

AGENDA ITEM NO. 20

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

DATE: 9 FEBRUARY 2007

Report of the Chief Financial Officer and Director General

AUTHORITY AND EXECUTIVE REVENUE BUDGET 2006/07 AND 2007/08

1. MATTERS FOR CONSIDERATION

- 1.1 The revised forecast for 2006/07 and proposed budget for 2007/08.
- 1.2 The Levy on District Councils for 2007/08.
- 1.3 The Prudential Funding Statement.

2. BUDGET SUMMARY

It is proposed to increase the Levy by 2.4%. A summary and explanation of the overall budget and the levy increase is set out in the following tables. The background and possible complications arising from the recent First Group appeal are dealt with in paragraph 3 with details of other aspects of the budget being set out later in the report.

	2005/06	2006/07		2007/08
	Actual	Original	Revised	Original
	£000	£000	£000	£000
Net Expenditure				
Executive (PTE)	111,015	133,200	143,580	148,305
Authority (PTA)	-46,860	-47,996	-59,830	-61,288
	<u>64,155</u>	<u>85,204</u>	<u>83,750</u>	<u>87,017</u>
Use of Reserves	77	-1,503	-49	-1,299
Payments to Districts	0	3,600	3,600	3,715
	<u>64,232</u>	<u>87,301</u>	<u>87,301</u>	<u>89,433</u>

District Council Levies

	Relevant Population June 05 for 07/08	Levy 2006/07 £	Levy 2007/08 £	% of levy by District
Bradford	485,015	19,924,822	20,474,264	22.9%
Calderdale	195,291	8,047,819	8,243,950	9.2%
Kirklees	394,557	16,283,615	16,655,700	18.6%
Leeds	723,088	29,802,294	30,524,200	34.1%
Wakefield	320,628	13,242,450	13,534,886	15.2%
	<u>2,118,579</u>	<u>87,301,000</u>	<u>89,433,000</u>	<u>100.0%</u>

3. OVERALL POSITION

- 3.1 The majority of the costs of carrying out the Authority's transport policies in West Yorkshire are incurred by the Passenger Transport Executive who are reimbursed by a grant from the Authority. The resultant costs of the Passenger Transport Authority's policies are met by income, national grants and a levy on the five District Councils in West Yorkshire.
- 3.2 The overall financial position for the Authority was considered by Members at their budget meeting in December when they considered the 3 year financial strategy. At that meeting the strategy put forward continued the previously agreed approach with the exception of the removal of the Supertram funding element of the Levy. The attached budget follows that strategy and the information previously provided to Members.
- 3.3 There have been a number of steps to determine the level of the Levy for 2007/08.
 - 3.3.1 Firstly the headline level of the Levy has been raised by 4%. This follows the agreement entered into two years ago with the constituent District Councils whereby the Authority released surplus reserves in exchange for an annual increase of 4%.
 - 3.3.2 Secondly the government rejection of the Supertram scheme has meant that the special element of the Levy of £1.5m per annum is no longer required. Any funding of the replacement Rapid Transit development will be considered separately. Further details relating to the adjustment are attached in appendix C3.
- 3.4 Members will be aware that First Group appealed against the Authority's methodology for Concessionary Fare reimbursement (and also with those schemes of 60 other authorities). The announcement of the result of the appeal is complicated in that it did not support all the arguments of either party but will effectively mean an additional cost to the Authority in the future. The potential headroom created in the budget by the less than expected increase in patronage together with appropriate use of reserves/savings should allow the Authority to meet the cost in 2006/07.
- 3.5 In relation to the budget for 2007/08 the concessionary fares provision has been calculated on the assumption that the cost will be minimised through a combination of changing passenger numbers and mitigation measures as outlined in

the concessionary fares report elsewhere on the agenda. Similarly, further action will need to be taken to resolve the impact on the 3 year financial strategy.

- 3.6 A quite distinct matter from that of the First Group appeal was that when the government implemented a statutory concessionary fares scheme, from 1 April 2006 to allow all elderly and disabled pass holders to travel free on buses within their area they included an amount of funding in the local government grant system and distributed that amount across local authorities. In the case of West Yorkshire, that allocation was given to the District Councils.
- 3.7 The government grant system distributes the grant unevenly between the districts compared to the distribution of the levy. Thus to 'capture' the right level of grant provided by the government meant increasing the levy in 2006/07 by £20.5m and repaying £3.6m to districts to ensure that ultimately each district contributed no more or less than they were receiving from the government in additional RSG for concessionary fares.
- 3.8 That situation has continued for 2007/08 and the allocations concerned are set out in the following table. It should be noted that because each district is receiving additional government grant to cover their element of the concessionary fares cost the actual effect of this element of the Levy is wholly covered by government grant and has no effect on the net Council Tax paid by householders.

