on Councils' financial positions. For 2013-14 this change would take £6.1M off the headline Levy charged to the District Councils. The Treasurer will provide an update to Members at the Authority meeting.

7. <u>Underlying and future costs facing the Authority</u>

7.1 The Authority continues to keep its funding and affordability model under review as the process of letting the new contracts progresses. As set out above, 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. (For comparison; if the Levy had continued at that level of increase the Authority would currently be seeking funding of almost £130M from District Councils – for the year in question the Authority's Levy demand will, in fact, be less than half that amount).

7.2 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. In 2012-13 this 'maximum of zero' approach was repeated and the Authority's overall levy reduced by over £2.5M in the face of increasing cost pressures.

7.3 The WMRC contract continues to minimise 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 still continue to present a significant challenge as with the escalating cost of landfill tax at current waste levels they could increase by £3.3M a year. The Authority is working to mitigate these cost increases via interim contracts to minimise the impact on District Councils. When the RRC contract is concluded and Landfill ceases, it is expected that apart from contractual inflation (which is included in both bids) there will not be a further very significant increase in the Authority's disposal costs. This is partly because the proposed solutions continue to attract WICs which will offset the costs.

7.4 The underlying costs of the Authority have been reduced by some £1.2M because the Authority has continued to review its budgeted expenditure for 2013-14.

7.5 The proposals for Levy options are attached at Appendix 2 to this report. As set out earlier their adoption depends to a very significant degree on the impact on the constituent District Councils under the DCLGs calculation of Council Tax bases and the Council Tax freeze grant and referendum. In discussion with District Council Treasurers, they have requested that the Sinking Fund monies be not returned to them at this stage through the levy as that would have a detrimental effect on their Councils' financial positions. Treasurers requested the levy be set at the same level as the Authority budget, and as this has no significant detrimental effect on this Authority or the District Councils this option has been accepted as the recommended way forward.

7.6 Over the last three budget cycles the Authority has delivered significant Levy reductions at a time when its cost base continues to increase. This has been achieved through a combination of reducing waste tonnages, active contract management, re-engineering of service provision and the regular review of management and administration practices and budgets. 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 will only be possible by using the sinking fund in future over the medium term.

7.7 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. Should the contract procurement be delivered successfully then there is the prospect in future that it will also attract Waste Infrastructure Credits (WICs – formerly PFI credits) of over £6M a year. The receipt of these funds cannot, however, be assumed to be certain as they are in the gift of central government. While the Authority's procurement is being managed with a view to obtaining the credits, until they are delivered they cannot be taken into account in the Authority's financial plans.

7.8 The Authority will monitor the financial position very carefully over the next few years to ensure it keeps Levy increases to a minimum. This approach will be predicated upon discussions with District Council Treasurers to ensure that the levy has the least impact on the Councils that it is possible to achieve.

8. Capital costs

8.1 The estimated costs of the capital programme are shown at Appendix 3 of the report. The programme largely represents the cost of renewing the Authority's infrastructure to enable it to meet its commitment to Districts to manage the disposal of waste. For 2012-13 the proposed programme has reduced from over £1.4M to £802k to reflect a delay in the Foul Lane Restoration. The revised programme for 2012-13 includes provision for the capitalisation of alterations and furniture costs associated with the office relocation.

8.2 The future programme in 2013-14 allows the Authority the opportunity to either provide a new HWRC site and develop further one of its existing HWRCs, or to develop two existing HWRCs, dependent upon needs. This includes the potential for developing the Otterspool and the Ravenhead HWRCs; modernising the services provided from each. Initial estimates are that there would be little additional revenue running costs from these developments as they are proposals to improve existing sites. There will be an additional cost of capital from these developments of some £80k from 2014-15 onwards.

9. Budget 2013-14

9.1 The Authority is asked to set a revenue budget of £65,591,099 which despite the cost pressure is only a small increase compared with the previous year.

10. Levy 2013-14

10.1 The Levy for 2013-14 is proposed to be set at £65,591,099 which means there is a small rise of £133k for the year.

10.2 The level of Levy varies for each District dependent upon population and tonnages; this is as a result of the agreed Levy apportionment methodology.

REVENUE BUDGET 2013-14 AND PRUDENTIAL INDICATORS 2012-13 TO 2015-16

REVENUE BUDGET 2013-14

1. Introduction

1.1 The Authority is required to set its Levy for 2013-14 by 15 February 2013. 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, as adjusted by agreed contributions to support the Levy. 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 2013-14 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 and the Business Support Manager.

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

2. Revised Budget 2012-13

2.1 Budget managers work with the Business Support Manager to review and monitor their budgets on a monthly basis identifying trends and any areas of potential under or overspending so that remedial action can be taken where that is necessary. The Authority formally monitors its overall revenue and capital budgets on a quarterly basis through the quarterly performance report 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 which Members are asked to approve.

