

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

DATE: 8 FEBRUARY 2008

AGENDA ITEM NO: **16**

**SUBJECT: AUTHORITY AND EXECUTIVE REVENUE BUDGET
2007/08 AND 2008/09**

Report of the Chief Financial Officer and Director General

1. MATTERS FOR CONSIDERATION

- 1.1 The revised forecast for 2007/08 and proposed budget for 2008/09.
- 1.2 The Levy on District Councils for 2008/09.
- 1.3 The Prudential Funding Statement.

2. BUDGET SUMMARY

It is proposed to increase the Levy by 4.0%. A summary and explanation of the overall budget and the levy increase, as set out in the following tables, is contained in this report.

	2006/07	2007/08		2008/09
	Actual	Original	Revised	Original
	£000	£000	£000	£000
Net Expenditure				
Executive (PTE)	145,737	148,305	145,827	150,109
Authority (PTA)	-61,168	-61,288	-59,666	-61,665
	<u>84,569</u>	<u>87,017</u>	<u>86,161</u>	<u>88,444</u>
Use of Reserves	-868	-1,299	-443	703
Payments to Districts	<u>3,600</u>	<u>3,715</u>	<u>3,715</u>	<u>4,345</u>
	<u>87,301</u>	<u>89,433</u>	<u>89,433</u>	<u>93,492</u>

District Council Levies

	Relevant Population June 06 for 08/09	Levy 2007/08 £	Levy 2008/09 £	% of levy by District
Bradford	493,108	20,474,264	21,331,102	22.8%
Calderdale	198,535	8,243,950	8,588,322	9.2%
Kirklees	398,192	16,655,700	17,225,181	18.4%
Leeds	750,249	30,524,200	32,454,631	34.7%
Wakefield	321,157	13,534,886	13,892,764	14.9%
	<u>2,161,241</u>	<u>89,433,000</u>	<u>93,492,000</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 but took into account the increasing complications arising from the concessionary fares scheme which are dealt with later in this report. The attached budget follows the strategy put forward and the information previously provided to Members.
- 3.3 There have been a number of matters dealt with in the determination of the level of the Levy for 2008/09.
- 3.3.1 The headline level of the Levy has been raised by 4%. It maintains the previous agreement entered into with the constituent District Councils. Whilst this is slightly below the current increase in the level of RPI it reflects the uncertainty concerning concessionary fare increases and the related risks.
- 3.3.2 Members should be aware that if the currently forecasted trends in concessionary fares do occur then levy rises in the next few years will need to significantly exceed RPI. This particularly refers to the rising reimbursement costs linked to operators' fares when compared to the very low increase in the related DfT grants. This discrepancy is referred to more fully in appendix D.
- 3.3.3 It also reflects methodology used by the government in their grant system when they implemented the concessionary fares changes in April 2006 as set out below.
- 3.4 In 2006/07 the government grant system was adjusted to distribute an additional concessionary fares grant of £16.9m to West Yorkshire. However, the grant was distributed 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 the districts to ensure that ultimately each district contributed no more or less than they were receiving from the government in additional RSG for the concessionary fares.

- 3.5 That situation has continued since and for 2008/09 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.

District Council Levies		2008/09			
Relevant Population June 06 for 08/09	Net Levy 2007/08 £000	Gross Levy £000	Refund £000	Net Levy @ 4% £000	
Bradford	493,108	19,881	21,331	725	20,606
Calderdale	198,535	7,841	8,588	456	8,132
Kirklees	398,192	15,698	17,225	1,034	16,191
Leeds	750,249	28,763	32,455	2,127	30,328
Wakefield	321,157	13,535	13,893	3	13,890
	2,161,241	85,718	93,492	4,345	89,147

- 3.6 The change to the scheme in April 2008 creates a further increase in the cost of concessionary fare reimbursements but that element will not be paid to the District Councils and is to be reflected by the government in a direct grant to the PTE for each of the next 3 years. The grants concerned appear in the following PTE budget. At the end of 3 years the government has indicated that there will be a further review and once again the grants will be provided through the RSG system although it should be appreciated that by then the Local Transport Bill should have been enacted with any consequential effect on funding arrangements.
- 3.7 The resultant PTA and PTE budgets are dealt with in the following sections of the report and combined in Appendix A.