Concessionary Fare element	2006/07		2007/08	
	Refunds £	Net Levy £	Refunds £	Net Levy £
Gross Levy	87,301,000		89,433,000	
Bradford	578,742	19,346,080	592,844	19,881,420
Calderdale	389,787	7,658,032	403,284	7,840,666
Kirklees	923,715	15,359,900	957,776	15,697,924
Leeds	1,698,167	28,104,127	1,760,887	28,763,313
Wakefield	9,589	13,232,861	209	13,534,677
	<u>3,600,000</u>	<u>83,701,000</u>	<u>3,715,000</u>	<u>85,718,000</u>
Net Levy	<u>83,701,000</u>		<u>85,718,000</u>	
	Net percentage Levy increase			2.4%

- 3.9 There will be a further change in 2008/09 when the government extends the concessions to all national bus journeys undertaken by the relevant passholders. However, details are not yet available on how this will be funded and hence it will form part of next year's budget report.

3.10 As a result of the above PTA and PTE budgets have been produced which are dealt with in the following sections of the report and combined in Appendix A.

4. PASSENGER TRANSPORT AUTHORITY BUDGET

	2005/06	2006/07		2007/08
	Actual	Original	Revised	Original
	£000	£000	£000	£000
Income				
Special Rail Grant	54,587	56,116	67,810	69,509
Rural Bus Grant	1,019	1,019	1,044	1,070
Interest receivable	454	399	423	365
Rents and Service charges	1,133	1,115	1,159	1,160
	<u>57,193</u>	<u>58,649</u>	<u>70,436</u>	<u>72,104</u>
Less expenditure on				
Debt charges	8,900	9,275	9,225	9,409
Other general expenses	1,433	1,378	1,381	1,407
Net income	<u>46,860</u>	<u>47,996</u>	<u>59,830</u>	<u>61,288</u>

- 4.1 The Passenger Transport Authority's forecast outturn for 2006/07 and proposed budget for 2007/08 are set out above.
- 4.2 The Special Rail Grant and the Rural Bus Grants, although received by the Authority, are to cover the Executive's rail and rural bus expenditure, including direct expenses and staffing. They virtually match the expenditure that appears within the Rail and Subsidised Services sections of the Executive's budget.
- 4.3 The net effect of the additional debt charges and investment income lines reflects the successful achievement of additional LTP resources as set out in the capital section of the report. The net costs have been minimized due to an active review of borrowing and investments allowing the refinancing of loans in the light of changes in money market interest rates.
- 4.4 The funding of the ongoing level of revenue expenditure derived from the capital programme is contained in the Executive's budget (para 5). The effect in terms of debt charges is set out in Appendix B which also provides the Authority's approach to Prudential Borrowing in accordance with the 2003 Local Government Act.
- 4.5 The running expenses reflect the general operation of the Authority's administration and their Headquarters building (Wellington House) and are largely offset by rents and service charges.

5. PASSENGER TRANSPORT EXECUTIVE BUDGET

	2005/06	2006/07		2007/08
	Actual £000	Original £000	Revised £000	Original £000
Expenditure				
Concessionary travel scheme	20,140	37,640	37,600	38,900
Subsidised bus services	20,736	23,313	22,091	23,430
Passenger Services	7,958	8,364	8,288	8,790
Rail support	54,675	56,116	67,811	69,510
Pensions	1,345	1,485	1,458	1,510
Financing charges	1,832	1,549	1,503	203
Central contingency	0	0	0	500
Other activities	4,329	4,733	4,829	5,462
Net expenditure	<u>111,015</u>	<u>133,200</u>	<u>143,580</u>	<u>148,305</u>

5.1 PTE Budget Summary

The Passenger Transport Executive's forecast outturn for 2006/07 and proposed budget for 2007/08 are set out above. A commentary is then included in the following paragraphs on the principal items.

