

# WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY

DATE: 12 FEBRUARY 2010

AGENDA ITEM NO: **12**

**SUBJECT: AUTHORITY AND EXECUTIVE REVENUE BUDGET 2009/10 AND 2010/11**

## Report of the Chief Financial Officer and Director General

### 1. MATTERS FOR CONSIDERATION

- 1.1. The revised budget forecast for 2009/10 and proposed budget for 2010/11.
- 1.2. The levy on District Councils for 2010/11.
- 1.3. The Prudential Funding Statement.

### 2. INFORMATION

#### Introduction

- 2.1. At its budget briefing in December the Authority was advised of the financial challenges in the next three years. Whilst the concessionary fares agreements with the major operators had helped to manage the financial risks inherent in this budget line these agreements come to an end in March 2011. There is as yet no information from the Department for Transport setting out either the funding that will be available or guidance on how to undertake reimbursement. The three year strategy proposed sought to ensure the Authority had a slightly higher than usual level of reserves in place to be better able to cope with the likely demands on it. This was to be achieved by a modest levy increase of only 1% coupled with a range of cost saving measures but would still require savings of some £9m to be made in the following two years.
- 2.2. Subsequent to this the Association of West Yorkshire Authorities (AWYA) advised that it supported a nil increase in the levy, reflecting the difficult financial position faced by the District Councils at the moment. In order to leave reserves at the levels originally proposed this would increase the savings required to £12m over the three year period, of which £1.5m would need to be found in 2010/11. Whilst this would be a challenging target a proposed solution to identify the first year savings was identified, with a level of savings required across all budget heads. This included savings of £0.5m on tendered services which was to be sought without impacting on service provision. In the current economic climate it is recognised that this would be a difficult

target to meet and subsequent discussions have been undertaken with the AWYA. As a result it is proposed to increase the levy by half of one percent, which means savings do not have to be made on the tendered services budget, although, of course, efficiencies will continue to be sought.

- 2.3. This report sets out the forecast budget outturn for 2009/10, the proposed budget for 2010/11 with a levy increase of half of one percent and considers the implications of the savings required and how these are to be found.

The 2009/10 budget forecast and proposed budget for 2010/11

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

	2008/09	2009/10	2010/11
	Actual	Original	Original
	£000	£000	£000
Net Expenditure			
Executive (PTE)	150,067	155,919	157,368
Authority (ITA)	-64,035	-63,803	-64,838
	86,032	92,116	92,530
(Use of )/addition to Reserves	3,115	-741	-698
Payments to Districts	4,345	4,625	4,718
Gross levy	93,492	96,000	96,550

**District Council Levies**

	Relevant	Net levy	Gross levy	% of levy	Refund	Net levy
	Population	2009/10	2010/11	by District	2010/11	2010/11
	June'08 for 2010/11	£000	£000		£000	£000
Bradford	501,703	21,114,924	22,011,557	22.8%	794,389	21,217,168
Calderdale	201,841	8,332,321	8,855,507	9.2%	483,626	8,371,882
Kirklees	403,943	16,577,588	17,722,466	18.4%	1,082,358	16,640,107
Leeds	770,830	31,215,168	33,819,150	35.0%	2,350,393	31,468,757
Wakefield	322,319	14,135,323	14,141,320	14.6%	7,034	14,134,286
	2,200,636	91,375,324	96,550,000	100.0%	4,717,800	91,832,200

- 2.5. The forecast last year assumed a use of reserves in 2009/10 of £741k and expenditure in the year has been broadly in line with this. The 2010/11 position shows a use of reserves of £698k but this also requires £1m of savings to be achieved. The intention is then to leave reserves in a robust position in advance of the new funding and reimbursement arrangements for concessionary fares from April 2011. The separate ITA and PTE budgets are set out in the following paragraphs and the combined position is shown in more detail in Appendix A.

- 2.6. 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 underlying levy increase to each District is half of one percent.