4. PASSENGER TRANSPORT AUTHORITY BUDGET

	2006/07	2007/08		2008/09
	Actual £000	Original £000	Revised £000	Original £000
Income				
Special Rail Grant	67,811	69,509	67,717	69,748
Rural Bus Grant	1,044	1,070	1,069	1,069
Interest receivable	1,203	365	601	523
Rents and Service charges	1,646	1,160	1,164	1,152
	<u>71,704</u>	<u>72,104</u>	<u>70,551</u>	<u>72,492</u>
Less expenditure on				
Debt charges	9,177	9,409	9,492	9,471
Other general expenses	1,359	1,407	1,393	1,356
Net income	<u>61,168</u>	<u>61,288</u>	<u>59,666</u>	<u>61,665</u>

- 4.1 The Passenger Transport Authority's forecast outturn for 2007/08 and proposed budget for 2008/09 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.
- 4.2 The debt charges and investment income lines are discussed further in the Prudential funding statement in Appendix B. The net costs have been minimised due to an active review of borrowing and investments allowing the refinancing of loans in the light of changes in money market interest rates. The funding of the ongoing level of revenue expenditure derived from the capital programme is contained in the Executive's budget (para 5).
- 4.4 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

	2006/07	2007/08		2008/09
	Actual £000	Original £000	Revised £000	Original £000
Expenditure				
Concessionary travel scheme	39,300	38,900	40,100	46,400
Subsidised bus services	22,317	23,430	23,102	24,479
Passenger Services	8,212	8,790	8,476	9,643
Prepaid Tickets	26,594	27,500	27,500	29,500
Rail support	67,918	69,510	67,718	69,749
Pensions	1,457	1,510	1,360	1,519
Financing charges	2,056	203	229	400
Central contingency	0	500	300	500
Other activities	4,477	5,462	6,181	6,086
	<u>172,331</u>	<u>175,805</u>	<u>174,966</u>	<u>188,276</u>
Less Prepaid Ticket sales	26,594	27,500	27,500	29,500
Concessionary fare grants	0	0	1,639	8,667
Net Expenditure	<u>145,737</u>	<u>148,305</u>	<u>145,827</u>	<u>150,109</u>

5.1 PTE Budget Summary

The Passenger Transport Executive's forecast outturn for 2007/08 and proposed budget for 2008/09 are set out above. A commentary is then included in the following paragraphs on the principal items.

5.2 Concessionary Travel

See Appendix D.

5.3 Subsidised Bus Services

There is continuing concern over the national position where operators costs are increasing significantly and their tender submissions are rising by levels greater than 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. However, there have been significant de-registrations and cost increases on a number of the batches.

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.

As previously no services which meet the Authority's criteria (ie generally those carrying between 6 and 20 passengers) have been lost and there is a commitment to review other areas to determine if there are services that could be developed to a viable level of patronage to increase the network. A contingency sum has again been included to

facilitate this where public demand and proper value for money can be demonstrated.

These figures increase overall by 6% in 08/09. A number of small savings have been made on subsidised services during 07/08 reflecting the continued efforts to ensure value for money on all routes. There continues to be pressure on this budget with tender renewals assumed at between 6 and 10% and annual RPI linked uplifts now running at 4%. The effect of some of this is offset against lower spending on externally funded services such as Urban and Rural bus Challenge which are now complete.

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 07/08 outturn is lower than the original budget following savings realised in a number of areas. This includes the results of renegotiating the electricity contract at the bus stations and savings from close monitoring of the security and planned works contracts. The increase in costs in 08/09 reflects a range of areas, such as the annual increase in the employer pension contribution, as required by the West Yorkshire Pension Fund. There are further costs incurred as a result of the YellowBus funding coming to an end, increased incidence of repairs to bus shelters and increases in planned works at bus stations to address works identified in a recent dilapidation survey.

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.

It has been possible to continue the lease funding for the 8 trailer car units used on the Airedale and Wharfedale lines which is now included under financing charges.

5.6 Pensions

This figure is determined by the Pension Fund. These costs 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.

There is currently a revaluation of the Fund being undertaken and all the PTA and PTE pension contributions will be reviewed from 1 April 2008. Although no information is currently available it is expected that contributions to the fund should not increase any further as the Fund's overall funding position has improved since the last revaluation 3 years ago.

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. As stated above this line now includes the leasing costs of rail units.

5.8 Contingency

No general provision has been made. The sum of £500k relates entirely to the special provision related to Subsidised Services. The purpose of the funding is to create contracts to pump prime new routes or services identified as having significant potential. All the routes concerned will be determined 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 yearend in accordance with the capital programme.