5.2 Concessionary Travel

Members will be well aware of the government's requirement for the Authority's concessionary fare scheme to be 'free' to the disabled and elderly for travel on buses within West Yorkshire from 1 April 2006. The current year's budget includes the cost of the change to a zero fare from the previous charge of 35p, including an element for the consequential effects for cross-boundary bus travel. The fare on trains remains at 35p.

However, it is important to note that the reimbursement arrangements were challenged by one of the operators, First Group, who submitted a formal appeal to the DfT. This was one of 61 appeals lodged across the country. The operators were partially successful in their appeal which is now expected to create additional costs for the Authority in future years.

The net figures in the budget have been set in the light of the appeal as explained in paragraph 3.4.

5.3 Subsidised Bus Services

Over the last few years there has been mounting concern over the national position where operators costs have increased significantly and their tender submissions have

been rising by several times the rate of inflation. The Tendered Services Working Group has continued to review tenders ensuring Authority criteria are applied and adjusting services to achieve best possible outcomes. There have been significant de-registrations and cost increases on a number of the batches where operators are seeking to increase their cost recovery.

A review of the network is being conducted by the Tendered Services and Bus Working Groups to ensure that resources are efficiently deployed and to seek to develop the best possible network with the resources available.

Although no services which meet the Authority's criteria (ie generally those carrying 6 to 20 passengers) have been lost there is pressure to review other areas to determine if there are any services that could be created and subsequently developed to a viable level of patronage to increase the network.

There is virtually no saving (£79k) in 2006/07 on non-school tendered services. However, there are a large number of contracts up for renewal next year and an additional sum of £335k has been included in the budget. In addition there is a sum of £500k in the contingency fund specifically to develop services such as those mentioned above in much the same way as Rural Services were expanded over the last few years.

There has been considerable movement on this budget that is mainly comprised of changes to Mybus and school contracts. The rollout of phase 3 of Mybus has been slower than anticipated to ensure the correct alignment of routes and schools. This has saved over £500k in 2006/07 but is a one off saving in the budget which has had to be reinstated in 2007/08. At the same time the school contracts, as a result of temporary renewals to ensure coordination with Mybus, saved some £300k in 2006/07 which has also been reinstated for 2007/08.

The remainder of the movement, some £300k, relates to savings achieved on Accessbus due to delays in re-tendering and special contract arrangements. It is anticipated that some £200k of this will be required in 2007/08.

The proposed budget for tendered services includes provision for the continuation of FreeCityBus services in Leeds, Huddersfield and Wakefield. Subject to the funding for these services meeting the Authority's cost sharing

arrangements, reports on the performance and any contract extensions will be prepared for consideration at the Tendered Services Working Group.

5.4 Passenger Services

Essentially this budget covers all expenditure on bus stations (including the central CCTV system), shelters and stops, including timetables and information, procurement of all subsidised bus services (including rural and accessbus services) and their monitoring and supervision, and the provision of education transport. Thus it is intended to cover all the costs entailed in the direct provision of services to the public other than the payments to bus operators shown above.

The 06/07 outturn shows a small decrease reflecting an increase in rents and departure charges income at bus stations and the effect of a slower than anticipated real time display installation programme. Bus station repairs have also increased but these have been partially offset by savings made through better management of cleaning materials and a decrease in the costs of repairing damaged shelters. The increase in the 07/08 budget is largely due to inflation and salary rises (which includes a further increase in the employer pension contribution, as required by the West Yorkshire Pension Fund). There are also some increases in planned works, to ensure essential repairs can be made to the automatic doors at two bus stations. Against this there is expected extra income of £225k reflecting the increasing number of Adshel advertising installations in bus shelters.

5.5 Rail Support

All supported local rail services that have been operated from March 1997 through rail franchises are being maintained. Their costs continue to be funded by the Government grant shown in the Authority's budget.

As previously reported to Members the DfT is withdrawing, from April 2007, its Rail Passenger Partnership funding for the 16 trailer car units, used on the Airedale line to expand the fleet of 3 car units to 4 car units. Negotiations have achieved an agreement whereby the units will be retained and funded through a mixture of extending the lease for the whole fleet of 333 units until 2020, discounts on the leasing charges and contributions from the operator and the DfT.