2.7. Set out below is the Integrated Transport Authority budget.

	2008/09	2009/10		2010/11
	Actual	Original	Revised	Original
	£000	£000	£000	£000
Income				
Special Rail Grant	71,871	71,894	72,096	72,096
Rural Bus Grant	1,096	1,125	1,125	1,154
Interest receivable	480	220	127	93
Rents and Service charges	1,187	1,192	1,165	1,229
	<u>74,634</u>	<u>74,431</u>	<u>74,513</u>	<u>74,572</u>
Less expenditure on				
Debt charges	9,285	9,273	8,462	8,321
Other general expenses	1,314	1,355	1,315	1,413
Net income	<u>64,035</u>	<u>63,803</u>	<u>64,736</u>	<u>64,838</u>

The forecast outturn for 2009/10 shows significant savings on debt charges and a reduction in interest earned in the period. This reflects the use of surplus cash to repay debt during the year. The 2010/11 figures show little movement from the outturn position. The Authority's borrowing is for the most part long term and at fixed rates and in the absence of any future refinancing opportunities the level of interest repayment remains fixed.

2.8. 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.

	2008/09	2009/10		2010/11
	Actual	Original	Revised	Original
	£000	£000	£000	£000
Expenditure				
Concessionary travel scheme	44,579	46,819	49,561	49,094
Subsidised bus services	24,670	26,534	25,132	26,680
Passenger Services	9,826	9,957	9,999	10,011
Prepaid Tickets	29,512	29,000	29,000	29,000
Rail support	71,871	71,894	72,096	72,096
Pensions	1,388	1,549	1,441	1,617
Savings/cuts				-1,000
Financing charges	429	420	473	473
Central contingency	0	500	0	0
Other activities	5,971	7,117	7,053	7,513
	<u>188,246</u>	<u>193,790</u>	<u>194,755</u>	<u>195,484</u>
Less Prepaid Ticket sales	29,512	29,000	29,000	29,000
Concessionary fare grants	8,667	8,871	8,871	9,116
Net Expenditure	<u>150,067</u>	<u>155,919</u>	<u>156,884</u>	<u>157,368</u>

### Concessionary Travel

- 2.9. The Authority is fully aware of the financial difficulties posed by the introduction of the free national concessionary travel scheme in April 2008. Metro successfully lobbied through *pteg*, the Passenger Transport Executive Group, to ensure the most favourable distribution methodology for the additional Government funding and was then able to negotiate three year agreements with the operators which provided greater certainty and value for money.
- 2.10. The Department for Transport recently reconsidered the allocation of the third year of the direct concessionary grant. It announced last week that the West Yorkshire grant would remain unchanged for 2010/11.
- 2.11. The three year agreement reached with operators effectively fixed the majority of concessionary fares payments until 2011. Increased payments have been required on the rail and bus elements outside of the agreements, and some reprofiling of payments has been made. The Authority will be lobbying again in 2010/11 when the Department for Transport commences consultation on the funding and reimbursement methodology for 2011/12 onwards. A further three year agreement will be sought to provide a similar level of certainty to this budget head and if this is not possible then an increase in income from operators via other means will be sought.

### Tendered bus services

- 2.12. The next most significant level of the Authority's budget expenditure is on tendered bus services. In the last year the Authority has faced significant challenges as the operators have sought to maintain their margins and deregistered services. The outturn for 2009/10 shows a significant one off saving due to the fall in inflation in the year which was not expected when the budget was set, some savings relating to the maintenance costs of YellowBus which were passed to the operators and savings achieved through extending and renewing contracts at lower rates than budgeted. The 2010/11 budget allows for the expected costs as calculated in the tendered services model, allowing a level of increase for the significant batches that are due to be renewed in 2010/11, and an assumption on the inflation that will apply to current contracts
- 2.13. The Authority has recently approved preliminary work to be undertaken on quality contracts. This work will continue in conjunction with other partnership measures and also with more innovative solutions to secure continuing services at competitive prices.