The costs of providing concessionary permits for the 2008 scheme have been charged under this budget head. Whilst some provision was made for this the actual costs are expected to be £700k higher than the original budget. It should be noted however that the concessionary fares grant income of £1.639m shown lower down in the budget table

more than offsets the total cost of issuing passes for the current year. There are a number of small under and overspends on this line which effectively net each other out.

There are a large number of movements affecting the 07/08 budget. The cost of issuing concessionary passes is reduced by £1m but is still considerably higher than the 'normal' expenditure due to the requirement to issue all concessionary passes on Smartcard. There are also further costs associated with the management of the card database. The reduction in external grants impacts on this line as does the increased costs of maintaining the real time system and other telematic projects.

6. EFFICIENCY SAVINGS

- 6.1 Metro has always sought to achieve efficiencies wherever possible and this has enabled it to maintain standards for many years whilst reducing the levy to below inflation levels. The level of the annual efficiency savings required to contribute to the Districts has been met for each of the last two years. Regular statements and updates on progress are being made to Leeds City Council who are acting as a point of contact for all the Districts on the PTA efficiency savings.

For the coming year efficiencies have again been built into the base budget. In a number of instances this has been achieved through not allowing inflation on certain budget heads, such as travel, printing and consultancy. Areas of income generation have also been identified, such as further roll out of the Clear Channel bus shelter advertising panels and better usage of Metro properties.

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 2007/08 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 2007/08 and the Executive's proposed budget for 2008/09, it is recommended that the PTE revenue grant for 2008/09 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 although 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:

		2006/07 Actual	2007/08 Latest projection	2008/09 Budget
		£000	£000	£000
Authority -	brought forward	5,187	4,319	3,876
	movement in year	-868	-443	703
	carried forward	<u>4,319</u>	<u>3,876</u>	<u>4,579</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	6,598	5,730	5,287
	movement in year	-868	-443	703
	carried forward	<u>5,730</u>	<u>5,287</u>	<u>5,990</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 2% of its annual levy. With the increasing concessionary fares budget and its attendant uncertainties this will be insufficient in the future.

8.3 The future level of reserves has been reviewed in some detail. However, the current uncertainties are such that it is not possible to determine a level which can be viewed as sustainable for more than one year and a further detailed review will need to be undertaken each year.

8.4 Currently the budget is at risk over the payments related to concessionary fares, not just from the results of the 2006 appeal and indications that operators may appeal against the 2008/09 concessionary fares scheme but also from the general change to the country wide scheme in April 2008. Additionally there are other risks associated with the 2007/08 and 2008/09 budgets.

8.5 The result of the detailed review of the required levels of reserves indicates that the sum of £6.0m should be sufficient to cover all contingencies to March 2009. However, it is recommended that a further review be undertaken in February 2009. Meanwhile 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 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 2008/09 formed part of the submission of the 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 2007 are the first revision since the initial plans. The letter announcing the Government's decision for the next three years is attached for Members information at Appendix C 1. Decisions on major schemes are to be announced separately.

Capital Allocation for 2008/09

- 9.3 In the past 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 would be allocated to the Districts in proportion to their population. In 2007/08, for the first time, 25% of the capital 'allocation' was provided by a direct government grant. For 2008/09 the letter announces that the whole of the Integrated transport allocation will be paid as a direct grant and this has been taken into account in the revenue budget and the attached appendix on Prudential Funding.
- 9.4 The 'allocation' to the PTA for 2007/08 was £8.444m. For 2008/09 the recent announcement shows a figure for the Authority of £8.776m (an increase of 4%) with £9.257m (5.5%) and £9.797m (5.8%) respectively for the following 2 years. It is assumed that all of these 'allocations' will be paid quarterly as grant as indicated in the regional letter.
- 9.5 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 the programme allows for some programmed slippage to maximise 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.

- 9.6 Currently there is an underspend being forecast for 2007/08 as problems have arisen with a number of schemes, the most significant being the on-street displays for the real time scheme. The fitting of these had to be suspended due to vandalism but following an appropriate solution the fitting has now recommenced. However, no resources will be lost as any underspend will be carried forward to meet the delayed costs of such schemes.

Non-LTP Schemes

- 9.7 Funding for major schemes is dealt with outside the LTP 'allocations'. They are not included in the attached capital programme but are included in the attached prudential statement. At present there are two such schemes on which the Authority is meeting expenditure and a number of others which are in the process of seeking approval.
- 9.8 The implementation of the current Mybus scheme comes to a conclusion in 2007/08 and is being met by a combination of capital grants and borrowing allocations. The anticipated expenditure for 2007/08 is £1.875m and is within previous approvals granted by the Authority.
- 9.9 There are also a number of schemes under development which cannot be included until formal approval is received. The most advanced of these is Castleford Interchange where advanced design costs are shown in the attached capital programme. It is anticipated that part of these costs will be grant funded when the scheme is finally approved by the DfT.

