

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE

DATE: 30 JUNE 2008

AGENDA ITEM NO: 10

**SUBJECT: FINAL ACCOUNTS OF THE AUTHORITY AND EXECUTIVE FOR
2007/08**

Report of the Clerk and Chief Financial Officer

1. MATTER FOR CONSIDERATION

1.1. Consideration of the annual accounts for the Authority and the Executive for 2007/08 and the Treasury Management statement.

2. INFORMATION

2.1. This report presents the final accounts for 2007/08 and has attached the following appendices attached:

Appendix 1	Final accounts of the Authority
Appendix 2	Final accounts of the Executive (summary)
Appendix 3	Capital funding and loans statement
Appendix 4	Treasury Management statement and report
Appendix 5	Schedule of capital expenditure in the year

Background

2.2. In accordance with the requirements of the Accounts and Audit regulations the annual accounts have already been placed on deposit for public inspection. The regulations then require that they must be formally considered and signed by the Audit and Governance Committee on behalf of the Authority by the end of June. They are then audited and must be reconsidered by the Committee after the receipt of a copy of the Annual Governance Report (auditors' report on the accounts) and published before the end of September.

2.3. The summary extracts from the Executive's accounts are provided for information only as these accounts are approved by the Executive Board. They are however the figures utilised in the consolidated group accounts which appear within the Authority's accounts.

The Authority's Accounts

<u>Authority</u>	Budget £000	Actual £000	Variance £000
Income			
Levy	-85,718	-85,718	0
Rail and Bus Grants	-68,786	-68,805	-19
Interest receivable	-604	-641	-37
Other income	-1,164	-1,149	15
	<u>-156,272</u>	<u>-156,313</u>	<u>-41</u>
Expenditure			
Debt charges	9,492	9,442	-50
Other expenses	1,381	1,358	-23
	<u>10,873</u>	<u>10,800</u>	<u>-73</u>
Net income before grant to PTE	-145,399	-145,513	-114
Net grant to PTE	145,827	146,962	1,135
Net use of Reserves	428	1,449	1,021

- 2.4. The above statement shows a comparison of the actual expenditure against the latest budget approved at the meeting in February 2008. This format differs to that needed to fulfil the statutory requirements of the annual accounts but the bottom line in terms of use of reserves remains the same in both instances.
- 2.5. There are a number of small variances against the forecast outturn, reflecting increases in interest earned/reduction on interest paid but the most significant variance is the increase in grant required to the Executive. This arises largely from the proposed settlement of the concessionary fares appeal and fuller details are set out below in paragraph 2.9.

Relationship with the Executive's Accounts

- 2.6. The Authority's attached accounts have been prepared to ensure they take account of the current capital finance regulations and the revenue consequences of the Executive's accounts. In particular the prudential code requires the Authority to take account of liabilities in the Executive's balance sheet. The funding of capital schemes has been done to ensure that resources are maximised and both capital and revenue grants have been matched in both sets of accounts.
- 2.7. As a consequence it is being recommended that in order to continue with the same level of balances in the Executive's accounts the payment of Authority's revenue grant to the PTE be amended accordingly.

The Executive's Accounts

<u>Executive</u>	Budget	Actual	Variance
	£000	£000	£000
Concessionary travel scheme	40,100	41,549	1,449
Subsidised bus services	23,102	23,264	162
Passenger Services	8,476	8,295	-181
Rail support	67,718	67,815	97
Pensions	1,360	1,359	-1
Financing charges	229	289	60
Central contingency	300	150	-150
Other activities	4,542	4,241	-301
Net expenditure	<u>145,827</u>	<u>146,962</u>	<u>1,135</u>

- 2.8. The Executive's net expenditure is set out above in a format to allow comparison with the forecast outturn previously approved by Members. The presentation of this differs to that required by the statutory accounts but again the grant requirement is the same in both instances. The statutory accounts also include adjustments to comply with FRS17 Accounting for Retirement Benefits which do not impact on the grant requirement for the year.
- 2.9. The biggest variance can be seen on concessionary payments. This reflects the impact of the proposed resolution of the First appeal which has been endorsed by Members. The recalculation of the overall level of reimbursements at the year end also increased the costs compared to budget. This increase is being met partly from reserves which were created specifically for this purpose.
- 2.10. Across the other budget heads there is in total a reduction of £400k which provides part of the funding of the concessionary fares overspend. The underspend on passenger services and other activities lines are the result of a large number of small savings on many budget heads, including savings on planned works at bus stations, underspends on some marketing budgets, increased recoveries from third parties and a number of vacancy savings.

