

# WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

DATE: 6 FEBRUARY 2009

AGENDA ITEM NO: **14**

**SUBJECT: AUTHORITY AND EXECUTIVE REVENUE BUDGET 2008/09 AND  
2009/10**

## **Report of the Chief Financial Officer and Director General**

### **1. MATTERS FOR CONSIDERATION**

- 1.1. The revised budget forecast for 2008/09 and proposed budget for 2009/10.
- 1.2. The levy on District Councils for 2009/10.
- 1.3. The Prudential Funding Statement.

### **2. INFORMATION**

#### Introduction

- 2.1. The success of the concessionary fares agreement with the major bus operators was reported to the November meeting. This agreement removes many of the risks that were discussed last year and brings a level of certainty to a significant proportion of the budget for this and the next two years.
- 2.2. Funding difficulties for concessionary fares are likely to reappear in 2011/12 when the current three year agreement ends and when the agreed grants from the government cease. In setting its budget for 2009/10 the Authority is therefore mindful of the difficulties ahead but also recognises the problems faced by Districts in the current economic climate. At the December budget briefing the Authority was advised that a levy increase of 3% was proposed to enable the Authority to continue to pursue its strategic aims and maintain reserves at an appropriate level to prepare for 2011/12. Subsequent to this the Association of West Yorkshire Authorities have advised that they expect any levy increase to be less than 3% and that they support a 2.5% increase for 09/10.
- 2.3. All budget heads have been scrutinised during the setting of the detailed budget for 09/10 and it has been possible to bring the overall budget to a lower figure than that discussed in December. A 2.5% increase to the levy for 09/10 will still enable the Authority to maintain its focus on strategic transport planning and to assist the Districts in delivering their Local Area Agreement outcomes. It does however

leave reserves significantly lower than those proposed in the three year strategy. Members will recall that the three year strategy presented in December assumed a 3% levy increase to ensure a balanced position for the period and to allow the Authority to prepare for potential increases in concessionary fares costs in future years. Significant savings will need to be found or the levy increased in future years to build reserves back to the required level by 2011/12.

#### Key priorities and challenges

- 2.4. The budget reflects the Authority's key objectives, priorities and desired outcomes. Through the financial strategy it will seek to ensure value for money continues to be achieved, building on the success of the concessionary agreement with operators. The Authority will review its approach to tendered services and continue efforts to increase competition.
- 2.5. Metro will respond to the recent Local Transport Act by continuing to develop a strategic leadership role aimed at securing the necessary investment to transform transport infrastructure. The Authority's role in this has already paid dividends with over £200 million of new investment endorsed by the Regional Transport Board. Metro will continue to seek to secure external funding to support its objectives.
- 2.6. The Authority has always sought to ensure value for money in all areas of its budget and has achieved the required Gershon efficiencies each year. A number of budget areas have been frozen for the last two years and this has contributed to the Authority continuing to deliver increasing workloads within a levy increase no higher than inflation. The Authority has the lowest levy per head of any of the Passenger Transport Authorities.

#### The 2008/09 budget forecast and proposed budget for 2009/10

- 2.7. Set out below is a summary of the combined position setting out the movement in the levy and the use of reserves.

	2007/08	2008/09		2009/10
	Actual	Original	Revised	Original
	£000	£000	£000	£000
Net Expenditure				
Executive (PTE)	146,962	150,109	152,528	155,919
Authority (PTA)	-59,823	-61,665	-63,935	-63,803
	87,139	88,444	88,593	92,116
(Use of )/addition to Reserves	-1,421	703	554	-741
Payments to Districts	3,715	4,345	4,345	4,625
Gross levy	89,433	93,492	93,492	96,000

District Council Levies

	Relevant Population June 07 for 09/10	Levy 2008/09 £	Levy 2009/10 £	% of levy by District	Refund to Districts £	Net levy 2009/10 £
Bradford	497,379	21,331,148	21,890,547	22.8%	775,623	21,114,924
Calderdale	200,124	8,588,341	8,807,818	9.2%	475,497	8,332,321
Kirklees	400,989	17,225,217	17,648,249	18.4%	1,070,661	16,577,588
Leeds	761,124	32,454,701	33,498,441	34.9%	2,283,273	31,215,168
Wakefield	321,617	13,892,793	14,154,944	14.7%	19,621	14,135,323
	<u>2,181,233</u>	<u>93,492,200</u>	<u>96,000,000</u>	<u>100.0%</u>	<u>4,624,675</u>	<u>91,375,325</u>

2.8. The predicted addition to reserves for 2008/09 has fallen slightly and the impact of a 2.5% levy increase in 2009/10 is a predicted £741k use of reserves. The separate PTA and PTE budgets are set out in the following paragraphs and the combined position is shown in more detail in Appendix A.