### Passenger Services

- 2.14. 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). The forecast outturn is in line with the original budget, with a number of

increases in spend, on electricity costs at bus stations for example, offset by savings on staffing and consultancy and some increased income at bus stations. The 2010/11 budget is again impacted by a number of increases and decreases which leave the overall total almost in line with the closing 2009/10 position. These include increases in CCTV costs and salary costs (due primarily to pension increases, although these costs will be reduced in line with the savings identified below in paragraph 2.21). Increased income is forecast from the Clear Channel contract as more shelters are complete and there is reduced expenditure on some projects where external funding has come to an end.

#### Rail support

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

#### Pensions

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

#### Financing charges

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

#### Contingency

- 2.18. The contingency line has previously been used to provide 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. In 2010/11 provision for these initiatives is provided for in the main tendered services budget.

#### Other Activities

- 2.19. The other activities line shows an outturn for 09/10 slightly below that originally budgeted. This is partly due to some one off savings achieved in the year, including insurance premiums, recruitment and capital recoveries.
- 2.20. There is an apparent increase in the 2010/11 budget figure but it should be noted that half of this is the loss of external income referred to above. The costs of relocating Phoenix House staff to Wellington House are also included in this line and this will realise significant savings from 2011/12 onwards.

#### IFRS

- 2.21. The Authority is required to prepare its accounts in accordance with the Code of Practice on Local Authority Accounting. For 2010/11 this will

reflect the implementation of International Financial Reporting Standards. Whilst the intent of these changes is to provide better, more comparable accounts it is also stated that there should be no bottom line costs to local authorities in changing the way in which they account for particular transactions. The 2010/11 budget assumes this to be the case for the Authority. Initial work undertaken on this to date has not highlighted any areas for concern but further reports will be prepared for the Authority during the year.

### Savings

- 2.22. To achieve the required level of reserves for 2010/11 savings or cuts of £1m are required. Some of the potential ways of achieving these were discussed at the budget presentation in December, including the need to make staffing savings. £1m is a significant amount of savings to make in one year and it is proposed that these will need to be found across all budget heads other than tendered services. Set out below are the proposed savings:
- Concessions: £300k;
  - Staffing savings: £300k (in addition to a vacancy target of 300k);
  - Passenger services: £200k;
  - Other activities: £200k.
- 2.23. The elderly concession on rail has remained unchanged since 2005 at 35p per journey. This is one of the few areas within concessions which is still discretionary and hence must be considered in the context of a reduced levy. For example, an increase to 65p would achieve the required £300k per annum. Other options to be explored could include the introduction of a concessionary rail Metrocard or differentiating between single and return fares. Discussions with train operating companies have commenced to consider whether they are able to contribute to this concession. On completion of these discussions formal approval to an appropriate level of increase to the concessionary fare will be sought from the Authority. Child concessionary payments are linked into the current three year agreements with the major operators. Once these come to an end in 2011 then opportunities to reduce these costs will need to be considered. This may have to take the form of revisiting child concessions to put pressure on the operators to operate a commercial subsidy as they do in some other areas.
- 2.24. A reduction in staffing numbers has been built into the 2010/11 budget and it is anticipated that this will be achieved through a variety of measures. These include restrictions on recruitment, temporary staff and overtime and a freeze on creating new posts, other than in exceptional circumstances or as a result of external funding for specific projects. The introduction of a voluntary severance scheme will also be an important tool in achieving the necessary savings. Any applications received under such a scheme would be evaluated against strict criteria to ensure value for money and business efficiency were achieved. Further staffing reductions will be planned for 2011/12 onwards.

- 2.25. A programme of savings and cuts within the passenger services and other activities lines, in addition to the staffing savings above, is being finalised. This has drawn on the recent value for money reviews undertaken across all areas and includes reductions in consultancy, marketing and legal costs. Savings will be delivered through more efficient use of resources to try to maintain current outputs whilst reducing the cost of doing so. Opportunities to improve business processes and increase productivity through further ICT investment are also being investigated.
- 2.26. The Authority has developed a more strategic approach to recent bus tender renewals in an attempt to increase competition into the market and thereby reduce tender prices. This approach will be continued in 2010/11 with the intention of ensuring the network is maintained at a competitive price. Discussions with operators considering how tenders can be repackaged or reprofiled to restrict cost increases will also continue. A list of the poorest performing services will be drawn up to consider whether the public's needs can be addressed in other ways.