2.2 The Revised Revenue Budget for 2012-13 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £64,706,111 which is a reduction of £752,026 from the Original Revenue Budget for 2012-13 (Column 1 of the respective pages of Appendix 1) which totalled £65,458,137. This reduction has enabled the Treasurer to propose making the following additional adjustments to balances and reserves.

	£m
General Fund – additional contribution beyond planned levels	0.75
General Fund – additional contribution to Earmarked Reserve (agreed by Members in November 2012)	-1.844
Earmarked reserve – additional contribution from General Fund (agreed by Members in November 2012)	1.844

2.3 The final balance on the General Fund is forecast to be at £16.4M at 31 March 2013.

2.4 The Earmarked Reserve will be utilised to fund the costs of the procurement. The Capital fund will be set aside for funding the Authority's capital programme in the medium term, rather than taking out additional borrowings. At the same time the Authority has a capital receipts reserve set aside from the sale of the former Huyton New Technologies Demonstrator Programme which will be utilised to fund capital expenditure.

2.5 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2012-13 are as follows:

	£000
Establishment – savings arising from holding posts vacant and savings on	-118

premises and supplies and services costs	
Establishment – additional costs of agency staff	+61
Establishment – reductions in income from fees	+97
Contracts – savings from effective contract management and reduction in tonnages	-1,051
Landfill tax – additional costs compared with original estimate	+303
Trade waste – income lower than estimated	+50
Closed landfill – savings from managing trade effluent and site costs effectively	-88
Rents, rates, depreciation – additional costs from loss of tenant and rental income at former Huyton NTDP – together with increase in depreciation – from new MRF	+1,662
Recycling credit payments – slightly higher than expected	+23
Communications – minor savings	-3
Landfill allowances – reduction in additional allowances required during the year	-343
Strategy & resources – additional budget virement from contracts	+48
Procurement – additional costs due to additional time to finalise procurement – offset by contribution from balances	+1,926 -1,926
Interest – net saving due to rates payable in year	-457
Capital Adjustment account – technical accounting adjustment to reflect change in	-883

depreciation arising from NTDP sale (one off) and new Gilmoss MRF (ongoing)	
Miscellaneous savings	-53
TOTAL NET SAVINGS	-752

3. Proposed Budget 2013-14

3.1 The proposed budget for 2013-14 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £65,591,099 which is an increase of only £133k from the allowed budget for 2012-13, i.e. despite significant cost pressures there is only a very small increase in the expenditure budget for 2013-14.

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

	£000
Establishment – maintaining vacant posts – offset by reduction in Halton recharge	-65
Contracts – costs for the landfill and WMRC contracts are projected to grow	+1,210
Landfill tax – increases but less than previously thought	+1,304
Trade waste income from Districts – increase over estimates	-92
Closed landfill sites – management of trade effluent and site costs	-79
Rents, rates & depreciation – loss of former NTDP income, increase in depreciation charges from the new MRF	+1,656
Recycling credits growth in credit costs	+283
Communications – small saving mainly attached to IT costs	-8

Strategy and development – growth from virement	+48
Landfill allowances – no longer required in the budget	-2,050
Procurement – additional costs offset by contribution from Earmarked reserve	+920 920
Interest – changes in rates payable and receivable	-662
Capital adjustment account – technical accounting adjustment offsetting depreciation on service line above	-1,451
Miscellaneous changes	+39
Total	+133

3.3 The proposed Revenue Budget for 2013-14 has been prepared on the basis of the following assumptions:

- No inflation unless contractually unavoidable
- 1% pay inflation increase – if agreed through national pay bargaining
- 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 2014 as follows:

	£M
General reserve	15.3
Earmarked reserve	0
Sinking Fund	28.9
Capital reserve	0.7
Capital Receipts Reserve	0

3.5 The General Fund reserve has been applied for the following purposes in 2012-13:

- Additional contribution to the Earmarked Reserve to meet the additional costs of the procurement due to the additional work required during the evaluation and financial close stages - £1.8M (further £0.9M for 2013-14)
- Write down of debt outstanding from Envirolink, £398k as a result of the voluntary liquidation of the organisation.

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 remains the largest local authority procurement that Merseyside has seen and there may yet 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.

3.7 The Sinking Fund remains at a high level. The intention is that the Sinking Fund will be used for the purpose it was established for i.e. to mitigate the impact of potential future levy increases on the District Councils. For 2013-14 due to the way the DCLG Council tax base calculations work compared with the Council Tax freeze grant and the referendum equation the District Councils asked that the levy mechanism should not be used to return funds to the Districts as it would have a detrimental financial effect on them. The District Council Treasurers have agreed to work together with this Authority to identify the best way of utilising the Sinking Fund to mitigate the impact of the Authority's future costs on them.