It will require a significant contribution of up to £500k per annum from the Authority. However, this is offset by 'profits' achieved on renegotiations of earlier leases. A net annual subsidy of about £300k will be required which has been reduced to £36k in 2007/08 due to earlier 'profits' achieved. Members are asked to approve the results of the negotiations as part of their approval to the budget.

5.6 Pensions

This figure is determined by the Pensions Fund. The costs now only represent the effect to the Executive of the cost of pension increases for former employees and ex bus company staff of the Executive both prior to and since deregulation in 1985.

5.7 Financing Charges

This budget represents the net depreciation charged for PTE owned property and other fixed assets. It is not anticipated that there should be any significant rise in the budget as most new financing is through the Authority. It should be noted that since April 2001 the budget has included the sum of £1.5m to be used to fund the Supertram. As set out in Appendix C3 this is no longer required and has both been deleted from the Levy and from this budget from April 2007.

5.8 Contingency

No general provision has been made. The sum of £500k relates entirely to a special provision created by a transfer from Subsidised Services where it is anticipated that savings will be achieved by careful negotiations with operators on existing contracts. It is intended that the provision will be used to pump prime new routes identified as having significant potential. However, they will only be funded on a 'use it or lose it' basis. It is intended that Members will determine all the routes concerned through the Tendered Services Working Group.

5.9 Other Activities

This heading contains the Executive's central staffing costs plus office overheads such as rents, insurance, professional fees and a range of other administrative items. The figures are shown net of direct income, including property rents and licenses, concessionary fare permits and school agency fees. The costs of development work for new projects such as bus stations, quality bus routes, real time and smart card systems and all other new developments are also included here

although much of the development work will be capitalised at the year-end in accordance with the capital programme.

The main factor in the sharp rise in the 07/08 budget is the inclusion of £400k to allow the reissue of all concessionary permits prior to the national free scheme in April 2008. It is not yet clear how the scheme will operate but it is highly likely a common national pass will have to be issued and that any funding for this (even if granted) will not be made available until the 2008/09 financial year. There are increases on all budget heads due to inflation and salary rises (including the increase in the employer pension contribution rate). The ICT budget has also been increased to reflect the ongoing costs of supporting the real time system which is now operating successfully across the county.

6. GERSHON SAVINGS

- 6.1 The PTA is not required under Gershon to submit to the DCLG an annual efficiency statement in the same way as local authorities. However, the transport spending undertaken by the PTA on behalf of the authorities forms part of the costs of the Districts upon which the 2½% efficiency savings must be made. Regular statements and updates on progress are therefore being made to Leeds City Council who are acting as a point of contact for all the Districts on the PTA efficiency savings.
- 6.2 Metro has always sought to achieve efficiencies wherever possible and this has enabled it to continue delivering the highest standards of public transport whilst for many years maintaining the levy at below inflation levels. The level of the annual efficiency savings required for both 2006/07 and 2007/08 is £1.9 million and this has been incorporated into the attached budget. The target efficiencies cover a range of activities, including bus services, procurement and better use of ICT to increase productivity.

7. REVENUE GRANT TO THE EXECUTIVE

- 7.1 The previous paragraphs set out the budgetary position of both the PTA and the PTE. Under Section 4(1) of the Transport Act 1983 the Authority is required to determine the Revenue Grant to be made to the Executive.
- 7.2 There have been a number of changes in the level of PTE expenditure for 2006/07 that prompt the need for a change in the level of the grant from the Authority. Although Appendix A shows a reduced level of grant it is suggested that, in

accordance with accepted practice, any formal adjustment is only made to the revenue grant when final figures for the year are known. At that time the grant will be adjusted so that the Executive's overall reserves are maintained at the existing level.

- 7.3 Taking into account the anticipated final position for 2006/07 and the Executive's proposed budget for 2007/08, it is recommended that the PTE revenue grant for 2006/07 be set at a figure which is intended to ensure there is no overall alteration to the Executive's reserves during that year. It is also intended to cover expenditure met from Rail and Rural bus grants and that element of the grant may require amendment later in the year to reflect the actual grant received.