2.9. In accordance with previous years an adjustment to the levy is proposed to reflect the way in which the additional concessionary fares grant relating to the 2006/07 changes is being paid to the Districts. This grant is being received as additional government grant and thus has no impact on the net council tax paid by householders. The adjustment recognises the disproportionate distribution of this grant and ensures that the actual levy increase is at a cost of 2.5% to each District.

2.10. Set out below is the Passenger Transport Authority budget.

	2007/08 Actual £000	2008/09 Original £000	Revised £000	2009/10 Original £000
Income				
Special Rail Grant	67,736	69,748	71,871	71,894
Rural Bus Grant	1,069	1,069	1,096	1,125
Interest receivable	641	523	507	220
Rents and Service charges	1,149	1,152	1,179	1,192
	<u>70,595</u>	<u>72,492</u>	<u>74,653</u>	<u>74,431</u>
Less expenditure on				
Debt charges	9,442	9,471	9,406	9,273
Other general expenses	1,330	1,356	1,312	1,355
Net income	<u>59,823</u>	<u>61,665</u>	<u>63,935</u>	<u>63,803</u>

Income and expenditure change very little in the period. The most significant item to note is the interest receivable line which shows a decrease in 09/10. This reflects the impact of predicted bank interest rates.

2.11. Set out below is the Passenger Transport Executive budget. The issues affecting each line and the reasons for significant movements are set out in the following paragraphs.

	2007/08	2008/09		2009/10
	Actual £000	Original £000	Revised £000	Original £000
Expenditure				
Concessionary travel scheme	41,549	46,400	46,819	46,819
Subsidised bus services	23,414	24,479	24,770	26,534
Passenger Services	8,120	9,643	9,620	9,957
Prepaid Tickets	27,750	29,500	29,000	29,000
Rail support	67,737	69,749	71,872	71,894
Pensions	1,359	1,519	1,384	1,549
Financing charges	289	400	409	420
Central contingency	0	500	0	500
Other activities	6,133	6,086	6,321	7,117
	176,351	188,276	190,195	193,790
Less Prepaid Ticket sales	27,750	29,500	29,000	29,000
Concessionary fare grants	1,639	8,667	8,667	8,871
Net Expenditure	146,962	150,109	152,528	155,919

#### Concessionary Travel

- 2.12. The Authority is fully aware of the difficulties posed by the introduction of the free national concessionary travel scheme in April 2008. Metro successfully lobbied through *pteg* to ensure the most favourable distribution methodology for the additional Government funding and that funding should be paid as direct grant. The resultant three year direct grant enabled the Authority to negotiate with the operators on agreements that would provide greater certainty and value for money.
- 2.13. The three year agreement reached with operators effectively fixes some 90% of the concessionary fares budget up to 2010/11 and saves over £10 million over the period, thereby avoiding the need for service cuts. The sum shown in the 08/09 outturn and 09/10 budget is one third of the three year agreement. It should be noted that the actual cash payments to the individual operators may vary from this depending on the terms of the contracts but over the three years will total the agreed sum. The only exception to this would occur if patronage parameters as set out in the contracts were breached. Whilst this is not likely to occur in 08/09 it may in future years and this will be considered in updating the three year financial strategy later this year.

#### Tendered bus services

- 2.14. The next most significant level of the Authority's budget expenditure is on tendered bus services. There are clear challenges facing the Authority as the extent of the commercial network continues to decline – operators are reacting to increased operating costs and pressures on their budgets. Two of the major operators have adopted fuel hedging

policies which are likely to contribute further to this problem. Their expected solution is to reduce commercial services which will reduce accessibility for the travelling public.

