REVENUE BUDGET 2011-2012 AND PRUDENTIAL INDICATORS 2010-2011 TO 2013-2014
WDA/03/11

Recommendations

That the Authority:

1. approves the revised budget for 2010-11;
2. approves the Revenue Budget and Levy for 2011-12;
3. authorises the Levy to be made upon each District Council for 2011-12;
4. agrees payment dates for the levy;
5. approves the Prudential Indicators for 2010-11 to 2013-14 as set out in the report and detailed in appendix 4.
6. delegates to the Treasurer, within the total limit for each year, to effect movements between the separately agreed limits in accordance with option appraisal and best value for money for the authority; and
7. delegates to the Treasurer, to effect movements between borrowing and other long term liabilities sums as with the above delegation.

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REVENUE BUDGET 2011-2012 AND PRUDENTIAL INDICATORS 2010-2011 TO 2013-2014
WDA/03/11

Joint Report of the Director and Treasurer to the Authority
Executive Summary

1. Purpose of the Report

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

2. Background

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

2.2 While the landfill contracts remain important to the Authority's strategic management of waste disposal in the medium term, over a longer term they present a significant financial challenge. The Landfill Tax is a levy imposed by the Government on every tonne of waste that goes to landfill. In 2010-11 the cost per tonne was £48. That cost per tonne is planned to rise at £8 per tonne each year until the cost per tonne reaches £80. For 2011-12 the cost will be £56 per tonne, for 2012-13 it will be £64 per tonne and for 2013-14 it will reach £72 per tonne. The effect of the increase in tax rate per tonne is to add an additional amount of up to £3.7M to the Authority's base costs each year (based on current tonnage levels). These costs can not be avoided unless the Authority moves away from using landfill.

2.3 In addition the Authority has to pay for the costs of Landfill Allowances (LATS), and here the environment is changing. The Authority will continue to need to purchase additional allowances, as allocations from the Government are reduced over time. It is anticipated that the Authority will have to purchase additional allowances from the marketplace if it is to avoid paying a penalty of £150 per tonne. At present a prudent amount has been included in the estimates to reflect the potential purchases, but the eventual costs may vary dependent upon the marketplace at the time. While there are proposals that the system of landfill allowances and penalties will be withdrawn in the medium term, this has not yet been put into practice and the Authority is still required to procure allowances to avoid penalties.

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

2.5 The RRC has gone through a number of formal EU procurement stages and the Authority is currently in negotiation with two bidders as they prepare their final tenders, the preferred bidder will then be selected and soon thereafter the contract will be awarded. It is anticipated that this will happen during 2011.

2.6 The RRC procurement process was delayed for a period while the Authority worked to obtain a site or sites for the proposed facilities and while planning matters were to the fore. While neither the sites nor the planning matters were overcome the Authority is now able to continue with the procurement as both the remaining bidders have identified viable sites for their solutions which have the benefit of the planning consents that are required to complete the proposed contract. The sites and planning risks have effectively been transferred from the Authority and have been taken on by the bidders.

2.7 The effect of the resolution to the sites and planning matters is that the delays that had been experienced by the Authority have not led to an overall delay in the contract; the procurement is back on track. There are no further additional costs arising from delays. In addition the Authority has been able to scale back proposals in the capital programme to procure land to support the project, which has a positive impact on revenue costs in the current budget.

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

2.9 For each of the solutions the costs to the Authority may be kept to a minimum if the current proposed funding through the Private Finance Initiative (PFI) is retained. The Authority has recently had confirmation that the proposed PFI funding credit of £90M remains in place provisionally, which represents an affirmation of the Government's continuing support for the scheme (PFI funding was withdrawn from a number of similar local authority schemes). The Authority will continue to work with DEFRA and their waste team at the Waste Implementation Development Programme (WIDP) to ensure the scheme continues to attract support for the PFI element of the funding, although this will not be certain until the final business case has been approved.

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

3. External factors

3.1 The outcome of the general election in May 2010 saw a new coalition Government come into office. The new Government implemented an emergency budget in June 2010 which included the requirement for savings to be made by local authorities in the current financial year. This was a challenge for local authorities as the requirement was introduced after their annual budget setting process. Since then and in light of the economic position the Government has announced the details of its support for local government spending and the limits it is placing on local government spending for the next four years. The Government's support for local government has been reduced significantly over the period, with an emphasis on reducing spending in the early years, front loading local authority savings requirements.