8. REVENUE RESERVES

- 8.1 The revenue reserves position is as follows:

		2005/06 Actual	2006/07 Latest projection	2007/08 Budget
		£000	£000	£000
Authority -	brought forward	5,110	5,187	5,138
	movement in year	77	-49	-1,299
	carried forward	<u>5,187</u>	<u>5,138</u>	<u>3,839</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	6,521	6,598	6,549
	movement in year	77	-49	-1,299
	carried forward	<u>6,598</u>	<u>6,549</u>	<u>5,250</u>

- 8.2 The Authority has previously considered the level of its financial reserves and concluded that they should be maintained at a level of at least £2m which at that time equated to just over 3% of its annual levy. Currently the reserves of £6.5m equate to about 7.6% of the net levy of £85.7m for 2007/08 which would normally be considered adequate.

- 8.3 However, the Authority is currently at risk over the payments related to concessionary fares, not just from the recent First Group appeal but from the change to a country wide scheme from April 2008. The funding arrangements for that extension are being re-examined by the government. Until this has been resolved it is impractical to determine the level of exposure of the Authority and decide on an appropriate level of reserves.

8.4 It is therefore recommended that the current position be maintained and that there be a further review in February 2008. Officers will continue to review all aspects of the Authority's and Executive's policies to ensure best use is made of available resources and to maintain a close monitoring of the budget as set out in Section 11 of this report.

9. CAPITAL PROGRAMME

Local Transport Plan Allocation

- 9.1 The Authority's bid for the capital resources required for 2007/08 formed part of the submission of the new 2nd Local Transport Plan (for 2006/2011) made as a joint submission with the five District Councils in West Yorkshire.
- 9.2 The allocations announced in December 2006 are the first since the submissions. The DfT have classified all plans as excellent, good, fair or weak. West Yorkshire's joint plan has been assessed as 'good' and the letter says it 'demonstrated a good standard of overall delivery and a positive impact on local transport provision in your area, with some strong delivery in places.' The result is that it has attracted an additional 3% uplift in resources which is included in the announcement.
- 9.3 The letter announcing the Government's decision on the submission is attached for Members information at Appendix C1. Decisions on major schemes are to be announced separately.

Capital Allocation for 2007/08

- 9.4 In accordance with the Prudential Capital System a supported allocation for Integrated Transport has been issued to each of the Districts as a Supported Capital Expenditure (Revenue) Indicator SCE(R) with the PTA also receiving a SCE(R) the revenue support for which will be allocated to the Districts in proportion to their population.
- 9.5 The SCE(R) allocated to the PTA for 2006/07 was £8.670m. For 2007/08 the DfT have announced a figure for the Authority of £8.444m which includes the 3% uplift mentioned above and reflects the allocation arrangements requested by the Authority.
- 9.6 However, the DfT have stated they intend to change the way in which the funding of the allocation works so that there will be an SCE(R) of £6.196m with the difference of £2.248m being supplied by a form of direct grant. The details of how

this will work have not yet been published but appropriate debt charges have been included in the attached budget to reflect this reduction in borrowing requirement.

- 9.7 A draft 3 year programme is set out in Appendix C2 as required by the regulations to allow the setting of the Authority's Prudential guidelines. It should be noted that it allows for some programmed slippage to maximize the ability to achieve the annual target spend and decisions will need to be taken by Members to determine the final approved schemes in each year.

Non-LTP Schemes

- 9.8 The Authority is currently involved with 2 major schemes (Yellow Bus and Supertram) which have had approved funding arrangements which are not funded through the LTP and are not shown in the attached capital programme. They are, however, included in the prudential statement attached.
- 9.9 Last year the Authority were informed that its Yellow Bus scheme would receive £7m in 2006/07 and a further amount of £0.504m in 2007/08. Whilst the figure for 2007/08 has not yet been formally confirmed it is expected to be funded by Section 56 grant thus avoiding the need for additional debt charges. This scheme is of course the subject of regular reports to the Authority although to avoid implementation delays it is recommended that approval to the final phase of the expenditure of £0.504m (being the expected level of the S56 approval for 2007/08) be granted at this time.
- 9.10 As Members will be aware the Leeds Supertram scheme has been cancelled. It is therefore appropriate that the special funding arrangement agreed between the Authority and the 5 West Yorkshire District Councils should now cease. Details are attached in Appendix C3.
- 9.11 Nevertheless there are some further capital commitments from the Supertram scheme that have to be honoured, such as land purchase notices. These sums have received approval in previous years and are not included in the attached capital programme as the funding will be through grants from Leeds City Council or monies already set aside for the purpose.

