REVENUE BUDGET 2014-2015 AND PRUDENTIAL INDICATORS 2013-2014 TO 2016-2017
WDA/03/14

Recommendations

That the Authority:

1. approves the revised budget for 2013-14;
2. approves the revenue budget for 2014-15;
3. considers the levy option proposals set out in Appendix 2 to this report and agrees the proposal for a Levy of £65.591M;
4. authorises the levy to be made on the constituent District Councils for 2014-15;
5. agrees the payment dates for the levy;
6. agrees to the proposals for establishing a Waste Development Fund
7. agrees to the proposed capital programme including the development of HWRCs during the remainder of 2013-14, 2014-15 and
8. approves the Prudential Indicators for 2013-14 to 2016-17 as set out in the report and detailed in Appendix 4;
9. 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;
10. delegates to the Treasurer to effect movements between borrowing and other long term liabilities sums under the framework of the Prudential Code; and
11. notes the methodology for calculating Minimum Revenue Provisions for the Authority as set out at section 12 of the detailed report.

REVENUE BUDGET 2014-2015 AND PRUDENTIAL INDICATORS 2013-2014 TO 2016-2017
WDA/03/14

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 statutorily 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 the provision of transfer stations, waste transport, household waste recycling centres; materials recycling facilities, food waste processing, and has the potential for green waste composting. Together these contracts enable the Authority to manage the treatment and 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 2013-14 the cost per tonne is £72. That cost per tonne has risen at £8 per tonne since it was introduced. For 2014-15 the cost will reach £80 per tonne, which under current regulations is the upper limit. The effect of the increase in tax rate per tonne is to add an additional cost pressure of up to £3.1M to the Authority's base costs each year (based on current tonnage levels). Unless the Authority takes steps to mitigate the impact of the landfill tax the total cost of the landfill tax to the Authority in 2014-15 would be over £31M. These costs cannot be avoided unless the Authority moves away from using landfill. While there has been no announcement of further increases to date, the government has made it clear that in the future it will consider whether to protect its revenues by inflating the tax in line with CPI or RPI, or indeed whether it will continue to impose further step change increases as have been imposed annually to date.

2.3 In order to reduce the extent to which the Authority relies on landfill and incurs landfill tax, the Authority has entered into two interim arrangements. There is a framework contract in place which has a three year term and for which the second year has been let. Under that contract, some 30k tonnes of waste are currently being diverted from landfill, at a slightly lower cost. This second year of the contract runs until September 2014, when a further tranche is due to be let, although the level of tonnages and costs cannot be estimated as the final year of the contract has not been let. The other interim arrangement is with Greater Manchester Waste Disposal Authority. The term of that agreement is for two years with an option for a third year, for up to 80k tonnes. The agreement was in its first year in 2013-14 and despite additional transport costs continues to provide savings for the Authority compared to landfilling. The agreement is planned to continue into 2014-15, with an option for carrying on into 2015-16 and during this period is expected to continue to generate savings for the Authority.

2.4 The Authority has been developing long-term 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 preferred bidder decision was made by the Authority and SSUK (Sita SembCorp UK) were appointed. The decision was challenged by the losing bidder, Covanta who initiated legal action. The Authority was able to negotiate a settlement to stop the challenge and cease legal actions by Covanta. Although this was a significant success on behalf of the Authority, it did lead to a short delay in finalising the contract with Sita.

2.6 The delay in finalising the RRC led to a price increase in line with expectations as inflation trigger points had been reached, but the contract will still secure long term waste disposal for the Authority at a price that is lower than the cost of Landfill and represents value for money. At the same time the contract will contribute significantly to the Authority's ability to meet its environmental obligations by minimising Landfill.

2.7 On 23rd December 2013 the Authority and the consortium led by Sita (SSUK) reached financial close on the Resource Recovery Contract. This meant that the Authority and the consortium have finally legally agreed to enter the Resource Recovery Contract (RRC) for an initial period of 30 years (with a five year extension option at the end of that period).