Capital Expenditure for 2007/08

- 2.11. The Authority is required to follow Prudential Borrowing rules thus a statement showing borrowing, investments and how they have been operated and controlled through those rules is set out in Appendix 4.
- 2.12. Total capital expenditure in the year was £8.8m. This is funded by a combination of borrowing, grants and internal resources as set out in Appendix 3. A total capital grant of £6.005m was paid by the Authority to the Executive. In previous years all LTP allocations were made by borrowing approvals but in 2007/08 quarter of it was made by direct grant to the Executive. In 2008/09 the full LTP allocation will be by

direct grant which will reduce the Authority's borrowing requirements in coming years.

- 2.13. A number of capital projects were reprogrammed to 08/09 and an underspend of LTP resources of £1.6m has been carried forward to assist in delivering these. £1.45m was spent on MyBus in 07/08 in a combination of borrowing approvals and capital grants with £459k of grant carried forward to 08/09 to allow implementation of the final elements of the scheme.
- 2.14. The full schedule of capital expenditure undertaken in 2007/08 is shown in Appendix 5 with its financing in Appendix 3. All schemes are within the level approved by the Authority during the year.

Other accounting matters

- 2.15. The accounts include information on pension costs in accordance with FRS17 Accounting for Retirement Costs. At each year end where the triennial full scheme revaluation does not take place the actuaries provide a snapshot of the Authority's element of the Fund at that time. This information is included in the notes to the accounts and adjusting entries are made which do not impact on the income and expenditure for the year. Members will note that the position at 31 March 2008 shows an increase in the pension liability from £127k to £338k. This arises from a combination of a change in the assumptions applied, in particular an increase in longevity and a fall in the value of assets. Any deficit in the Fund will be addressed by adjustments to the contribution rate payable calculated at the revaluation. The deficit can be addressed over a long timescale as the liability shown in the accounts would only crystallise should the Fund be wound up. For this reason the accounts continue to be presented under a going concern basis, as adequate funding is in place for the foreseeable future.
- 2.16. The accounts of the Authority are prepared in accordance with the Statement of Recommended Practice (SORP). The 2007 version of this has introduced a change from 2006 in that the capital financing account and fixed asset restatement accounts have been combined to produce a capital adjustment account. The same entries are still processed hence this is effectively simply a presentational change. A further change to the accounts in this year is the requirement to disclose further information about financial instruments. In the case of the Authority this largely means disclosing the fair value of the loan portfolio but it should be noted that this has no impact on the results for the year.
- 2.17. The group accounts combine the Authority's and Executive's accounts to give a consolidated position. As both organisations follow different accounting regulations there are a number of technical difficulties in doing this and the resultant group accounts are perhaps not as straightforward as might otherwise be the case. They do however conform to the required accounting standards. The group reserves

shown have been restated for 06/07 as the accounts last year did not properly reflect the group position. The movement in group reserves shown in this year's accounts is simply the use of reserves within the Authority (as the grant paid to the Executive exactly equals their expenditure). It should be noted that the Executive shows a significant increase in its pension liability under FRS17 but any deficit calculated at the time of the next valuation would be dealt with by a change to the contribution rate.

Impairment

2.18. In accordance with the Statement of Recommended Practice (the SORP) which the Authority must follow it is necessary to revalue the Authority's fixed assets ie Wellington House . This is done every five years and was last done at 31 March 2006. The Authority must confirm that it is unaware that any 'impairment' (ie that the property has suffered no diminution of value through deterioration or neglect etc) has taken place. Since the revaluation was only carried out two years ago and no significant changes have taken place during the year Members are advised that there is no reason to assume the value has been impaired.

Accounting Policies

2.19. There have been no significant changes to any of the accounting policies this year.

3. FINANCIAL AND EC PROCUREMENT IMPLICATIONS

3.1. These are set out in paragraph 2 above.

4. STAFFING IMPLICATIONS

4.1. None directly arising from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. None directly arising from this report.