General funding

- 9.12 In the general context of the capital programme and the statement on the prudential capital system the Authority is

recommended to approve the full use of alternative sources of funding as determined by the Chief Financial Officer. In this context it will be seen from the draft capital programme that capital resources will be extremely tight in the future and the possible use of leasing eg for some schemes such as the purchase of Accessbuses is to be examined. This will, however, be subject to prior authorisation of each scheme, its expenditure, the requirements of statute and the subsequent reporting back to the Authority for their approval to the method of funding adopted.

10. BORROWING AND INVESTMENT STRATEGY

10.1 A review of the Authority's operation of the prudential capital system incorporating statutory determinations is set out in Appendix 'B'.

11. PASSENGER TRANSPORT EXECUTIVE BUDGET RESTRICTIONS

11.1 It is recommended that the controls placed on the incurring of expenditure issued in 2006/07 be reiterated for 2007/08.

11.2 The budget is divided into eight main blocks:-

- Concessionary travel
- Subsidised Services
- Passenger Services
- Rail expenditure
- Pensions
- Financing Costs
- Contingency Fund
- Other Costs (net of direct income)

11.3 The Authority's approval is required to any virement between the blocks of expenditure set out above where the expenditure of any one of the blocks is likely to be exceeded. Similarly, virement is not normally permitted from certain specific heads of expenditure (eg. staffing costs).

11.4 **All** releases from the contingency fund, except where identified for specific purposes, and virements between blocks, where the vote is to be varied by more than £25,000 or more than 10% (which ever is the greater), are required to be authorised by the Authority.

12. RECOMMENDATIONS

It is recommended that:-

A. REVENUE BUDGETS

- (i) Approval be given to the Authority's budgets for 2006/07 and 2007/08.
- (ii) Approval be given to the Executive's budgets for 2006/07 and 2007/08.
- (iii) The implications of the budget as detailed above be noted and the results of the negotiations on trailer car units be approved.
- (iv) Approval be given to the use by the Executive of the PTA grant in accordance with the Capital and Revenue budgets except that the following shall require the specific approval of the Authority as defined by paragraph 11 above:
 - (a) All capital commitments,
 - (b) Releases from the Contingency Fund,
 - (c) All virements as defined in that paragraph.

B. LEVY

- (i) 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 £89.433m be determined for the year ending 31st March 2008.
- (ii) The Chief Financial Officer be authorised to issue the levy in respect of the financial year ending 31st March 2008 to the five District Councils in West Yorkshire.
- (iii) The payment of that levy be agreed with each District Council on the basis of 10 equal consecutive monthly instalments commencing in April 2007.
- (iv) That a payment of £3.715m be made to Districts Councils in accordance with the table in paragraph 3 of the report.

C. REVENUE GRANT TO EXECUTIVE

- (i) The Authority determine in accordance with Section 4(1) of the Transport Act 1983, that revenue grants up

to the sum of £148.305m be made to the Passenger Transport Executive in 2007/08 (to include the Government rail and rural bus grants which are to be adjusted later to reflect the actual receipts by the Authority).

- (ii) The Authority direct the PTE under Section 11(3A) of the Transport Act 1968 to finance any deficit in 2007/08 by an appropriation from their reserves.

D. CAPITAL PROGRAMME

- (i) The position of the local transport allocation [SCE(R)] be noted in relation to the Authority's schemes and that the Executive be authorised to explore other methods of supplementing the LTP resources.
- (ii) Approval be given to the expenditure of a further £0.504m on Yellow Bus as set out in paragraph 9.
- (iii) The special funding arrangements set up for Supertram be cancelled and a grant of £2.5m be made to Leeds City Council.
- (iv) Authorisation be given to the Chief Financial Officer to arrange appropriate funding for all expenditure in 2006/07 and 2007/08 subject to statutory limitation and subsequent reporting back to the Authority.
- (v) Grants and other sources of external funding be sought wherever possible to maximise funds available to the Authority.
- (vi) No uncommitted capital schemes be commenced without the approval of the Authority who shall also determine the method of funding.

E. TREASURY MANAGEMENT

In accordance with Appendix B

- (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 in Appendix B be approved.
- (iii) That the overall capital programme and prudential limits for the next 3 years set out in Appendix B be adopted as follows:

- i. Operational boundary as shown
- ii. Authorised Limit as shown
- 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 reaffirmed.

