

WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE

DATE: 23 JUNE 2009

AGENDA ITEM NO: 10.

**SUBJECT: FINAL ACCOUNTS OF THE AUTHORITY AND EXECUTIVE FOR
2008/09**

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 2008/09 and the Treasury Management statement.

2. INFORMATION

- 2.1. This report presents the final accounts for 2008/09 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

Authority	Budget £000	Actual £000	Variance £000
Income			
Levy	-89,147	-89,147	0
Rail and Bus Grants	-72,967	-72,967	0
Interest receivable	-507	-480	27
Other income	-1,179	-1,187	-8
	<u>-163,800</u>	<u>-163,781</u>	<u>19</u>
Expenditure			
Debt charges	9,406	9,285	-121
Other expenses	1,312	1,275	-37
	<u>10,718</u>	<u>10,560</u>	<u>-158</u>
Net income before grant to PTE	-153,082	-153,221	-139
Net grant to PTE	152,528	150,067	-2,461
Net use of Reserves	-554	-3,154	-2,600

- 2.4. The above statement shows a comparison of the actual expenditure against the latest forecast budget approved at the Authority's meeting in February 2009. 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. The Authority's income and expenditure account shows a number of small variances against the forecast outturn. The debt refinancing which is explained further in Appendix 4 has resulted in net interest savings of £94k but the most significant variance is the reduction in the grant required to the Executive. This arises largely from a timing difference in the payment of the agreed concessionary reimbursements to operators and full details in respect of this are set out below in paragraph 2.9 onwards.

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. The budget approval given in February each year agrees the principle of providing a revenue grant to the Executive such that its reserves movement is nil. It is recommended therefore that in order to continue with this that the payment of Authority's revenue grant to the PTE be amended accordingly as set out above.

The Executive's Accounts

Executive	Budget £000	Actual £000	Variance £000
Concessionary travel scheme	46,819	44,579	-2,240
Subsidised bus services	24,770	24,670	-100
Passenger Services	9,620	9,826	206
Rail support	71,872	71,871	-1
Pensions	1,384	1,388	4
Financing charges	409	429	20
Other activities	6,321	5,971	-350
Net expenditure	<u>161,195</u>	<u>158,734</u>	<u>-2,461</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 the grant requirement and the movement on reserves are 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 way in which the three year agreement with the major operators has been managed. The agreed total across the three years, as previously agreed by Members, was £140.5m and this was represented in the budgets for those years as three equal payments. Subsequent discussions with the operators led to a revised payment profile with the actual cash payments increasing over the three years. This gives a positive cashflow advantage to the Authority but does not change the overall costs over the three years. An underspend of £2.871m in 08/09 is required to be banked to ensure there is sufficient funding available to pay the agreed amount in 10/11.
- 2.10. It must however be noted that the expected payments for 08/09 were exceeded by the payments made to the small operators (for increases in patronage above those expected in the budget), to the rail operators and for services outside of the agreement. The agreement with the major operators allows for increased or decreased payments to be made if certain patronage limits are breached. Whilst patronage is higher than expected it is not yet at a point where these increased payments would apply, and this will be carefully monitored over the next two years.
- 2.11. The overspend against the budget for these elements of concessionary expenditure totals £631k. This sum has been met from the reserves which were identified for this purpose when the budget was set. The table overleaf summarises the position in relation to the agreed payment profile over the three years.

Concessionary costs

Expected payments	08/09	09/10	10/11	Total
	£000	£000	£000	£000
Fixed by operator agreements	39,173	41,923	44,306	125,401
Other bus and rail per the scheme (subject to variation)	4,775	5,015	5,266	15,056
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	43,948	46,938	49,572	140,457
Budget figure	46,819	46,819	46,819	140,457
Variance	-2,871	119	2,753	0
Actual payments 08/09				
Fixed by operator agreements	39,173			
Other bus and rail per the scheme	5,406			
	<hr/>			
	44,579			

- 2.12. There are a number of smaller movements across the other budget heads. The most significant overspend within the passenger services line relates to electricity costs for bus stations and bus shelters where a significant unit cost increase was introduced in the latter part of the year. Measures have been introduced to reduce the usage but part of this increase will be carried through into 09/10.
- 2.13. The other activities line shows budget savings. These arise from a wide number of activities but include savings against budget on staffing, consultancy, ICT and legal costs.

Capital Expenditure for 2008/09

- 2.14. 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.
- 2.15. Total capital expenditure in the year was £14.0m, a significant increase on 08/09 due to an increase in external funding and extra grants secured and utilisation of the 07/08 underspend. The detailed funding position is set out in Appendix 3 and shows a total capital grant of £13.0m paid by the Authority to the Executive. The LTP element of this sum is now received by the Authority as a direct grant from the Department for Transport.
- 2.16. The final element of the MyBus s31 grant was spent in the year and the scheme is now complete. A number of major schemes have received approval from the Regional Transport Board but the only expenditure on these in 08/09 has been funded via the LTP. The future expenditure on these schemes is set out in a separate report to this meeting.
- 2.17. The full schedule of capital expenditure undertaken in 2008/09 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

- 2.18. 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 2009 shows a small decrease in the pension liability from £340k to £265k. This arises from a combination of a change in the assumptions applied and a move in the value of assets and liabilities. 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.
- 2.19. The accounts of the Authority are prepared in accordance with the Statement of Recommended Practice (SORP). The 2008 version of this has not required any significant changes to the format and presentation of the accounts.
- 2.20. 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 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).