#### Revenue grant to the Executive

- 2.27. 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 2009/10 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.
- 2.28. It is further recommended that the PTE revenue grant for 2010/11 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

- 2.29. The revenue reserves position is set out below.

		2008/09 Actual	2009/10 Latest projection	2010/11 Budget
		£000	£000	£000
Authority -	brought forward	2,898	6,013	5,240
	movement in year	3,115	-773	-698
	carried forward	<u>6,013</u>	<u>5,240</u>	<u>4,542</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	4,309	7,424	6,651
	movement in year	3,115	-773	-698
	carried forward	<u>7,424</u>	<u>6,651</u>	<u>5,953</u>

- 2.30. 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 and, given the huge uncertainties around concessionary fares from 2011 onwards, and the potential for cuts described earlier as a result, this level is still appropriate. This continues to be the major area of specific risk in the Authority's budget with uncertainty around both the grant payment and the method of reimbursement. 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 half percent levy increase rather than the standstill position originally sought is helpful but does not remove the risk that a further level of savings, or further levy increases, are very likely to be required in 2011/12 and subsequent years to meet the costs of concessionary travel.

#### Capital Programme

- 2.31. The Authority's capital allocation for 2010/11 of £9.797m has already been announced. This will be paid as direct grant to the Authority in quarterly instalments throughout the year. In addition the Authority is managing a strategic programme on behalf of West Yorkshire, funded from the RFA uplift, which in 2010/11 is expected to spend over £13m on a range of projects.
- 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. The programme is necessarily draft as capital funding beyond the end of Local Transport Plan 2 (which ends in March 2011) has not yet been determined by the Department for Transport. The 2010/11 programme reflects ongoing commitments in relation to delivery of the second Local Transport Plan. For example, it includes a continuation of Metro's shelter renewal programme, completion of a new bus station for Pudsey (as part of Metro's programme of upgrading bus interchange facilities across West Yorkshire) and the replacement of life expired electronic information displays at Metro's bus stations. The 2010/11 programme includes funding for new park and ride facilities at Keighley Rail Station (in partnership with Bradford Council and the new college) the conversion of Metro's successful CCTV system to digital technology and a new joint facility with Leeds City Council. The programme also includes supporting future major scheme development including NGT and several rail schemes including new stations and additional car parking spaces. In the case of the rail schemes, the funding will need to be directed flexibly to minimise the risk of abortive expenditure. The programme will be kept under review as major schemes progress and as the third Local Transport Plan is developed during the course of the year.

2.33. 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.

#### Borrowing and Investment Strategy

2.34. 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

2.35. It is recommended that the controls in place on expenditure in 2009/10 be reiterated for 2010/11, 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
- Other costs

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

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

### **4. STAFFING IMPLICATIONS**

4.1. As set out in section 2 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 2009/10 and 2010/11.

6.2. That approval be given to the Executive's budgets for 2009/10 and 2010/11.

6.3. That approval be given to the use by the Executive of the ITA 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 2.35 above.

- 6.4. 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 £96.55m be determined for the year ended 31 March 2011.
- 6.5. That the Chief Financial Officer be authorised to issue the levy in respect of the financial year ending 31 March 2011 to the five District Councils in West Yorkshire.
- 6.6. That the payment of the levy be agreed with each District Council on the basis of 10 equal consecutive monthly instalments commencing in April 2010.
- 6.7. That a payment of £4.718m be made to the District Councils in accordance with the table in paragraph 2.4 of the report.
- 6.8. That the Authority determine that revenue grants up to the sum of £157.368m be made to the Passenger Transport Executive in 2010/11 (to include the Government rail and rural bus grants which are to be adjusted later to reflect the actual receipts by the Authority).
- 6.9. That the Authority direct the PTE under section 11 (3A) of the Transport Act 1968 to finance any deficit in 2010/11 by an appropriation from their reserves.
- 6.10. 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.
- 6.11. That authorisation be given to the Chief Financial Officer to arrange appropriate funding for all expenditure in 2009/10 and 2010/11 subject to statutory limitation and subsequent reporting back to the Authority.
- 6.12. That no uncommitted capital schemes be commenced without the approval of the Authority who shall also determine the method of funding.
- 6.13. That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.
- 6.14. That the Treasury management policy as set out in Appendix B and Annex be approved.
- 6.15. 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%.