6. RECOMMENDATIONS

6.1. That the attached accounts of the Authority be approved and authorised for signing as appropriate by the Chair and Officers.

6.2. That the Committee confirms that they are unaware of any reason for impairment to have occurred.

6.3. That the attached Executive's accounts be noted.

6.4. That the revenue grant to the Executive for 2007/08 be amended to £146,962,329.

- 6.5. That the capital grant to the Executive of £6,005,367 be approved.
- 6.6. That the Treasury Management policy and prudential decisions set out in Appendix 4 be approved together with the matters related to individual capital schemes in this report, including the methods of capital funding shown in Appendix 3.

Director General of the Executive
Chief Financial Officer of the Authority

West Yorkshire Passenger Transport Authority

APPENDIX 4

TREASURY MANAGEMENT STATEMENT 2007/08 AND REVIEW 2008/09

1. The following sets out the results of the Authority's borrowing and lending transactions in 2007/08 in accordance with the CIPFA Code of Practice "Treasury Management in Local Authorities" adopted by the Authority.

2. **BORROWING**

	£m	£m
Total Loans outstanding at 1 April 2007		115.4
Less Loan Repayments		-35.0
New Loans acquired	PWLB	30.0
	LOBOs	<u>5.0</u>
		35.0
Change in level of temporary loans		-6.4
Loans outstanding at 31 March 2008		<u>109.0</u>

The schedule of the loans outstanding at 31 March 2008 is shown in Appendix 3.

3. **INVESTMENTS**

	£000
Short term investment at 31 March 2007	5,000
Movement in the year	-5,000
Short term investment at 31 March 2008	<u>0</u>

- 3.1 The position both at the start and end of the year reflects normal financing arrangements. As reported last year the general level of balances and other reserves, including amounts due to the Executive, have been reduced slowly over the past few years. The agreed policy is to ensure the level of short term investments are maintained as close as possible to zero. This minimises the risk of there being a loss between interest paid out and interest received.

4. COMMENT

- 4.1 UK Bank Base Rate began and ended the year at 5.25% having climbed to a maximum of 5.75% during 2007/08. Regular advice was received about the financial market which was closely monitored on behalf of the Authority by Leeds City Council.
- 4.2 The money market is being constantly monitored to ensure that the Authority's bank account is maintained with a minimum cash balance (nearly always below £1,000) with temporary borrowing and investments being used as appropriate. A special business reserve account paying interest at Bank base rate is used to ensure interest from overnight funds are maximised. Although longer term, but less than 12 months, investments are made these are rare and only one such existed at the end of last year.
- 4.3 As can be seen from Appendix 3 the loan portfolio has remained at £109m for the year. Borrowing requirements are likely to fall in the coming years, arising from changes in the way capital funding is financed. Previously the LTP capital funding has been received in the form of borrowing approvals and the Authority has then borrowed the necessary cash to fund the programme. From 2008/09 all the LTP monies will be paid as a cash grant. This will both reduce the need for borrowings in the long term and also eventually reduce the debt charges.
- 4.4 Mindful of the likely reduction in borrowing requirements in the longer term there was less requirement than in previous years to secure new borrowings. An opportunity was taken however to refinance £30m of loans in the early part of the year. Under new accounting regulations it is no longer possible to account in the year for the full amount of discount earned on this refinancing and hence it will provide an income stream for the next ten years. One of the £5m LOBOs was called in by the bank but this was refinanced at a similar rate.
- 4.5 The refinancing undertaken during the year has continued the reduction in the average borrowing rate for the Authority from 4.37% to 4.31%. This is well below the level of 5.9% used in 2007/08 for calculating the District Councils' FSA which covers this debt in their RSG.
- 4.6 As has been stated all rates continue to be constantly monitored to see if any further refinancing can be undertaken. In the light of the current 'credit crunch,' coupled with changes in the way in which PWLB lending is priced, there have been no opportunities yet in 08/09 to refinance any loans. This is entirely acceptable given the low overall loan rates of the portfolio.
- 4.7 The prudential limits set in February are reviewed below.