Impairment

- 2.21. In accordance with the Statement of Recommended Practice (the SORP) the Authority revalues its fixed assets ie Wellington House on a regular basis. This is done every five years and was last carried out at 31 March 2006. The Authority must confirm in the interim years that it is unaware that any 'impairment' has taken place. FRS 11 states 'A review for impairment of a fixed asset should be carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.' If no such circumstances or events can be identified then there is no requirement for an impairment review. The current economic downturn and associated impact on property prices has been recognised as a potential change in circumstance which requires consideration.
- 2.22. A significant element of the basis of the valuation of Wellington House relies on the income derived from its tenant ie the Executive.

Discussions have been held with an external valuer to ascertain whether the continuation of this arrangement effectively means that the current carrying value is likely to be materially unchanged from the valuation. The valuer has provided written confirmation that this is the case and has confirmed the current value to be in the region of £7.5m - £7.75m which accords with the value in the attached accounts. The accounts have therefore been prepared on the basis that no impairment adjustment is required.

Accounting Policies

2.23. There have been no significant changes to any of the Authority's or Executive's 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 signature by the Chair of the Authority and Clerk to the Authority.

6.2. That the Committee confirms that no impairment adjustment is required.

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

6.4. That the revenue grant to the Executive for 2008/09 be amended to £150,067,437.

6.5. That the capital grant to the Executive of £12,969,645 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

TREASURY MANAGEMENT STATEMENT 2008/09
AND REVIEW 2009/10

1. The following sets out the results of the Authority's borrowing and lending transactions in 2008/09 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 2008			109.0
Less Loan Repayments			-15.0
New Loans acquired	PWLB	5.0	
	LOBOs	<u>0.0</u>	5.0
Change in level of temporary loans			0.0
Loans outstanding at 31 March 2009			<u>99.0</u>

- 2.1 The schedule of the loans outstanding at 31 March 2009 is shown in Appendix 3.
- 2.2 There were no outstanding investments at either the beginning or end of the year other than the usual overnight deposits of surplus cash balances.

3. **COMMENT**

- 3.1 2008/09 was a very turbulent year for the economy and the banking sector. The UK bank base rate began the year at 5.25% but fell to a record low of 0.5% by the close. Regular advice was received about the financial market which was closely monitored on behalf of the Authority by Leeds City Council. Application of the stringent treasury management policy assisted in ensuring that the Authority's funds were held as securely as possible – a difficult achievement in an environment where the credit ratings of many recognised financial institutions continued to fall. This robust approach led to a challenging situation for the treasury team but was one which ensured the Authority was not one of those that lost deposits in overseas banks.

- 3.2 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 is maximised. Longer term investments (subject to a maximum term and exposure) are made as required to secure better returns from surplus funds but none of these existed at the end of the year.
- 3.3 As can be seen from Appendix 3 the loan portfolio has reduced during the year from £109m to £99m in the year. The likelihood of this was explained last year – the change in LTP capital funding now being provided via direct cash grant rather than through borrowing approvals means the Authority has no need to make further long term borrowing and will instead be in a position where borrowings will need to reduce to meet the requirements of the prudential code.
- 3.4 The rapid collapse of the banking sector during the year also increased the Authority's exposure risk. Previously the Authority was able to choose to invest surplus funds in a wide range of British and overseas banks with very high credit ratings and which delivered a useful interest income stream. During the year the number of institutions meeting the necessary credit ratings fell significantly and within the UK the takeover of high street banks by other high street banks further reduced the scope available. However, coupled with this was a fall in interest rates (and therefore borrowing rates) and a recognition that the Authority had increasing cash balances arising from the timing of payments compared to the receipts of both levy and capital grants. The opportunity was therefore taken to repay some long term debt and save significant interest payments with the option to borrow short term at low rates if required. Such borrowing has not yet been required.
- 3.5 The movements in the loan portfolio during the year were the repayment and refinancing at lower rates and at a much shorter term of £5m of PWLB debt. This will realise immediate interest savings and put the Authority in a position where it will be able to repay debt at a future short term date with no penalty. In February a further £10m was repaid, recognising the opportunity identified in 3.4 above and again, this results in immediate interest savings. This is helping to offset the significant reduction in interest earned on deposits, as the rates payable on this are linked to the very low base rate.
- 3.6 The first tranche of refinancing resulted in a discount to the Authority and the second repayment in a small premium. Under the accounting regulations these amounts are amortised over 10 years for the discount and over the remaining life of the original borrowing (30 years) for the premium.
- 3.7 The refinancing undertaken during the year has continued the reduction in the average borrowing rate for the Authority from 4.31% to 4.29%.

3.8 As has been stated all rates continue to be constantly monitored to see if any further refinancing can be undertaken, either to take advantage of opportunities to reduce the Authority's exposure risk or to reprofile the debt to assist in making repayments in the coming years.

3.9 The prudential limits set in February are reviewed below.

4 TREASURY MANAGEMENT

4.1 All placement of funds during 2008/09 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.

4.2 As stated above the Authority's investments and cash position are monitored on a daily basis to ensure any available balances are promptly invested.

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 2009 took the appropriate decisions for 2009/10. Whilst overall the capital programme has increased since then due to the extra regional funding secured this does not mean any immediate changes need to be made to those decisions. 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 at this stage.

6.4 It is therefore recommended that the following decisions, as taken in February 2009, 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 3 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:
 - 6.4.2.1 operational boundary (2009/10 - £108.3m)
 - 6.4.2.2 authorised limit (2009/10 - £118.3m)
 - 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%