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY BUDGETS

ALL £000's	Actual 2005/06	Original Estimate 2006/07	Forecast Outturn	Original Estimate 2007/08
<u>Executive</u>				
Concessionary travel	20,140	37,640	37,600	38,900
Subsidised Services	20,736	23,313	22,091	23,430
Passenger Services	7,958	8,364	8,288	8,790
Rail Charges	54,675	56,116	67,811	69,510
Pensions	1,345	1,485	1,458	1,510
Financing charges	1,832	1,549	1,503	203
Central Contingency	0	0	0	500
Other Activities	4,329	4,733	4,829	5,462
	<u>111,015</u>	<u>133,200</u>	<u>143,580</u>	<u>148,305</u>
Grant from Authority	-111,015	-133,200	-143,580	-148,305
Use of PTE reserves	0	0	0	0
<u>Authority</u>				
Special Rail Grant	-54,587	-56,116	-67,810	-69,509
Rural Bus Grant	-1,019	-1,019	-1,044	-1,070
Interest Received	-454	-399	-423	-365
Rents etc	-1,133	-1,115	-1,159	-1,160
Less				
Interest Paid	4,653	4,856	4,797	4,812
Minimum Rev Provision	4,247	4,419	4,428	4,597
Other costs	1,433	1,378	1,381	1,407
	<u>-46,860</u>	<u>-47,996</u>	<u>-59,830</u>	<u>-61,288</u>
Grant to PTE	111,015	133,200	143,580	148,305
Transport Levy	-64,232	-87,301	-87,301	-89,433
Payments to Districts	0	3,600	3,600	3,715
Addition to/(use) of reserves	77	-1,503	-49	-1,299
NET EXPENDITURE				
Executive	111,015	133,200	143,580	148,305
Authority	-46,860	-47,996	-59,830	-61,288
Total	<u>64,155</u>	<u>85,204</u>	<u>83,750</u>	<u>87,017</u>
Remaining reserves at year end	6,598	4,265	6,549	5,250

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

	£m	£m
Total Loans outstanding at 1/4/2006:		
Interest: Fixed (incl LOBOs)	85.0	
Variable	20.0	
Temporary (net of Investments)	<u>-5.0</u>	100.0
Activity expected during 2006/07:		
Loan repayments	-20.0	
New temporary loans	5.0	
New borrowing	<u>20.0</u>	5.0
Anticipated loans outstanding at 31/3/2007:		105.0
Activity expected during 2007/08		
New borrowing	5.0	
Debt repayments	<u>0.0</u>	5.0
Anticipated loans outstanding at 31/3/2008:		110.0

Comment:

- 3 The Bank of England's base rate started the year at 4.5% but rose in stages during the year to 5.25% where it has remained. As usual, on the financial markets both short term and long term borrowing and investment rates have fluctuated due to the volatile situation in the world's economies. Due to world markets during 2005/06 long term rates fell below the 4.5% level and have remained there albeit with some fluctuations.
- 4 It is unclear how long the below 4.5% level of longer term interest rates can continue with external advice suggesting such rates will hold, albeit with some fluctuations, for the next few months/years.

- 5 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.
- 6 Due to the relatively low level of longer term interest rates this year it has only been possible to repay two loans advantageously. This has allowed loans of £15m and £5m to be repaid early earning some £216k and £160k in discounts. However, these sums have not been included in the revenue budget as it is intended they will be treated as a contribution towards financing the capital programme. They are thus shown as additional resources against the capital programme in appendix C2.
- 7 Re-borrowing during the year was not directly related to the early repayments but similar amounts have been taken at slightly lower rates than the loans mentioned above. Thus if a comparison were to take place on the first loan an annual saving of about £30k has been achieved. At the time of writing the report funds have not yet been taken to cover the latter loan.
- 8 There have been two other long term transactions so far this year. Firstly a LOBO has been rescheduled for a slightly lower interest rate and secondly a new LOBO has been obtained to provide a balanced portfolio. These were both £5m, one @ 3.8% and the other @ 3.99%. Overall the loan portfolio is being kept under constant review in relation to the market.
- 9 The Authority's net borrowings in 2006/07 closely follow the financing requirements shown in the prudential statement below. The annual interest rate for the Authority's external debt at 31 March 2006 was 4.56% (down from 4.62% the previous year and anticipated to be 4.486% at 31 March 2006) which is significantly lower than the rate at which the districts attract support from the government in FSS (ie 6.0% for 2006/07 and 5.9% for 2007/08). Since the Authority average is about the same as long term PWLB borrowing rates it is unlikely that significant further reductions can be made unless overall market rates fall.
- 10 The general level of borrowing and investments is handled efficiently by Leeds 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. They also monitor the market on behalf of both the Authority and Leeds.