Risks

Risk	Potential impact	Risk category
Contract prices in RRC contract are higher than anticipated	Future reduction in balances from that predicted attend of 2013-14 or reduction in services.	Medium
Cost of procurement of the RRC contract is higher than anticipated – due to additional complexity and time to procure	Reduction in balances predicted at the end of 2013-14	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 2013-14	Medium
Contingency sums prove to be inadequate	Reduction in balances predicted at end of 2013-14	Medium
Additional Waste arisings as the economic downturn diminishes	Contract payments increase and exceed expected levels	Low

3.8 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 receipts reserve and then from the capital reserve before considering an extension of the Authority's Prudential Borrowing. The impact of the existing 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. The Authority is working to ensure that WICs are delivered as part of the procurement as they make the future costs more likely to be affordable.

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 continues to be again in the RRC process. Because the Authority is managing the risks of closing the contract carefully the contract has taken longer to close than was anticipated and so additional costs for the Authority's advisers have been included in the budget for 2013-14.

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 £64 in 2012-13, to £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
2012-13	26.9
2013-14	28.0
2014-15	28.8
2015-16	29.7

5.5 The reason for the costs not multiplying as significantly as expected is because of the continuing reductions in waste tonnages arising. In addition during 2013-14 and beyond the Authority will seek to mitigate these costs by diverting agreed levels of waste tonnages to the Interim Contract which was let in 2012-13, as well as by transferring tonnes on a short term basis to Greater Manchester as part of a mutually beneficial arrangement to make effective use of their surplus capacity at a price that is beneficial to the Authority (n.b. this is a short term price that would not be sustainable in the longer term).

6. <u>The Levy</u>

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 2013.

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:

19 April 2013	23 October 2013
29 May 2013	28 November 2013

4 July 2013	7 January 2014
9 August 2013	10 February 2014
17 September 2013	17 March 2014

6.3 It is proposed that a levy of £65,591,099 is set for 2013-14. This represents a small increase in the levy and is based on recovering the Authority's budgeted costs. For each of the constituent Districts there are changes in the levy, as calculated through the levy apportionment methodology.

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 estimated population.

6.5 The proposed levy for 2013-14 for each District is shown below, with comparisons to 2012-13. The methodology used to establish the District Levy is attached at Appendix 5.

District	Levy 2012-13 £	Levy 2013-14 £	Change £	Change %
Knowsley	7,128,483	7,182,423	+ 53,940	0.8
Liverpool	22,550,297	22,564,605	+ 14,308	<0.1
St Helens	8,479,227	8,403,073	- 76,154	-0.9
Sefton	12,613,601	11,867,612	- 745,989	-5.9
Wirral	14,686,530	15,573,390	+ 886,860	6.0
	65,458,138	65,591,103	+ 132,965	0.2

PRUDENTIAL INDICATORS 2012-13 TO 2015-16

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 2012-13 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 2012-13 to 2015-16 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
2012-13	0.820
2013-14	2.408
2014-15	0.900
2015-16	1.417

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
2012-13	33.731
2013-14	32.423
2014-15	31.278
2015-16	31.387

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	+/- %
2012-13	33.731	30.308	-3.423	-10.1
2013-14	32.423	29.000	-3.423	-10.6
2014-15	31.278	27.855	-3.423	-10.9
2015-16	31.387	27.964	-3.423	-10.9

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
2012-13	30.308
2013-14	29.000
2014-15	27.855
2015-16	27.964

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 Ratio of Financing Costs to Net Revenue Stream are as follows:

	%
2012-13	2.9
2013-14	2.5
2014-15	2.4
2015-16	2.3

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
2012-13	1.889
2013-14	1.669
2014-15	1.608
2015-16	1.586

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
2012-13	35.853	15.694
2013-14	34.580	14.752
2014-15	33.510	13.811
2015-16	33.720	12.869

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 showed they are largely included at nominal values and so there is no need to recognise any other liability arising from the majority of those leases. However, in respect of the Veolia MRF, the value of this asset is shown as a long term liability for this purpose because under the IFRS accounting conventions it is included as the Authority's asset in the Authority balance sheet.

10.6 Delegation is sought for 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
2012-13	32.231	15.694
2013-14	30.940	14.752
2014-15	29.832	13.811
2015-16	29.992	12.869

11.4 The Authority's revaluation of leases showed that the majority of those leases are held at a nominal value and so do not need a separate disclosure here. However, in respect of the Veolia MRF, the value of this asset is shown as a long term liability for this purpose because under the IFRS accounting conventions it is included as the Authority's asset in the Authority balance sheet.

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

12. <u>Minimum Revenue Provision</u>

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 2012-13, to approve the budget and a levy for 2013-14, 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.