- 2.15. At the budget briefing in December Members were advised of the proposed approach to these problems. Whilst the current 6 and 20 rule has worked well to date it is a blunt instrument to tackle the problem. Innovative solutions such as the Metrolocal pilot in Kirklees and the use it or lose it funding have provided some notable successes. The Tendered Services Working Group will be undertaking a fundamental review of how tendered services are provided and whether there are 'smarter' ways of meeting essential access needs. This review will consider opportunities for both supporting 'near' commercial services so that they become sustainable without subsidy as well as protecting services threatened with withdrawal due to increased operator costs in the short term. The approach will be to identify with Operators potential new services initially funded by Metro but subsequently delivered on a commercial basis. Opportunities to submit bids for Department for Transport Kickstart funding will be pursued. Metro will also be considering the opportunities afforded by the Local Transport Bill for developing Statutory Quality Partnership schemes and Bus Quality contracts.
- 2.16. The 09/10 budget for tendered services has been set in the normal way ie updating the model for contracts currently let and applying appropriate levels of inflation for new and continuing contracts. If inflation during 09/10 is lower than that assumed then this will provide an opportunity to expand the provision of services such as MetroLocal and Kickstart.

#### Passenger Services

- 2.17. The passenger services line covers all costs directly relating to the running of the bus stations, management of on street infrastructure and all elements of passenger information (excluding ICT costs). In the strategy these costs grew significantly – in the budget these costs have been contained to a budget outturn in line with the original budget and then an increase of 3.5%. The major movements include £120k increase for bus consultancy work on Quality Partnerships, £200k on security which includes an allowance for enhanced supervision at bus stations and £105k on planned works at bus stations. There is increased income of £250k on the Clearchannel contract and savings of £98k on AccessBus maintenance as a result of purchasing new vehicles.

#### Rail support

- 2.18. Any variations in rail support costs are reflected in the income from the DfT and hence have no impact on the bottom line.

### Pensions

- 2.19. The Pensions line represents the costs paid to the Pension Fund for pre 1986 employees.

### Financing charges

- 2.20. Financing charges are primarily asset depreciation; the costs of borrowing are within the Authority's budget.

### Contingency

- 2.21. The contingency line is included on the same basis as previous years in that it provides a 'use it or lose it' budget for enhancing the bus network. The actual spend in the current year has been included in the outturn figure for tendered services.

### Other Activities

- 2.22. The other activities line shows an increase in the outturn for 08/09 of £235k. This is made up of a number of elements of which the most significant to note are an overspend of £160k on the issue of concessionary passes and £69k on increased ICT costs to increase system resilience.
- 2.23. The 09/10 budget shows an increase, due largely to increased salary pension costs of £200k, costs of real time displays and other ICT telematics related costs of £232k and an allowance for further work on governance. There are some reductions in costs and some loss of external income also, including £90k relating to the reimbursement of the costs of on bus CCTV which have now been repaid.

### Revenue grant to the Executive

- 2.24. The Authority is required to determine the revenue grant to be made to the Executive. Whilst there have been a number of changes to the Executive's income and expenditure in 2008/09 it is normal practice to only make a formal adjustment to the revenue grant when final figures are known at the end of the year. At that time the grant will be adjusted such that the Executive's reserves remain at their existing level.
- 2.25. It is further recommended that the PTE revenue grant for 2009/10 be set at a figure which is intended to ensure that there is no overall alteration to the Executive's reserves during that year.

## Reserves

2.26. The revenue reserves position is set out below.

		2007/08 Actual	2008/09 Latest projection	2009/10 Budget
		£000	£000	£000
Authority -	brought forward	4,319	2,898	3,452
	movement in year	-1,421	554	-741
	carried forward	<u>2,898</u>	<u>3,452</u>	<u>2,711</u>
Executive -	brought forward	1,411	1,411	1,411
	movement in year	0	0	0
	carried forward	<u>1,411</u>	<u>1,411</u>	<u>1,411</u>
Total	brought forward	5,730	4,309	4,863
	movement in year	-1,421	554	-741
	carried forward	<u>4,309</u>	<u>4,863</u>	<u>4,122</u>