3.2 The Waste Disposal Authority does not receive direct revenue funding from Government, but sets a Levy that impacts upon the level of Council Tax that the District Councils approve. In light of the significant funding changes that the District Councils are facing and the limits on their fund raising capacity through the cap on Council Tax rises it is incumbent upon the Authority to minimise the impact of the Levy in the next budget round, as that is the year when it will be most difficult for the constituent Councils to manage the funding changes.

4. Financial effect and future costs facing the Authority

4.1 The Authority has kept its funding and affordability model under review as the process of letting the new contracts has progressed. At the outset a funding envelope that set an annual levy increase at 15.4% was agreed with District Council Treasurers. That envelope allowed the Authority to provide for a Sinking Fund and to plan to use the fund over time to offset future very significant rises in the Levy. (If the Levy had continued at that level of increase the Authority would currently be seeking funding of over £90M from District Councils.)

4.2 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 overall Levy.

4.3 The WMRC contract has successfully reduced costs to the Authority and together with reductions in waste arisings the Authority has been able to manage with the smaller Levy increase. The Authority is also benefiting from a significant reduction in the planned capital programme for the procurement (taking £80M out of the programme) that has resulted in a direct revenue saving.

4.4 Taken together the Authority has been able to review its planned Levy for 2011-12 and has been able to provide for a reduction in the overall level of the Levy for the year of almost £3M. The reduced Levy level allows the Authority to provide a maximum increase for the District councils of zero. The effect of this is that for most Districts there is a one off reduction in their level of Levy which has been effected to reflect the financial changes they are facing in the next year.

4.5 The level of the budget for the Authority allows the Sinking Fund policy to be maintained. The Sinking Fund is planned to be used in future years to smooth the effect of future costs increases on the Levy. By releasing the Sinking Fund over time the Authority will be able to manage and minimise the effect of increases in the cost base on the need to raise the levy. Without using the Sinking Fund in this planned way the Authority would have to raise the Levy very significantly over a short period. The need to use the Sinking Fund to smooth the Levy remains as the Authority faces potential cost increases from Landfill taxes that add up to in excess of £50M over the next five years (the cumulative effect of an escalation in the landfill tax of £8 per tonne per year). The Sinking Fund will contribute to minimising the financial impact on the Levy in that period.

4.6 The Authority has sufficient landfill allowances up to the end to 2010-11, with a budgeted cost of £1.1M. For 2011-12 the cost is estimated to increase to £1.3M and from 2012-13 a further increase to £1.8M is anticipated. By 2013-14 the estimated cost of LATS should remain at £1.8M which still represents a significant increase over a medium term.

4.7 If the Authority is successful in implementing the RRC then the 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 LATS and landfill tax.

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

5. Capital costs

5.1 The estimated costs of the capital programme are shown at Appendix 3 of the report. The major change in the cost estimates included in the programme is in respect of the procurement of land for the RRC contract. The amount of £80M included in the prior year's programme has been removed as the commercial procurement of a long term land holding is no longer required. Other costs include the costs associated with the Household Waste Recycling Centre development programme and works to improve facilities across Merseyside. The revenue impact of the capital programme has been included in the budget estimates.

6. Budget 2011-12

6.1 The Authority is asked to set a revenue budget of £67,991,723 which is a decrease compared with the previous year

7. Levy 2011-12

7.1 The Levy for 2010-11 is set at £67,991,723 which means there is a decrease for the year.

7.2 The level of Levy varies for each District dependent upon population and tonnages; for all the Districts there is a maximum of a zero levy. The effect of this is that one District has no levy change while all the others see a small reduction as a result of the agreed Levy apportionment methodology. Overall there is a 4.1% reduction in the levy compared with the previous year.

REVENUE BUDGET 2011-12 AND PRUDENTIAL INDICATORS 2010-11 TO 2013-14

REVENUE BUDGET 2011-12

1. Introduction

1.1 The Authority is required to set its Levy for 2011-12 by 15 February 2011. In so doing, it needs to consider the financial effects of all factors which impact on the Authority, its Budget, the Levy and the consequential effects on the District Councils on Merseyside. These factors are summarised in the Executive Summary to this report.

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

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

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

b) the adequacy of the proposed financial reserves.'

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

1.4 The robustness of the Authority's budget for 2011-12 is demonstrated against a table of components with the Authority's position identified against them.