General funding

- 9.10 In the general context of the capital programme and the statement on the prudential funding system the Authority is recommended to give approval to the full use of alternative sources of funding being 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 other resources (eg leasing) for some schemes may be required. This will, however, be subject to value for money assessments, 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 2007/08 be reiterated for 2008/09.

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 In the attached budget there is to be no requirement for the Authority to authorise releases from the contingency fund as it solely relates to Subsidised Services which will form part of the budget reviewed by the Tendered Services Working Group. So far as virements between blocks are concerned, where the vote is to be varied by more than £25,000 or more than 10% (whichever is the greater), these 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 2007/08 and 2008/09.

- (ii) Approval be given to the Executive's budgets for 2007/08 and 2008/09.
- (iii) The implications of the budget as detailed above be noted.
- (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) 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 £93.492m be determined for the year ending 31st March 2009.
- (iii) The Chief Financial Officer be authorised to issue the levy in respect of the financial year ending 31st March 2009 to the five District Councils in West Yorkshire.
- (iv) The payment of that levy be agreed with each District Council on the basis of 10 equal consecutive monthly instalments commencing in April 2008.
- (v) That a payment of £4.345m 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 £150.109m be made to the Passenger Transport Executive in 2008/09 (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 2008/09 by an appropriation from their reserves.

D. CAPITAL PROGRAMME

- (i) 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 the LTP resources.
- (ii) Authorisation be given to the Chief Financial Officer to arrange appropriate funding for all expenditure in 2007/08 and 2008/09 subject to statutory limitation and subsequent reporting back to the Authority.
- (iii) Grants and other sources of external funding be sought wherever possible to maximise funds available to the Authority.
- (iv) 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 the 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.

APPENDIX A**WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY BUDGETS**

ALL £000's	Actual 2006/07	Original Estimate 2007/08	Forecast Outturn	Original Estimate 2008/09
Executive				
Concessionary travel	39,300	38,900	40,100	46,400
Subsidised Services	22,317	23,430	23,102	24,479
Passenger Services	8,212	8,790	8,476	9,643
Prepaid Tickets	26,594	27,500	27,500	29,500
Rail Charges	67,918	69,510	67,718	69,749
Pensions	1,457	1,510	1,360	1,519
Financing charges	2,056	203	229	400
Central Contingency	0	500	300	500
Other Activities	4,477	5,462	6,181	6,086
	172,331	175,805	174,966	188,276
Met by:				
Concessionary Fares	0	0	-1,639	-8,667
Prepaid Tickets	-26,594	-27,500	-27,500	-29,500
Grant from Authority	-145,737	-148,305	-145,827	-150,109
Use of PTE reserves	0	0	0	0
Authority				
Special Rail Grant	-67,811	-69,509	-67,717	-69,748
Rural Bus Grant	-1,044	-1,070	-1,069	-1,069
Interest Received	-1,203	-365	-601	-523
Rents etc	-1,646	-1,160	-1,164	-1,152
Less				
Interest Paid	4,749	4,812	4,884	4,810
Minimum Rev Provision	4,428	4,597	4,608	4,661
Other costs	1,359	1,407	1,393	1,356
	-61,168	-61,288	-59,666	-61,665
Grant to PTE	145,737	148,305	145,827	150,109
Transport Levy	-87,301	-89,433	-89,433	-93,492
Payments to Districts	3,600	3,715	3,715	4,345
Addition to/(use) of reserves	-868	-1,299	-443	703
NET EXPENDITURE				
Executive	145,737	148,305	145,827	150,109
Authority	-61,168	-61,288	-59,666	-61,665
Total	84,569	87,017	86,161	88,444
Remaining reserves at year end	5,730	5,250	5,287	5,990

APPENDIX B

PRUDENTIAL FUNDING STATEMENT

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

Treasury Management Activity – Borrowing/Investments

	£m	£m
Total Loans outstanding at 1/4/2007:		
Interest: Fixed (incl LOBOs)	109.0	
Temporary loans	6.4	
Investments	-5.0	110.4
	<hr/>	
Activity expected during remainder of 2007/08:		
Loan repayments	-30.0	
Net movement in temporary loans	-1.4	
New borrowing	30.0	-1.4
	<hr/>	
Anticipated loans outstanding at 31/3/2008:		109.0
Activity expected during 2008/09		
New borrowing	0.0	
Debt repayments	0.0	0.0
	<hr/>	
Anticipated loans outstanding at 31/3/2009:		109.0