- 2.27. The Authority has previously considered what represents an appropriate level of reserves. When the budget was set last year a detailed review of risks and reserves indicated a sum of £6m was required but that this be reconsidered after the conclusion of the concessionary fares agreements.
- 2.28. The major area of specific risk in the Authority's budget continues to be concessionary fares. Take up of the free national scheme is towards the upper end of expectations and over the course of the agreement there is therefore a risk that the parameters will be breached. The uncertainty around 2011/12 remains – there is no guarantee that the grant payment will continue or at what level and there is a high risk that over the period the costs of concessionary travel will have risen faster than the RPI. The three year strategy took a pragmatic approach which sought to ensure that over the three years these costs could be addressed and some provision made in readiness for the position in 2011/12. A levy increase of only 2.5% rather than 3% increases the likelihood that there will be insufficient reserves to meet the demand.
- 2.29. A further level of risk has been identified in the rail growth package of measures which include a profit sharing mechanism. For the first time in recent years the rail industry is noticing a fall in patronage and this could impact on this arrangement.
- 2.30. The projected reserves position of £4.1m at the end of 2009/10 is deemed to be acceptable to meet these risks and allow a prudent approach to the future uncertainties of concessionary reimbursement. It allows a 'base' level of £2m reserves, representing 2% of the spend on tendered services, passenger services and other activities and a further £2m for the specific issues set out above.

## Capital Programme

- 2.31. The Authority's capital allocation for 2009/10 of £9.257m was announced in December 2007. This will be paid as direct grant to the Authority in quarterly instalments throughout the year.
- 2.32. Appendix C sets out a draft three year capital programme as required by the regulations to allow the setting of the prudential guidelines. The draft figures include a level of overprogramming to allow for some slippage. A decision on the final approved schemes will be taken by Members during the year.
- 2.33. Following the meeting of the Regional Transport Board on 23 January the LTP Partnership's funding allocation for both integrated transport and highways maintenance has been uplifted by 20% (an additional £36m over the next three financial years). A framework for managing and allocating this expenditure is under development. The planned capital programme will be reviewed in the light of this decision with any subsequent amendments to the programme being monitored through the Audit and Governance Committee.
- 2.34. In the general context of the capital programme the Authority is recommended to give approval to the full use of alternative sources of funding being determined by the Chief Financial Officer. This will assist in the delivery of the programme and will be subject to value for money assessments and prior authorisation of each scheme and its expenditure and funding.
- 2.35. Specific approval is sought to spend LTP capital funds on the following capital schemes:
  - 2009/10 shelter programme: £2.480m. This will support the continuation of the ongoing shelter programme which seeks to ensure the provision of shelters on core routes.
  - Capital salaries: £350k. The Authority has in previous years approved this sum to be spent on resourcing staff developing LTP projects to underpin the implementation of the capital programme.
  - Urban congestion fund: £178.5k. The Authority has previously approved the expenditure of £510k of urban congestion funds. A further £178.5k has now been awarded by the Department for Transport; as with the previous award Metro will be bankers for the scheme and the LTP Steering Group will have delegated approval for allocating the expenditure.
  - Development work on Leeds Station Southern Access: £186k. Work is progressing on developing this major scheme. Network Rail are funding the majority of the costs relating to the design works and the Authority is asked to approve the remainder of the costs.

### Borrowing and Investment Strategy

- 2.36. A review of the Authority's operation of the prudential capital system is set out in Appendix B. This includes a review of the investments made during the year and the statutory determinations.

### Budget restrictions

- 2.37. It is recommended that the controls in place on expenditure in 2008/09 be reiterated for 2009/10, namely that the Authority must approve any virement greater than £25,000 or 10% (whichever is the greater) between the following blocks of expenditure:

- Concessionary travel
- Tendered services
- Passenger services
- Rail expenditure
- Pensions
- Financing costs
- Contingency
- Other costs

- 2.38. The contingency fund in the attached budget relates solely to tendered services and will be managed by the Tendered Services Working Group.

## **3. FINANCIAL AND LEGAL IMPLICATIONS**

- 3.1. As set out in section 2 of this report.

## **4. STAFFING IMPLICATIONS**

- 4.1. None directly arising as a result of this report.

## **5. EQUAL OPPORTUNITY IMPLICATIONS**

- 5.1. None directly arising as a result of this report.