2.8 The contract with SSUK was reached within the financial boundary approved by the Authority at its meeting on 12th December 2013 and means that over the life of the contract the Authority will save over £100M compared with the cost of continuing to landfill. The contract will now move to its development stage, where facilities are constructed at Wilton in Redcar and locally at Kirkby in Knowsley. The planned construction will take 33 months and the facilities are proposed to become operational towards the end of 2016. By the end of 2016-17 and during 2017-18 the Authority will be able to minimise landfilling and the new contract will start to deliver environmental and financial benefits for Merseyside and Halton.

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 continues to set very challenging financial targets for Councils and although they have responded well to the changes in their financial resources up to now, those challenges mean that some very difficult decisions are having to be made about the shape and size of local government services in the future.

3.2 In 2013-14 Merseyside Councils continued to face very significant savings targets, and for 2014-15 and beyond additional, very significant savings are required. The Councils have so far been able to make the additional savings but this has been through redesigning services and service provision. They are already looking towards 2015-16 and beyond where further large 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 providing funding from the proposed Waste Development Fund 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 2013-14 have been established from the Authority's projected activities in the year and the projected levels spending by the Authority: including the 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 spending for 2013-14 is £7k lower than originally agreed. The effect of this is relatively neutral and leaves the Authority with a prudent level of balances to enable it to plan to give a neutral levy over the medium term.

4.2 The Authority's proposed budget for 2014-15 is subject to the additional pressure of an increase in the landfill tax of £8 per tonne, taking the tax per tonne for landfill to £80. This additional tax potentially adds up to £3.1M to the Authority's base costs for the year at current tonnage levels. The impact of this cost pressure has had to be offset by the continued use of interim contracts which remove waste from landfill.

4.3 There is an additional growth requirement arising from the proposed development of a HWRC in Liverpool which, if approved, is likely to have a part year impact in 2014-15. There has also been a contractual five year review of the price charged for the Authority's use of the Materials Recycling Facility; although the price is not yet finalised this is likely to increase the Authority's costs, however, it still provides a cost effective way of ensuring waste is recycled efficiently. Elsewhere additional performance demands and improvements have added to the Authority's cost base, including treating leaf fall and litter bins waste.

4.4 The net impact of the cost increases and continued savings has been that cost pressure for the Authority's expenditure budget in 2014-15 is £2.96M. Recognising the continuing cost pressures on constituent District Councils the Authority's proposed budget for 2014-15 includes the application of £2.96M from the General Fund to offset the cost increases. The effect of this contribution is to enable the Authority to offer a neutral, or zero overall increase levy to the Districts for 2014-15. While the impact on each District is not the same due to the way the levy mechanism works, this approach was discussed at a meeting of the District Council Treasurers and received broad support.

4.5 Additional savings may be available for 2014-15, especially if the framework contract that has a further year to operate brings forward market capacity proposals during the spring. However, this cannot be taken into account in setting the budget as it is not certain at this stage, and in the previous year the tonnages treated were lower than in the first year.

4.6 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 efficiencies or 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 Waste Development 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 potential very significant levy increases that the new contracts could have brought.

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 either 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 2013-14. During 2013-14 no Sinking Fund contributions were planned and no funds were taken from it. Therefore the Fund stands at over £28M.

5.3 The Authority stressed during the procurement that the Sinking Fund was necessary to meet potential liabilities arising from the RRC. It is now clear that with the RRC signed and the threat of legal challenge from the losing final bidder eliminated, there are unlikely to be calls for use of the sinking fund for its original intended purposes. The Authority recognised that this was likely to be the case and at the Authority meeting on 29th November 2013 (WDA 4913) agreed to use the Sinking Fund to establish a Waste Development Fund to support the Joint Waste Strategy and its objectives. This proposal was dependent upon the conclusion of the RRC. Now that the RRC has been concluded the proposal can be taken forward.

5.4 As a part of the budget it is proposed the Sinking Fund be transferred to a Waste Development Fund. The proposals for the dispersment of the Waste Development Fund are proposed elsewhere on this agenda.