6.16. That the short term investment criteria be reaffirmed.

Director General  
West Yorkshire Passenger Transport Executive

## Appendix A

### WEST YORKSHIRE INTEGRATED TRANSPORT AUTHORITY BUDGET

All £000's	Audited accounts <b>2008/09</b>	Original budget <b>2009/10</b>	Forecast outturn	Budget <b>2010/11</b>
<b><u>Executive</u></b>				
Concessionary travel	44,579	46,819	49,561	49,094
Subsidised Services	24,670	26,534	25,132	26,680
Passenger Services	9,826	9,957	9,999	10,011
Prepaid Tickets	29,512	29,000	29,000	29,000
Rail Charges	71,871	71,894	72,096	72,096
Pensions	1,388	1,549	1,441	1,517
Savings/cuts				-1,000
Financing charges	429	420	473	473
Central Contingency	0	500	0	0
Other Activities	5,971	7,117	7,053	7,613
	188,246	193,790	194,755	195,484
C Fares	-8,667	-8,871	-8,871	-9,116
Prepaid Tickets	-29,512	-29,000	-29,000	-29,000
Grant from Authority	-150,067	-155,919	-156,884	-157,368
Use of PTE reserves	0	0	0	0
<b><u>Authority</u></b>				
Special Rail Grant	-71,871	-71,894	-72,096	-72,096
Rural Bus Grant	-1,096	-1,125	-1,125	-1,154
Interest Received	-480	-220	-127	-93
Rents etc	-1,187	-1,192	-1,165	-1,229
Less				
Interest Paid	4,653	4,762	3,951	3,991
Minimum Rev Provision	4,632	4,511	4,511	4,330
Other costs	1,314	1,355	1,315	1,413
	-64,035	-63,803	-64,736	-64,838
Grant to PTE	150,067	155,919	156,884	157,368
Transport Levy	-93,492	-96,000	-96,000	-96,500
Payments to Districts	4,345	4,625	4,625	4,668
Addition to/(use) of reserves	3,115	-741	-773	-698
<b>NET EXPENDITURE</b>				
Executive	188,246	193,790	194,755	195,484
Authority	-64,035	-63,803	-64,736	-64,838
<b>Total</b>	<b>124,211</b>	<b>129,987</b>	<b>130,019</b>	<b>130,646</b>
Remaining reserves at year end	7,424	4,122	6,651	5,953
of which required CT reserve	2,871		1,432	
available reserves	4,553		5,219	5,953

## 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 currently reviewed and updated twice annually, in the final accounts and budget reports. The Code was updated and strengthened in December 2010 to reflect findings and conclusions drawn following the collapse of the Icelandic banks. The implications for the Authority and any changes required to current arrangements will be reported to the Audit and Governance Committee.
- 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 1/4/2009:</b>		
Interest: Fixed (incl LOBOs)	99.0	
Investments	0.0	99.0
Activity expected during 2009/10:		
Loan repayments	-15.5	
Net movement in temporary loans	0.0	
New borrowing	8.0	-7.5
<b>Anticipated loans outstanding at 31/3/2010:</b>		<b>91.5</b>
Activity expected during 2010/11		
New borrowing	0.0	
Debt repayments	-5.0	-5.0
<b>Anticipated loans outstanding at 31/3/2011:</b>		<b>86.5</b>