## **6. RECOMMENDATIONS**

- 6.1. That approval be given to the Authority's budgets for 2008/09 and 2009/10.
- 6.2. That approval be given to the Executive's budgets for 2008/09 and 2009/10.
- 6.3. That approval be given to the capital expenditure set out in paragraph 2.35.
- 6.4. That approval be given to the use by the Executive of the PTA grant in accordance with the capital and revenue budgets except that capital

commitments and virements shall require the specific approval of the Authority as defined in paragraph 2.37 above:

- 6.5. That in accordance with the powers contained in the Local Government Finance Act 1988 (as amended) and the Transport Levying Bodies Regulations 1992 and having regard to the requirements of the Passenger Transport Authority, a levy of £96.0m be determined for the year ended 31 March 2010.
- 6.6. That the Chief Financial Officer be authorised to issue the levy in respect of the financial year ending 31 March 2010 to the five District Councils in West Yorkshire.
- 6.7. That the payment of the levy be agreed with each District Council on the basis of 10 equal consecutive monthly instalments commencing in April 2009.
- 6.8. That a payment of £4.625m be made to the District Councils in accordance with the table in paragraph 2.7 of the report.
- 6.9. That the Authority determine that revenue grants up to the sum of £155.919m be made to the Passenger Transport Executive in 2009/10 (to include the Government rail and rural bus grants which are to be adjusted later to reflect the actual receipts by the Authority).
- 6.10. That the Authority direct the PTE under section 11 (3A) of the Transport Act 1968 to finance any deficit in 2009/10 by an appropriation from their reserves.
- 6.11. That the position of the local transport allocation be noted in relation to the Authority's schemes and that the Executive be authorised to explore other methods of supplementing LTP resources.
- 6.12. That authorisation be given to the Chief Financial Officer to arrange appropriate funding for all expenditure in 2008/09 and 2009/10 subject to statutory limitation and subsequent reporting back to the Authority.
- 6.13. That no uncommitted capital schemes be commenced without the approval of the Authority who shall also determine the method of funding.
- 6.14. That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.
- 6.15. That the Treasury management policy as set out in Appendix B and Annex be approved.
- 6.16. That the overall capital programme and prudential limits for the next three years set out in Appendix B be adopted as follows:
  - a. Operational boundary as shown
  - b. Authorised limit as shown

- c. Maturity loan structure as shown
- d. A variable rate loan limit of 40%
- e. A fixed rate loan limit of 100%.

6.17. That the short term investment criteria be reaffirmed.

**Director General  
West Yorkshire Passenger Transport Executive**

## Appendix A

### WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY BUDGETS

ALL £000's	Final Accounts 2007/08	Original Estimate 2008/09	Forecast outturn 2009/10	Original budget 2009/10
<b><u>Executive</u></b>				
Concessionary travel	41,549	46,400	46,819	46,819
Subsidised Services	23,414	24,479	24,770	26,534
Passenger Services	8,120	9,643	9,620	9,957
Prepaid Tickets	27,750	29,500	29,000	29,000
Rail Charges	67,737	69,749	71,872	71,894
Pensions	1,359	1,519	1,384	1,549
Financing charges	289	400	409	420
Central Contingency	0	500	0	500
Other Activities	6,133	6,086	6,321	7,117
	176,351	188,276	190,195	193,790
C Fares	-1,639	-8,667	-8,667	-8,871
Prepaid Tickets	-27,750	-29,500	-29,000	-29,000
Grant from Authority	-146,962	-150,109	-152,528	-155,919
Use of PTE reserves	0	0	0	0
<b><u>Authority</u></b>				
Special Rail Grant	-67,736	-69,748	-71,871	-71,894
Rural Bus Grant	-1,069	-1,069	-1,096	-1,125
Interest Received	-641	-523	-507	-220
Rents etc	-1,149	-1,152	-1,179	-1,192
Less				
Interest Paid	4,834	4,810	4,774	4,762
Minimum Rev Provision	4,608	4,661	4,632	4,511
Other costs	1,330	1,356	1,312	1,355
	-59,823	-61,665	-63,935	-63,803
Grant to PTE	146,962	150,109	152,528	155,919
Transport Levy	-89,433	-93,492	-93,492	-96,000
Payments to Districts	3,715	4,345	4,345	4,625
Addition to/(use) of reserves	-1,421	703	554	-741
<b>NET EXPENDITURE</b>				
Executive	176,351	188,276	190,195	193,790
Authority	-59,823	-61,665	-63,935	-63,803
Total	116,528	126,611	126,260	129,987
Remaining reserves at year end	4,309	5,012	4,863	4,122