5.5 A number of levy options are set out at Appendix 2. It is proposed to set the Levy at a level that achieves an overall neutral impact, or an overall zero levy increase, option 2 in the Appendix. This option, as recommended by the Treasurer, provides a solution that ensures District Council financial positions are supported most effectively this year. It also provides room for this Authority to continue to provide a neutral levy for the next two years after that, by utilising the General Fund balances available to it. Thereafter, the impact of the RRC is expected to bring the Authority's overall costs back to the levels where significant levy increases should not be required. This proposed approach has been discussed with District Council Treasurers who support it as meeting the Authority's and their Councils' needs.

5.6 The Authority's General Fund has been maintained at a level that has been described as 'higher than normal' as the RRC procurement progressed. Since the RRC financial close, it has been recognised that the need for a higher than normal level of General Fund has subsided, as the risks around the procurement are no longer likely to materialise. The Authority faces cost increases beyond 2014-15 in the lead up to the RRC becoming operational. Once the RRC becomes operational it is expected that the Authority's costs will fall back to the levels of the current and proposed Levy for 2014-15. Therefore in the medium term it is possible to utilise the General Fund to keep the Levy neutral for 2015-16 and 2016-17 after which the RRC will be in place. Although this will be a decision for the Authority to make each year the costs of this approach are illustrated on the second page of Appendix 1 to this report, showing a proposal to use the General Fund over the medium term: 2014-15 £2.96M, 2015-16 £4.28M, 2016-17 £5.68M; leaving a relatively low balance of £1.86M. While this balance may be relatively low it is anticipation of a lower risk environment for the Authority where the procurements are settled. The consequence of this approach will be to make it more difficult to fund future one off developments and growth from the General Fund as the scope for such funding will be diminished.

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, although the mandatory requirement to provide such credits was 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 2013-14 the following amounts were provided:

	£
Amount included in Levy via tonnages	**(6,220,654)**
MWDA Expenditure on Recycling Credits	**6,220,654**

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 Districts option was included as a proposal 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 Once again, this year the proposal is not being put forward. The proposal will only be considered if in future 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 is dependent upon any further DCLG guidance, which has been clear in the last two years and is unlikely to change. For 2014-15 this change would take £5.8M off the headline Levy charged to the District Councils.

7. Underlying and future costs facing the Authority

7.1 The Authority continues to keep its funding and affordability model under review as the process of letting the new contracts has been finalised. 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 over £130M from District Councils – for 2014-15 the Authority's proposed Levy demand will, in fact, be 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. In 2013-14 the Levy increase was only £132k or just 0.2%.

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 would potentially increase by £3.1M next year. The Authority is working to mitigate these cost increases via interim contracts to minimise the impact on District Councils. When the RRC contract commences operation and Landfill largely ceases, it is expected that apart from contractual inflation there will not be a further very significant increase in the Authority's disposal costs for the foreseeable future.

7.4 The underlying costs of the Authority have increased by almost £3M which is largely due to Landfill Tax and planned service developments, which is offset by savings elsewhere as the Authority has continued to review its budgeted expenditure for 2014-15.

7.5 The proposals for Levy options are attached at Appendix 2 to this report. They represent a number of ways for the Authority to secure funding from Councils. However, the reality of the options is that only a limited amount of support can be provided for mitigating the impact of the Levy, because the longer term impacts of higher levels of support are unsustainable and would lead to a very significant increase in the Levy in future years, which is not likely to be acceptable to the District Councils and are not being recommended as affordable in the medium term.

7.6 The budget proposal for 2014-15 is to propose a neutral levy by providing £2.96M of support from the General Fund. The use of the General Fund in this amount would enable the Authority to make a further neutral Levy proposal over the two subsequent years, leading into the years when the RRC commences and the Authority's costs come back to a level nearer to the current and proposed Levy. District Council Treasurers have been consulted over the Authority's budget proposal and the neutral overall levy was supported as this has no significant detrimental effect on this Authority or the District Councils.

7.7 Over the last four years the Authority has delivered significant Levy reductions or maintained a broadly neutral Levy 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 mitigation will only be possible by using the General Fund in future as set out above.