5. TREASURY MANAGEMENT

- 5.1 All placement of funds during 2007/08 was undertaken by Leeds City Council in accordance with rules approved by the Authority adopting the advice from the Chartered Institute of Public Finance and Accountancy (CIPFA). This ensured all investment decisions not merely sought the highest return but sought to ensure the safety of those funds and to limit the Authority's exposure to any one organisation.
- 5.2 As stated above the Authority's investments and cash position is monitored on a daily basis to ensure any available balances are promptly invested. The levels of Base Rates during the year moved from 5.25% up to a maximum of 5.75% before falling back to 5.25% at the end of the year. The average rate was therefore 5.54% over the year.

6. PRUDENTIAL BORROWING CODE

- 6.1 The 2003 Local Government Act requires local authorities to have regard to the prudential code. Under this code members approve a treasury management policy and review the prudential indicators for the year.
- 6.2 Members at their budget meeting in February 2008 took the appropriate decisions for 2008/09. There has been little change in the overall expected level of the capital programme since that meeting although some borrowing has taken place. Members can, having regard to changing circumstances, approve amendments during the year.
- 6.3 Officers would recommend no change to either the treasury management policy or the prudential indicators.
- 6.4 It is therefore recommended that the following decisions, as taken in February 2008, are endorsed:
- 6.4.1 that the treasury management policy shall be:
- 6.4.1.1 that the authority adopts the CIPFA code of practice for Treasury Management in the Public Sector.
- 6.4.1.2 To operate the financing on a short term basis to minimise both investments and income to avoid taking out expensive loans and re-lending them at a lower rate of interest.
- 6.4.1.3 That there shall be no long term investments.
- 6.4.1.4 To utilise the expertise of the treasury management team in Leeds City Council for future years.
- 6.4.1.5 To use the following rules for short term investments:-
- 6.4.1.5.1 the investments shall be determined by the Chief Financial Officer
- 6.4.1.5.2 the Chief Financial Officer shall determine the amounts and periods.
- 6.4.1.5.3 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.

6.4.1.5.4 no investment will be for a period exceeding 12 months.

6.4.1.5.5 with the exception of an emergency overnight facility, there shall be no cross investments with Leeds City Council.

6.4.1.6 To restrict all additional borrowing to meet capital expenditure to the level of specific approvals issued by the government.

6.4.2 that as there have been insufficient changes to alter the predictions the prudential limits for the current year be reiterated as set out below be:

6.4.2.1 operational boundary (2008/09 - £112.7m)

6.4.2.2 authorised limit (2008/09 - £122.7m)

6.4.2.3 maturity loan structure as shown

6.4.2.4 a variable rate loan limit of 40%

6.4.2.5 a fixed loan limit of 100%

Monitoring Report

	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
Expenditure per Capital Programme				
Local Transport Plan	7,221	12,874	10,754	15,051
MyBus Scheme	1,416	459	0	0
Supertram	120	1,120	2,120	1,510
	8,757	14,453	12,874	16,561
Less forecast slippage		-397	-797	-5,254
	8,757	14,056	12,077	11,307
Financing				
SCA/SCE(R) - LTP # (75%)	4,590	1,602	0	0
SCE(R) - MyBus	621	0	0	0
Anticipated Borrowing	5,211	1,602	0	0
LTP Grant (25%)	2,248	8,776	9,257	9,797
Section 31 Grant	795	459	0	0
Other funding #	503	3,219	2,820	1,510
	8,757	14,056	12,077	11,307

Start on schemes after 2007/08 will be determined by the resources available.

Calculation of Prudential Indicators:

	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
<u>AFFORDABILITY</u>				
Ratio of financing costs to net revenue stream				
Debt Charges	9,301	9,328	9,078	8,640
Levy	85,718	97,147	100,712	104,421
(Assumes a 4% increase per the Financial Strategy + £8m re national Concessionary Fares)				
Resultant ratio:	10.9%	9.6%	9.0%	8.3%

Notes: All additional debt charges should be covered by FSS received by the Constituent Authorities.

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

Position at 1 April	115,190	115,793	112,738	108,223
Additional borrowing requirement in year	5,211	1,602	0	0
Less debt repayments in year	-4,608	-4,657	-4,515	-4,335
Calculated Operational Boundary	115,793	112,738	108,223	103,888
Funding for up to 2 future years				
Forecast Operational Boundary	115,793	112,738	108,223	103,888
Safety factor	10,000	10,000	10,000	10,000
Forecast Authorised Limit	125,793	122,738	118,223	113,888

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%