## Appendix B

### PRUDENTIAL FUNDING STATEMENT

- 1 This statement has been prepared in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" which is re-adopted each year by Members of the Authority. The statement and its implementation is reviewed and updated twice annually, in the final accounts and budget reports.
- 2 The Local Government Act 2003 and Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the system of capital finance to be followed by all local authorities from 1 April 2004. This appendix is intended to take account of the requirements of the regulations and to set them in the context of the Treasury Management code of practice.

### Treasury Management Activity – Borrowing/Investments

	£m	£m
<b>Total Loans outstanding at 1/4/2008:</b>		
Interest: Fixed (incl LOBOs)	109.0	
Investments	<u>0.0</u>	109.0
Activity expected during 2008/09:		
Loan repayments	-5.0	
Net movement in temporary loans	0.0	
New borrowing	<u>5.0</u>	0.0
<b>Anticipated loans outstanding at 31/3/2009:</b>		<b>109.0</b>
Activity expected during 2009/10		
New borrowing	0.0	
Debt repayments	<u>-1.0</u>	-1.0
<b>Anticipated loans outstanding at 31/3/2010:</b>		<b><u>108.0</u></b>

#### Comment:

- 3 The current financial year has seen unprecedented levels of financial instability across the world's markets and the financial sector. The Bank of England's base rate started the year at 5.5% and is now at its lowest rate ever at 1.5% with an expectation that this is likely to fall even further. The financial markets have struggled in dealing with the instability and investment rates have dropped significantly. Movements on long term borrowing rates have occurred but these are proving increasingly difficult to predict.
- 4 Leeds City Council undertakes the monitoring of the financial markets on behalf of the Authority with a view to minimising the rates at which the Authority borrows and continuing the current policy of refinancing some of the Authority's longer term loans if rates appear advantageous.
- 5 In October 2008 it was possible to take advantage of the changes in interest rates to re-finance one of the £5m Public Works Loan Board (PWLB) loans and replace it with two shorter term loans totalling £5m. This has led overall to a

reduction in the interest being paid and created a discount of £98k which is being amortised over the next ten years. The Authority is expected to be in a position in 2009/10 where it will have to start repaying debt in order to comply with the capital regulations and these new shorter term loans entered into leave it better placed to achieve this without suffering a loss.

- 6 As reported last year the DfT are, from 2008/09 onwards, paying all LTP allocation as a direct grant. This has a major impact on the borrowing strategy over time as it effectively reduces the future loan requirement. Additionally it also introduces the need to start repaying debt as explained in paragraph 5. The Authority is keeping the loan book under constant review to identify opportunities to reprofile debt to achieve this. The interest repayments on loans is included in the 09/10 budget at £4.7m and will slowly start to decline as the loan book decreases.
- 9 There have been no new long term borrowings during 2008/09 and there is no expectation that any will be required in the next year other than as a reprofiling of debt.
10. The general level of borrowing and investments is handled efficiently by Leeds City Council and has produced a situation where the Authority has, in relative terms, very low borrowing costs. To maintain a satisfactory level of control and monitoring regular management meetings are held with Leeds City Council staff who undertake all borrowing and investments on behalf of the Authority. These meetings have resulted in some changes to short term investments in line with the overall policy as set out below, namely to restrict lending to a maximum of £5m for a maximum of 3 months to any one counterparty. This policy has been in place throughout the financial year and has meant the Authority has been in a position to react to the changing credit ratings of financial institutions and ensure its money is secure. The continuing uncertainty within the financial markets is being felt, with reducing numbers of approved counterparties available for investment. This, coupled with falling interest rates, has led to a predicted reduction in interest earned this year and next.
- 11 Opportunities are being pursued to take advantage of the current position where short term borrowing is at its lowest level for some time. If it becomes possible to repay a long term loan and borrow at a more preferential rate in the short term then this will be considered. This would effectively reduce the counterparty risk as explained above where growing numbers of financial institutions do not meet the required credit rating.