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 possible on the Councils.

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 2013-14 the proposed programme has reduced from over £2.4M to almost £1.4M to reflect a delay in the development of HWRCs. While the Burtonhead Road, St. Helens HWRC development has progressed as planned, the development in Liverpool has been delayed while a suitable site was identified.

8.2 The future programme in 2014-15 provides the opportunity for the Authority to provide a new HWRC development in Liverpool as the Council has been able to identify a suitable site and a planning application is being prepared. In addition, the proposed programme will enable the Authority to ensure it meets its environmental commitments by ensuring that in Southport the Foul Lane closed landfill site restoration can be progressed.

9. Budget 2014-15

9.1 The Authority is asked to set a revenue budget of £65,591,099 which, despite the cost pressure is the same as the previous year.

10. Levy 2014-15

10.1 The Levy for 2014-15 is proposed to be set at £65,591,099 which means there is no change 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 2014-15 AND PRUDENTIAL INDICATORS 2013-14 TO 2015-17

REVENUE BUDGET 2014-15

1. Introduction

1.1 The Authority is required to set its Levy for 2014-15 by 15 February 2014. 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 considered in paragraphs 3.1 to 3.6 of this report.

1.4 The General Reserve has been held at a 'higher than normal' level to reflect the potential for significant unforeseen costs arising from the RRC. Now that the RRC has been concluded it will be possible for the Authority to release significant proportions of the General Fund, in a planned way, over the next three years to mitigate the impact of budget increases on the Levy to District Councils. At the end of this period the Authority's budget costs are expected to return to a level where further subsidy from Reserves will no longer be required. The proposed General Fund contribution would be as follows: 2014-15 £2.96M, 2015-16 £4.28M, 2016-17 £5.68M; leaving a relatively low balance of £1.86M. At that point the General Fund will be at a low level to reflect the risks being faced by the Authority at that time. This position will be reviewed annually and Members will be updated to ensure they are able to consider the impact of proposals for use of the General Fund each year in advance of any funds being applied.

1.5 The Authority developed a Sinking Fund approach at the beginning of its procurements with a view to using the fund to meet increases in transitional costs of changing the way it managed and disposed of waste. Following the successful implementation of the WMRC and the financial close of the RRC it has become clear that very significant cost increases are now unlikely to impact on the Authority and the Levy. In consequence the Sinking Fund is no longer required for the purposes for which it was originally established. This was recognised by the Authority on 29th November 2013 (WDA 4913) when the transfer of Sinking Fund monies to a proposed Waste Development Fund was considered. Now that the RRC financial close has been agreed, the proposed transfer from Sinking Fund to Waste Development Fund can take place, as the risks of unforeseen financial circumstances arising from negotiations around the contract have been mitigated.

1.6 The capital reserve was created to contribute towards the costs of capital schemes offsetting the costs of borrowing. It will support the Capital programme for 2014-15 and in part for 2015-16 before the Authority needs to consider extending its prudential borrowing. The earmarked reserve smoothes the costs of funding the costs of advisers for the procurement.

1.7 The robustness of the Authority's budget for 2014-15 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.

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

2. Revised Budget 2013-14

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 2013-14 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £65,583,855 which is a reduction of £7k from the Original Revenue Budget for 2013-14 (Column 1 of the respective pages of Appendix 1) which totalled £65,591,099. This reduction together with commitments to the procurement has required the Treasurer to propose making the following additional adjustments to balances and reserves.

	£000
General Fund – additional contribution beyond planned levels	7
General Fund – additional contribution to Earmarked Reserve	-3,361
Earmarked reserve – additional contribution from General Fund	3,361

2.3 The final balance on the General Fund is forecast to be at £14.9M at 31 March 2014.

2.4 The Earmarked Reserve will be utilised to fund the costs of the procurement. This includes not only the costs of reaching financial close, but also includes the additional costs of meeting the legal challenge from the unsuccessful bidder to the Authority's contract.

2.5 The Capital fund will be set aside for funding the Authority's capital programme in the short to 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 a site that had no further operational or strategic use for the Authority and which will be utilised to fund a proportion of the capital expenditure in 2013-14.