#### Comment:

- 3 The current financial year has seen a continuation of the difficulties experienced in 2008/09 in the world's markets and the financial sector. The Bank of England's base rate has been at 0.5% since 5 March 2009 and the lack of available capital has kept investment rates low and limited the opportunities to refinance long term borrowing.
- 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 May 2009 an opportunity arose to repay a £6m PWLB loan at a premium of £163k. This sum is amortised over the remaining life of the loan (44 years) and the repayment gives rise to significant interest savings. The decision to do this was part of the revised strategy to seek to limit counterparty risk in response to the continuing poor credit ratings of many of the financial institutions. The Authority is in a position where it has surplus cash balances (due to timing differences between the receipt of a range of cash grants/income and the timing of the related expenditure) and should there be any shortfall it would be possible to reborrow at a lower interest rate than the PWLB loan repaid.
- 6 A further £8m PWLB loan was repaid in June and replaced by an EIP structure at a lower interest rate. This type of loan requires annual repayments of capital as well as interest and again is therefore appropriate to the current strategy in that it reduces the cash balances that would otherwise require investing. Short term borrowing could be undertaken if required.
- 7 The Authority will be in a position in the coming years where it will ultimately need to repay borrowing in order to adhere to the appropriate financing regulations. The levy and LTP payments are received as cash, along with other external funding resources and there is no requirement to enter into further long term loans at the current time. The anticipated repayment in 2010/11 is a further £1m of the EIP loan and a shorter term loan which matures in the year. The need for any further borrowing in the light of these repayments will continue to be kept under review, along with any opportunities to reprofile debt in an advantageous way.
- 9 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 ensured that the policy is continually reviewed and can be adapted as required to ensure that the Authority's funds are managed in the most effective and secure way. There has been little change in the number of approved counterparties available for investment and this, coupled with falling interest rates, has led to a continued reduction in interest earned this year and next. The repayment of debt is financially more advantageous than investing surplus cash, as well as addressing the relative risk of counterparty investment and this policy will continue to be followed as far as is reasonable.
- 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 2009/10, 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 ITA 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 2009/10 and 2010/11. 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 Integrated Transport Authority

#### Summary Capital Programme

	2009/10	2010/11	2011/12	2012/13
<b>Expenditure per programme</b>	£000	£000	£000	£000
Local Transport Plan	16,908	18,816	16,438	10,769
RFA Strategic LTP uplift	5,815	13,470	15,030	0
	<u>22,723</u>	<u>32,286</u>	<u>31,468</u>	<u>10,769</u>
Less forecast slippage	-751	-2,578	-1,957	-998
	<u>21,972</u>	<u>29,708</u>	<u>29,511</u>	<u>9,771</u>
<b>Financing</b>				
LTP Grant	9,482	9,797	7,828	7,838
RFA Strategic LTP uplift	5,815	13,470	15,030	0
Other funding	6,675	6,441	6,653	1,933
	<u>21,972</u>	<u>29,708</u>	<u>29,511</u>	<u>9,771</u>

#### Calculation of Prudential Indicators:

	2009/10	2010/11	2011/12	2012/13
<b><u>AFFORDABILITY</u></b>	£000	£000	£000	£000
Ratio of financing costs to net revenue stream				
Debt Charges	8,808	8,701	8,546	8,218
Levy	91,375	91,832	92,750	93,678
(Assumes a 1% increase from 2011/12)				
<b>Resultant ratio:</b>	<b>9.6%</b>	<b>9.5%</b>	<b>9.2%</b>	<b>8.8%</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 1 April	112,765	108,254	103,924	99,767
Additional borrowing requirement in year	0	0	0	0
Less debt repayments in year	-4,511	-4,330	-4,157	-3,991
Loans outstanding at 31 March	<b>108,254</b>	<b>103,924</b>	<b>99,767</b>	<b>95,776</b>

<b>Calculated Operational Boundary</b>	<b>112,765</b>	<b>108,254</b>	<b>103,924</b>	<b>99,767</b>
Safety factor	10,000	10,000	10,000	10,000
<b>Forecast Authorised Limit</b>	<b>122,765</b>	<b>118,254</b>	<b>113,924</b>	<b>109,767</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%