### **Treasury Management Activity - Investments Criteria**

- 12 In general it is intended there should be no long term investments by the Authority with any surplus cash being invested short term. As stated there appears to be a future requirement to make net repayments each year. The level of future investments will therefore fluctuate on a short-term basis due to cash flow requirements but will be maintained as low as possible.

- 13 It is proposed that the existing policy of utilising the expertise of the Treasury Management Team in Leeds City Council be reaffirmed for 2008/09, and for future years.
- 14 It is also recommended that the following rules for short term investments/borrowing should continue to be applied:-
  - a. The Chief Financial Officer shall determine the amounts and periods.
  - b. The procedural document as approved for their Treasury Management Division by Leeds City Council shall be adopted in relation to the Authority's short-term investments encompassing the Council's list of approved financial organisations and the maximum lending limits per organisation, as specified in that document from time to time.
  - c. No investment will be for a period exceeding 3 months.
  - d. In principle there shall be no cross borrowing or investments with Leeds City Council (although this may be varied if late cash movements on the bank account occur creating a surplus/deficit cash position after the markets have closed for the day).

#### **PRUDENTIAL FUNDING ARRANGEMENTS**

- 15 The principal purpose of the prudential system is to allow authorities as much financial freedom as possible whilst requiring them to act prudently. There will be no government borrowing approvals issued but restrictions are imposed through the CIPFA Prudential Code which requires every authority to set prudential indicators and limits and thus be satisfied that it can afford the results of its borrowing. These limits, which must not be exceeded, have to be formally agreed by the authority before the start of each financial year. The government has retained the power to, if it so wishes, limit the level of borrowing incurred by authorities.
- 16 The Code requires full capital and revenue plans to be prepared for at least 3 years forward in order to assess the financial effects of the planned capital investment. In this Authority the three year financial strategy was considered by Members last December and to ensure a level of affordability it is currently the policy that borrowing to meet capital expenditure will be limited to existing levels plus any additional SCE(R) or SCA issued by the government through the LTP settlement either for Integrated Transport or for specific major schemes. Restricting borrowing in this way ensures that all debt charges are covered by the additional RSG received by the District Councils and hence within the Levy, providing the Levy has been increased to reflect the additional RSG.
- 17 The draft three year capital programme is attached as Appendix C to this statement. This is in outline only and each individual scheme will be reported

to Members for approval before work commences. It should be noted that in accordance with the above, whilst there has been some deliberate over-programming to ensure expenditure achieves the LTP settlement, overall capital expenditure will be met firstly by grants and other resources leaving the balance to be met by borrowing or through charges to revenue. The programme assumes there is to be no unsupported borrowing outside the LTP.

- 18 Since the levels of grant provided to the Authority under the LTP are significantly below those required to fully implement the draft capital programme it is proposed to examine alternative methods of financing during the year to assist with the possible shortfall. As an example leasing might be used for the acquisition of vehicles. The financial viability and value for money of such methods will require investigation and savings found within the budget to accommodate the costs involved. Members will be asked to approve any such methods before they are implemented.
- 19 Other matters which Members should be aware of relating to this Authority's operation of the Prudential regulations are that:
  - a. It is not proposed that the Authority enter into any credit arrangements as defined by the regulations, other than possibly leasing as described above. Should any such arrangements be required they will be reported to members in advance and will be expected to be funded within the approved strategy.
  - b. The PTE is being treated as part of the PTA for the purposes of the capital financing arrangements. (Section 18 of the Act)
- 20 When Leeds City Council last reviewed the borrowing limits in the light of market rates they determined that they would allow the limit to be set at a level sufficient for the current year plus the equivalent of 2 years anticipated borrowing requirement which is derived from the capital allocations. This was intended to provide flexibility for fund management allowing borrowing to take place when rates are low rather than being tied into strictly annual borrowing.
- 21 The annex initially creates limits set at the required level of borrowing for 2008/09 and 2009/10. To provide more flexibility to Leeds in managing the funding operation it was previously agreed that approval be given to borrow to cover loan requirements for the current plus the following 2 years. In view of the change to the LTP allocation from borrowing to grants this is now irrelevant and will only be applied if any new major schemes are approved. Such approval will therefore be sought at that time.
- 22 The attached Annex shows the calculation of the following prudential indicators:
  - The ratio of debt charges to overall expenditure. This is not significant to this Authority as it is effectively controlled through the level of the Levy (as referred to above)
  - Setting the borrowing requirement for the year (similar to total loans outstanding) but called the 'the operational boundary'

- Setting the maximum borrowing permitted in the year defined as 'the authorised limit'. This is about £10m higher than the operational boundary to create flexibility to allow temporary additional borrowing (for example if it becomes prudent to borrow in advance of normal requirements because long term interest rates are low).
- Setting the maturity loan structure which is defined as "amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate" as well as the draft capital programme. These are set out in the annex.