2.6 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2013-14 are as follows:

	£000
Establishment – reduction arising from holding posts vacant and savings on premises and agency costs offset by final Mann Island costs	-57
Contracts – savings from landfill tax and contract costs partially offset by additional costs of interim arrangements and reduction in planned savings from the FCC contract as they treated less waste than expected	+478
Closed landfill – savings from managing trade effluent and site costs effectively	-15
Rents, rates, depreciation – reductions arising from lower than anticipated depreciation costs, offset by technical accounting adjustments below	-575
Recycling credit payments – lower than expected, mainly reductions in payments to Wirral (£465k) and Sefton (£226k)	-668
Strategy & resources – additional budget largely for apprentices programme (£77k) and Community Funding (£175k)	+251
Procurement – additional costs arising largely due to the costs contesting the legal challenge and the financial settlement arising from the challenge (total of over £2.8M) – offset by a contribution from balances	+2,441 -2,441
Interest – net saving due to rates payable in year	-22

Capital Adjustment account – technical accounting adjustment to reflect change in depreciation above	+601
TOTAL NET SAVINGS	-7

3. Proposed Budget 2014-15

3.1 The proposed budget for 2014-15 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 the same as the allowed budget for 2013-14, i.e. despite significant cost pressures; there is no increase in the proposed Levy for 2014-15.

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

	£000
Establishment – employee costs increases offset by savings from premises, agency and support costs, with additional income from capital fees and an increase in the Halton council recharge	-212
Contracts – the increased cost of disposing of residual waste due to increase in Landfill Tax – less than otherwise would be under landfill arrangements – the rate of increase would be higher if interim arrangements were not in place (FCC only part year), increase in HWRC costs arising from Burtonhead Road and the proposed HWRC development in Liverpool (part year) as well as service improvements	+2,671
Rents, rates & depreciation – small increases in rent and rates offset by a reduction in the total depreciation and impairment charge (offset by technical accounting adjustments below)	-441
Recycling credits – the reduction in credit costs (largely arising from Wirral £464k,	-379

and Sefton £165k offset by an increase especially from St Helens £189k)	
Strategy and development – growth largely as follows: Education and awareness £55k; Apprentices £60k; Community Fund £50k and Re-Use funding £70k	+233
Procurement – reduction in costs as the procurement concludes, offset by contribution from Earmarked reserve	-810 +810
Interest receivable – significant reduction in interest receivable in anticipation of reduction in balances arising from potential distribution of Waste Development Fund	+608
Interest payable – reduction due to interest rates	-97
Capital adjustment account – technical accounting adjustment offsetting depreciation on service line above	+577
Contribution from General Fund	-2,960
Total	0

3.3 The proposed Revenue Budget for 2014-15 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 contingency sums are minimal

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 2015 as follows:

	£M
General reserve	11.8
Earmarked reserve	0
Sinking Fund	0
Development Fund	0
Capital reserve	1.6
Capital Receipts Reserve	0

3.5 The General Fund reserve has been applied for the following purposes in 2013-14:

- 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 - £3.3M (further £0.1M for 2014-15)
- Contribution to Mann Island costs £125k.

3.6 The level of General Reserve has been reviewed as part of the medium term financial strategy. Taking into account the contribution towards maintaining a neutral Levy for 2014-15, and for the following two years it is expected that the General Fund will be diminished to a level that is relatively low, estimated at £1.86M. While that seems low by comparison with more recent trends it will reflect the relatively reduced level of risks faced by the Authority, while ensuring the Authority does not hold funds for which there may no longer be a use and supports the District Councils as they come to terms with an ever increasingly difficult financial regime.

3.7 The Sinking Fund is expected to be wholly transferred into the Waste Development fund if that proposal is confirmed by the Authority. Thereafter, should the proposed Waste Development Fund be approved by the Authority and the consultation with Districts confirms the proposed use of the fund it is expected that the fund will be utilised for the shared objectives of the Joint Waste Strategy in full during 2014-15.