Comment:

- 3 The Bank of England's base rate started the year at 5.25%, rose in stages during the year to 5.75% but has since been reduced to 5.5% with the likelihood of further small reductions. As usual, on the financial markets both short term and long term borrowing and investment rates have fluctuated. Long term rates have moved in the range of 4.5% to 5.0%, albeit with some fluctuations.
- 4 External advice suggests such rates will remain at just over 4.5% for the next few 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 During the early part of 2007/08 it was possible, by judicious timing, to take advantage of the changes in interest rates to re-finance some loans. These comprised loans totaling £30m which resulted in a reduction of interest payable of around £55k per annum and created an immediate discount of £417k. However, due to new accounting rules only 1/11th of that discount can be taken as a saving on the budget each year.
- 7 On 1 November the Public Works Loans Board (PWLB), who are our main lenders, announced a change in the way they structure interest rates for loans. This change effectively means there are unlikely to be any future opportunities to undertake re-financing as has been done in the past. It has caused consternation among many local authorities who have large loan accounts and actively manage them. There have thus been appeals against the new structure.
- 8 As reported in the last budget the DfT split the LTP allocation provided to the PTA between a borrowing approval (75%) and a grant (25%). For 2008/09 the LTP announcement letter states (page 3 of appendix C1) that all the allocation will be paid as direct grant. This will have a major impact on the borrowing strategy as it effectively means no new loan requirement for the future (except possibly where borrowing approval is granted for major schemes) although there will still be a repayment requirement of some £4.5m per annum.
- 9 There have been no new borrowings during 2007/08 and as suggested by the change to LTP funding there are unlikely to be any new loans in 2008/09 as shown by the capital financing requirement in the annex. Since it is the first year of capital being funded from grants rather than loans it will have little immediate effect on the debt charges.
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.
- 11 As stated above their staff also monitor the market position of interest rates on a daily basis with a view to possible refinancing deals. Although currently opportunities are thought to be unlikely the position will continue to be kept under review.

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 for up to one year. There was one short term investment of £5m at 1st April 2007. This was because of the policy of operating the financing on a short term basis to minimise both investments and income which avoids taking out expensive loans and re-lending them at a lower rates of interest. 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 2007/08, 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 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 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 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)/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 assets such as Accessbuses. The financial viability and value for money of such methods will require investigation and savings found within the budget to accommodate the costs involved. Members will be asked to approve any such methods before they are implemented.
- 19 Other matters which Members should be aware of relating to this Authority's operation of the Prudential regulations are that:
 - a. It is not proposed that the Authority enter into any credit arrangements as defined by the regulations, other than possibly leasing as described above. Should any such arrangements be required they will be reported to members in advance and will be expected to be funded within the approved strategy.
 - b. The PTE is being treated as part of the PTA for the purposes of the capital financing arrangements. (Section 18 of the Act)

- c. There have been no instances so far where the Authorised limit has been exceeded during 2007/08.

- 20 When Leeds City Council last reviewed its 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 2007/08 and 2008/09. To provide more flexibility to Leeds in managing the funding operation it was agreed last year 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%. These limits have not been breached during 2007/08 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.

West Yorkshire Passenger Transport Authority

Summary Capital Programme

	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
Expenditure per programme				
Local Transport Plan	8,609	15,201	11,409	15,051
MyBus Scheme	1,875	0	0	0
Supertram	120	1,120	2,120	1,510
	10,604	16,321	13,529	16,561
Less forecast slippage	0	-3,176	-2,152	-5,254
	10,604	13,145	11,377	11,307
Financing				
SCE(R) - 2007/08 LTP, part in 2008/09	5,282	914	0	0
SCE(R) - MyBus	621	0	0	0
Anticipated Borrowing	5,903	914	0	0
LTP Grant	2,248	8,776	9,257	9,797
Section 56 Grant	1,254	0	0	0
Other funding ####	1,199	3,455	2,120	1,510
	10,604	13,145	11,377	11,307

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

Calculation of Prudential Indicators:

	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
<u>AFFORDABILITY</u>				
Ratio of financing costs to net revenue stream				
Debt Charges	9,120	9,348	8,942	8,566
Levy	85,718	89,147	92,713	96,421
(Assumes a 4% increase per the Financial Strategy)				
Resultant ratio:	10.6%	10.5%	9.6%	8.9%