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

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

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

2. Revised Budget 2010-11

2.1 The Authority monitors its revenue and capital budgets on a quarterly basis and uses this to monitor the position at the end of the third quarter of the year to predict the outturn for the year in a Revised Budget for 2010-11 which Members are asked to approve.

2.2 The Revised Revenue Budget for 2010-11 is shown at Appendix 1, in column 2 of the respective pages and details a total cost of £66,387,507 which is a reduction of £4,484,534 from the Original Revenue Budget for 2010-11 (Column 1 of the respective pages of Appendix 1) which totalled £70,872,041. This reduction has enabled the Treasurer to propose making the following additional contributions to balances and reserves.

	£m
General Fund – additional contribution beyond planned levels	4.5

2.3 The final balance on the General Fund is forecast to be at £11.7M at 31 March 2011.

2.4 The main areas for saving (-) or increased cost (+) in the Revised Revenue Budget for 2010-11 are as follows:

	£000
Interest – increase in amount received and reduction in amount paid out as a result of not progressing with capital acquisition fro RRC	-2,110
Landfill tax (reduced waste arisings)	-1,164
Depreciation (lower due to smaller capex)	-327
Recycling credits (lower waste arisings)	-330
Contract payments (lower waste arisings)	-284
Employee costs – including vacancy management	-225
Supplies and services reductions (30%)	-96
Agency cost savings	-66
Contract procurement savings (offset by contribution from earmarked reserve)	-59
Closed landfill – effluent costs	-32
Closed landfill – premises costs – due to persistent vandalism and theft	+52
Trade Waste – reduction in income	+37

Net effect of other savings (includes technical accounting adjustments)	-119
TOTAL NET SAVINGS	-4,485

3. **Proposed Budget 2011-12**

3.1 The proposed budget for 2011-12 is shown at Appendix 1, in Column 3 of the respective pages, and details a total cost of service of £67,991,723 which is a reduction of £2.9M from the allowed budget for 2010-11, i.e. there is a reduction in the budget for 2011-12.

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

	£000
Reduction in contribution to Sinking Fund	-2,303
Interest – increase in amount receivable and reduction in amount payable due to not progressing with capital acquisition for RRC	-2,163
Depreciation (lower due to smaller capex)	-327
Recycling credits – reduced tonnages	-161
JMWMS – strategy development largely completed and partnership development savings	-158
Contract payments – minor saving from reduced tonnages	-103
Supplies and Services – reductions	-75
Employee costs – vacancy management	-56
Agency costs – reduction	-54
Landfill tax costs	+2,703
Landfill allowances costs	+193

Waste prevention – scheme to reduce future tonnages	+191
Rent and Rates	+31
Contract procurement (offset by contribution from Earmarked reserve)	+32
Miscellaneous	-439
Total	-2,880

3.3 The proposed Revenue Budget for 2011-12 has been prepared on the basis of the following assumptions:

- Inflation assumed at 2% where unavoidable
- Pay inflation assumed at 1%, except Chief Officers where 0% has been applied
- Contract inflation is as estimated for in the contracts
- 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, and in part reflect the reduced cost from 2009-10
- 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 2012 as follows:

	£M
General reserve	11.7
Earmarked reserve	0.3
Sinking Fund	28.9
Capital reserve	0

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

Risks

Risk	Potential impact	Risk category
Contract prices in RRC contract are higher than anticipated	Future reduction in balances from that predicted attend of 2011-12 or reduction in services.	High
Cost of procurement of the RRC contract is higher than anticipated	Reduction in balances predicted at the end of 2011-12	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 2011-12	Medium
Contingency sums prove to be inadequate	Reduction in balances predicted at end of 2011-12	Medium
Additional Waste arisings as the economic downturn diminishes	Contract payments increase and exceed expected levels	Low

3.6 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 the continued development of the Household Waste Recycling Centres across Merseyside as well as ensuring that there is a continuing programme of site works and developments at the closed landfill sites managed by the Authority.

4.2 The funding for the capital programme will be through a contribution from the capital reserve and thereafter from Prudential Borrowing from 2012-13. The impact of the prudential borrowing is set out in the next section of this report and in Appendix 4.

5. Future budget levels

5.1 Future budget levels remain difficult to predict as the costs and timing for the RRC contract remain uncertain. The finalisation of the RRC contract including the time it will take to implement, the eventual cost of the contract and the ongoing costs to continue current activity until the new contract is in place are all matters that remain uncertain.