Risks

Risk	Potential impact	Risk category
Contract prices in RRC contract are higher than anticipated	The RRC has reached financial close – prices are now fixed and can be relied upon not to change in an unplanned way	Low
Cost of procurement of the RRC contract is higher than anticipated – due to additional complexity and time to procure	The RRC financial close has taken longer than hoped, but is now in place and the risk of the impact of delays has transferred to the contractor	Low
Procurement takes longer than expected so additional cost arise from continuing to landfill for a longer period	The contract will be operational during 2016-17 and the Authority's balances will be sufficient to enable it to reach that point without a significant increase in the costs of the Levy	Low
Contingency sums prove to be inadequate	Significant risks arising from the procurement and challenge have either not materialised or have been dealt with	Low
Additional Waste arisings as the economic downturn diminishes	Contract payments increase and exceed expected levels	Low

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 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 are likely to become easier to predict as the costs and timing for the RRC contract becomes increasingly 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 have become much more clear with the financial close now achieved.

5.2 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 would be as follows:

Year	Potential Cost of Landfill Tax £M
2013-14	28.0
2014-15	31.1

5.3 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 has sought to mitigate these costs by diverting agreed levels of waste tonnages to the Interim Contract which was initially let in 2012-13, as well as by transferring tonnes on a short term basis to Greater Manchester Waste Disposal Authority as part of a mutually beneficial arrangement to make effective use of their surplus capacity at a price that is beneficial to this Authority (N.B. this is a short term price that would not be sustainable in the longer term).

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 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:

17 April 2014	23 October 2014
29 May 2014	28 November 2014
4 July 2014	8 January 2015
11 August 2014	13 February 2015
17 September 2014	17 March 2016

6.3 It is proposed that a levy of £65,591,099 is set for 2014-15. This represents a no overall change 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 demand, 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 2014-15 for each District is shown below, with comparisons to 2013-14. The methodology used to establish the District Levy is attached at Appendix 5.

District	Levy 2013-14 £	Levy 2014-15 £	Change £	Change %
Knowsley	7,182,423	7,393,466	+ 211,043	2.94
Liverpool	22,564,604	22,693,951	+ 129,347	0.57
St Helens	8,403,072	8,217,370	- 185,702	-2.21
Sefton	11,867,611	12,200,903	+ 333,292	+2.81
Wirral	15,573,389	15,085,409	- 487,980	-3.13
	65,591,099	65,591,099	0	0.00

PRUDENTIAL INDICATORS 2013-14 TO 2016-17

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 2013-14 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 2013-14 to 2016-17 are shown in Appendix 4 but are summarised as follows.

5. Estimates of Capital Expenditure

5.1 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
2013-14	1.383
2014-15	2.411
2015-16	1.405
2016-17	1.312

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
2013-14	33.731
2014-15	32.423
2015-16	31.115
2016-17	30.865

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	+/- %
2013-14	33.731	30.308	-3.423	-10.1
2014-15	32.423	29.000	-3.423	-10.6
2015-16	31.115	27.692	-3.423	-11.0
2016-17	30.865	27.442	-3.423	-11.1

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
2013-14	30.308
2014-15	29.000
2015-16	27.692
2016-17	27.442

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:

	%
2013-14	2.7
2014-15	3.4
2015-16	3.2
2016-17	3.1

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
2013-14	1.743
2014-15	2.323
2015-16	2.102
2016-17	2.024

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
2013-14	35.887	14.752
2014-15	34.580	13.811
2015-16	33.272	12.869
2016-17	33.020	11.928

10.5 These limits separately identify borrowing from other long term liabilities such as finance leases. The revaluation of the leases as at 1 April 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
2013-14	32.248	14.752
2014-15	30.940	13.811
2015-16	29.632	12.869
2016-17	29.382	11.928

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. 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 contractor support for the post of Procurement Director for the RRC procurement will not be continued. The budget also includes the assumption that the Authority will maintain a vacancy in the post of Engineer 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 2013-14, to approve the budget and levy for 2014-15, and to approve the capital programme and prudential indicators as well as 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.