23. The Prudential Code requires Members to have an approved Treasury Management Policy (this is set out above) and to agree limits for variable and fixed rate loans. It is recommended that the maximum limit for variable rate loans continues to be set at 40% and the limit for fixed rate loans at 100%. This should be sufficient to allow for any future fluctuations in interest rates occurring in the money market.

## **RECOMMENDATIONS**

- (i) That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.
- (ii) That the Treasury Management policy as set out above and in the Annex be approved.
- (iii) That the overall capital programme and prudential limits for the next 3 years set out in the Annex be adopted as follows:
  - i. Operational boundary as shown
  - ii. Authorised Limit (Operational boundary plus £10m)
  - iii. Maturity Loan structure as shown
  - iv. A variable rate loan limit of 40%
  - v. A fixed rate loan limit of 100%
- (iv) That the short-term investment criteria be approved.

## Capital Financing Annex

### West Yorkshire Passenger Transport Authority

#### Summary Capital Programme

	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000
<b>Expenditure per programme</b>				
Local Transport Plan	14,383	21,785	13,864	10,746
MyBus Scheme	459	0	0	0
Supertram	120	120	120	120
	<u>14,962</u>	<u>21,905</u>	<u>13,984</u>	<u>10,866</u>
Less forecast slippage	-119	-6,945	-3,665	-446
	<u>14,843</u>	<u>14,960</u>	<u>10,319</u>	<u>10,420</u>
<b>Financing</b>				
LTP Grant	10,335	9,257	9,797	10,300
Section 56 Grant	459	0	0	0
Other funding	4,049	5,703	522	120
	<u>14,843</u>	<u>14,960</u>	<u>10,319</u>	<u>10,420</u>

#### Calculation of Prudential Indicators:

	2008/09	2009/10	2010/11	2011/12
	£000	£000	£000	£000
<b><u>AFFORDABILITY</u></b>				
Ratio of financing costs to net revenue stream				
Debt Charges	8,989	9,202	8,681	8,133
Levy	89,147	91,376	93,660	96,002
(Assumes a 2.5% increase )				
<b>Resultant ratio:</b>	<b>10.1%</b>	<b>10.1%</b>	<b>9.3%</b>	<b>8.5%</b>

Notes: All additional debt charges should be covered by RSG received by the Constituent Authorities. However, it is not appropriate to compare to Band D of Council tax as this changes per District.

#### **PRUDENCE**

Net external borrowing does not exceed the total of capital financing requirement in previous year plus the estimate of any additional financing requirement for the current and later years.

#### Estimate of Capital Financing Requirement

Loans outstanding at 31 March	115,793	112,763	108,252	103,922
Additional borrowing requirement in year	1,602	0	0	0
Less debt repayments in year	-4,632	-4,511	-4,330	-4,157
<b>Calculated Operational Boundary</b>	<b>112,763</b>	<b>108,252</b>	<b>103,922</b>	<b>99,765</b>
Funding for up to 2 future years	0	0	0	0
<b>Forecast Operational Boundary</b>	<b>112,763</b>	<b>108,252</b>	<b>103,922</b>	<b>99,765</b>
Safety factor		10,000	10,000	10,000
<b>Forecast Authorised Limit</b>		<b>118,252</b>	<b>113,922</b>	<b>109,765</b>

#### **Maturity of Loan Structure**

	Minimum	Maximum
Loans up to 1 year	0%	30%
Loans between 12 and 24 months	0%	20%
Loans between 24 and 60 months	0%	50%
Loans between 5 and 10 years	0%	75%
Loans over 10 years	25%	100%

#### **Interest Rate Structure:**

Variable rate loans - maximum 40%  
Fixed rate loans - maximum 100%