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

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

5.4 Other budget pressures on the Authority stem from the ongoing costs that will continue to accrue until the RRC is concluded. These include the costs of continuing to landfill and in particular the significant increases in the Landfill tax that the Authority will be required to pay as the rate per tonne moves from £48 in 2010-11, to £56 in 2011-12, £64 in 2012-13 and £72 in 2013-14. The costs based on current projections of waste flow are as follows:

Year	Cost of Landfill Tax £M
2010-11	21.8
2011-12	25.7
2012-13	29.3
2013-14	33.0

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

6. The Levy

6.1 The Authority is required under section 74 of the Local Government Finance Act 1988, as amended by the Local Government and Housing Act 1989, to issue its Levy demands upon the District Councils of Merseyside before 15 February 2011.

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:

21 April 2011	28 October 2011
3 June 2011	5 December 2011
11 July 2011	11 January 2012

16 August 2011	14 February 2012
22 September 2011	16 March 2012

6.3 It is proposed that a levy of £67,991,723 is set for 2011-12. This represents a reduction on the prior year's levy, but for each of the constituent Districts there are changes in the levy rate as calculated through the levy apportionment methodology. The change is a one off reduction compared to a standstill in 2010-11 (and is significantly below the rate of increase of 12% in the prior year and 15.4% the year before). This has been achieved through the effective operation the WMRC and landfill contracts and still enables the Authority to maintain contributions to the sinking fund to enable it to mitigate the effect of cost pressures for District Councils in future years. The cost pressure from landfill and the RRC contract still remain and the levy increase is likely to return to normal levels in future as the Sinking Fund is released keeping the increases to reasonable levels.

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

6.5 The levy for 2011-12 for each District is shown below, with comparisons to 2010-11. There is an average reduction on 4.1% in the Levy and no District receives an increase. The methodology used to establish the District Levy is attached at Appendix 2.

District	Levy 2010-11 £	Levy 2011-12 £	Change £	Change %
Knowsley	8,026,693	7,870,555	-156,138	-1.9
Liverpool	23,799,143	22,669,368	-1,129,775	-4.7
St Helens	9,026,666	8,489,244	-537,422	-6.0
Sefton	12,974,007	12,974,007	0	0.0
Wirral	17,045,532	15,988,549	-1,056,983	-6.2
	70,872,041	67,991,723	-2,880,318	-4.1

PRUDENTIAL INDICATORS 2010-11 TO 2013-14

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 2010-11 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 2010-11 to 2013-14 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
2010-11	3.873
2011-12	2.918
2012-13	2.046
2013-14	1.800

6. Estimates of Capital Financing Requirements

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

6.2 The Capital Financing requirement is as follows:

	£m
2010-11	35.197
2011-12	34.522
2012-13	34.963
2013-14	35.059

7. Estimates of net 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	+/- %
2010-11	35.197	30.308	-4.889	-13.9
2011-12	34.522	29.633	-4.889	-14.2
2012-13	34.963	30.074	-4.889	-14.0
2013-14	35.059	30.170	-4.889	-13.9

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 ‘net borrowing’ position represents the net of the Authority’s gross external borrowing, shown above, and sum of investments held. Investments for the Authority represent cash balances held in the joint bank account with St Helens and not in shareholdings in group companies (Mersey Waste holdings Ltd and Bidston Methane Ltd). The Authority is not expected to have any cash balances for the period covered by this report.

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

	£m
2010-11	30.308
2011-12	29.633
2012-13	30.074
2013-14	30.170

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

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

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

	%
2010-11	2.5
2011-12	2.8
2012-13	3.1
2013-14	3.4

9. Estimate of Impact of Capital Decisions on the levy

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

	£m
2010-11	1.785
2011-12	1.901
2012-13	2.094
2013-14	2.429

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
2010-11	36.152	0.0
2011-12	35.332	0.0
2012-13	35.776	0.0
2013-14	36.085	0.0

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

11. Operational Boundary for External Debt

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

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

11.3 The boundary figures proposed for approval are:

	Borrowing £M	Other long term Liabilities £M
2010-11	32.380	0.0
2011-12	31.632	0.0
2012-13	32.075	0.0
2013-14	32.227	0.0

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

12. Risk Implications

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

13. HR Implications

13.1 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.

14. Environmental Implications

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

15. Financial Implications

15.1 These are considered throughout the report.

16. Conclusion

16.1 Members are requested to approve the revised budget for 2010-11, to approve the budget for 2011-12 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.