- 11 As stated above the market position of interest rates continues to be monitored on a daily basis with a view to possible refinancing deals and to ensure longer term loans are only obtained where interest rates are competitive.
- 12 The current forecast of base rate is for rates to initially stay at around 5.25%, to rise in the near future but to then gradually fall to 4.5% by the end of 2008. This, it is suggested, will be linked to longer term rates also of around 4.5% .

Treasury Management Activity - Investments Criteria

- 13 In general it is intended there should be no long term investments by the Authority although any surplus cash will be invested for up to one year. There was one short term investment of £5m at 1st April 2006. This was because of the current policy of operating 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. The level of future investments will fluctuate on a short-term basis due to cash flow requirements, but is likely to remain low.
- 14 The new Treasury Management Team at the Council, which was put into place following the alleged fraud, is proving very effective. Negotiations to recover over 90% of the losses incurred are nearly complete although the figures are not included in the budget for reasons of confidentiality and prudence. It is proposed that the existing policy of utilising the expertise of the Treasury Management Team in Leeds City Council be reaffirmed for 2006/07, and for future years.

It is 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 12 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, if it so wishes to 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 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 an Annex 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 SCE(R) granted 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 assets such as Accessbuses. The financial viability 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)
 - c. There have been no instances so far where the Authorised limit has been exceeded during 2006/07.
- 20 Leeds City Council recently reviewed its borrowing limits in the light of market rates and determined that they should allow the limit to be set a level sufficient for the current year plus the equivalent of 2 years anticipated borrowing requirement which is derived from the capital allocations. This is 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 2006/07 and 2007/08. However, to provide more flexibility to Leeds in managing the funding operation it is recommended that those calculated limits be increased by the sum of £12m to reflect (prudently) an anticipated level of capital allocation of £6m in each of the following two years.
- 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%. These limits have not been breached during 2006/07 and should 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

	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000
Expenditure per programme				
Local Transport Plan	11,186	11,630	13,327	13,028
MyBus Scheme	7,000	1,390	0	0
Supertram	300	2,000	1,500	1,252
	<u>18,486</u>	<u>15,020</u>	<u>14,827</u>	<u>14,280</u>
Less forecast slippage	-681	-2,932	-3,791	-3,712
	<u>17,805</u>	<u>12,088</u>	<u>11,036</u>	<u>10,568</u>
Financing				
SCA/SCE(R) - LTP ###	8,670	6,196	8,836	9,316
SCE(R) - MyBus	0	886	0	0
Anticipated Borrowing	<u>8,670</u>	<u>7,082</u>	<u>8,836</u>	<u>9,316</u>
LTP Grant	0	2,248	unknown	unknown
Section 56 Grant	7,000	504	0	0
Other funding #####	<u>2,135</u>	<u>2,254</u>	<u>2,200</u>	<u>1,252</u>
	<u>17,805</u>	<u>12,088</u>	<u>11,036</u>	<u>10,568</u>

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

Calculation of Prudential Indicators:

	2006/07	2007/08	2008/09	2009/10
	£000	£000	£000	£000
<u>AFFORDABILITY</u>				
Ratio of financing costs to net revenue stream				
Debt Charges	8,965	9,247	9,561	10,044
Levy	87,301	89,239	102,909	106,921
(Assumes a 4% increase per the Financial Strategy + £10m re national Concessionary Fares)				
Resultant ratio:	10.3%	10.4%	9.3%	9.4%

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

Loans outstanding at 31 March	110,690	114,932	117,417	121,556
Additional borrowing requirement in year	8,670	7,082	8,836	9,316
Less debt repayments in year	-4,428	-4,597	-4,697	-4,862
Calculated Operational Boundary	114,932	117,417	121,556	126,010
Funding for up to 2 future years	0	12,000	12,000	12,000
Forecast Operational Boundary	114,932	129,417	133,556	138,010
Safety factor		10,000	10,000	10,000
Forecast Authorised Limit		139,417	143,556	148,010

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%