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

PRUDENCE

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

Estimate of Capital Financing Requirement

Loans outstanding at 31 March	115,190	116,485	112,738	108,228
Additional borrowing requirement in year	5,903	914	0	0
Less debt repayments in year	-4,608	-4,661	-4,510	-4,329
Calculated Operational Boundary	116,485	112,738	108,228	103,899
Funding for up to 2 future years	0	0	0	0
Forecast Operational Boundary	116,485	112,738	108,228	103,899
Safety factor		10,000	10,000	10,000
Forecast Authorised Limit		122,738	118,228	113,899

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%

CONCESSIONARY FARES BUDGET 2007/08 AND 2008/09

1. Members have been receiving regular reports on the concessionary fares scheme, the budgetary implications of recent changes to the scheme and appeals by First Group.
2. In essence the concessionary fares scheme changed in April 2006 from one where there was a 35p per journey charge in West Yorkshire to a free scheme within the county on local bus. Funding was provided by the government through RSG paid to the District Councils and passed on to the Authority through the Levy.

Position from April 2006

3. First Group appealed in 2006 against the level of reimbursement they received under the whole scheme and a subsequent adjudication determined that the PTE should make an interim payment of £1.7m in 2006/07 (a county wide, all operator cost of £2.4m) but that it should be recalculated to an actual basis at the end of the year. That recalculation, in accordance with expert independent advice, determined that the figure should be £1.1m.
4. The initial payment of £1.7m was made to First Group in 2006/07 in accordance with the adjudicator's decision. The attached budget therefore reflects the revised county wide calculation for 2006/07 being adjusted in 2007/08. The budget also reflects a continuation of that calculation for 2007/08.

Position from April 2008

5. New regulations issued by the DfT make the free concessionary fares available to all elderly and disabled for all local bus journeys throughout England from April 2008.
6. Members have therefore issued a revised scheme to operate from 1 April 2008 and this is currently undergoing consultation. It will clearly have a very different impact to the previous scheme and estimates of the number of persons travelling and the consequential costs of reimbursement to the operators vary. These will be kept under close review throughout 2008 although definitive figures are unlikely to be available until late in the year. Regular reports will be brought to members as data becomes available.
7. The estimated cost of the scheme has been included in the attached budget.

The government grant

8. Whilst the funding for the 2006 changes continues to be paid as RSG to the District Councils the government recently announced that a grant would be paid direct to the PTE to cover the 2008 increased cost. However, the grant figures announced do not appear to match the likely increases in reimbursement costs. The following table shows probable reimbursement costs set against the grant as it has been announced. It can be seen that the shortfall in funding appears to be rising significantly and further reports will be brought to members as the situation becomes clearer.

	2008/09	2009/10	2010/11
Concessionary fare predictions	£m	£m	£m
Reimbursements	46.4	50.4	53.8
Government grant	8.7	8.9	9.1
'Gap'	<u>37.7</u>	<u>41.5</u>	<u>44.7</u>
		%	%
Reimbursement rate of increase		8.6%	6.7%
Government grant rate of increase		<u>2.3%</u>	<u>2.2%</u>
'Gap'		<u>6.3%</u>	<u>4.5%</u>

9. The table suggests the grant will rise by just over 2% per annum whereas operators fares which, with patronage, are the main determinant of the reimbursement, are increasing rising four times as fast at around 8%.

Reimbursements to operators

10. At the time the DfT announced the new grant they also issued a new set of guidelines on how reimbursements to operators should be calculated. There are problems within those guidelines which could potentially be very costly to authorities and these are being analysed.
11. There is a risk that operators may appeal against the 2008 published scheme. Should any such appeal be successful it would have the potential to further increase the impact of cost on the authority.

In summary

12. The attached budget reflects the impact of the 2006 scheme changes, plus the estimated changes from April 2008, plus the new government grant promised for 2008/09.
13. There are a number of risks for the future which include:
- First Group are still unhappy with the 2006 position and are seeking an increase in their reimbursement.

- b. The reimbursement methodology for 2008 recently issued by the DfT is being re-examined and evaluated. Initial indications are that it may further increase reimbursement costs.
 - c. The level of government grant is rising at only just over 2% whereas fares are rising at about 4 times that rate.
 - d. It is understood that operators may appeal against the PTA's 2008 scheme.
14. All of these risks will impact on the future budget of the Authority and will be the subject of reports to Members as soon as information is available.