**Appendix 1**

**WEST MIDLANDS INTEGRATED TRANSPORT**

**AUTHORITY**

**AND**

**WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE**

 **GROUP FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2016**

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**WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY**

**GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (the Local Authority Code of Practice) rather than the amount to be funded from the levy. The reconciliation from the accounting cost shown in the line “Total comprehensive income and expenditure” to the funding position is shown at the bottom of the statement.

\*Adjustments between accounting basis and funding basis are due to the different accounting treatments for capital grants and pension costs, as detailed in the Movements in Reserves Statement on the line “Total adjustments between accounting basis and funding basis under regulations” (page 3).

There were no acquisitions or discontinued operations during the year (2015 – none).

**WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY**

**GROUP MOVEMENT IN RESERVES STATEMENT**

This statement shows the movement in the year on the different reserves held by the West Midlands Integrated Transport Authority (ITA) and the West Midlands Passenger Transport Executive (PTE), analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure) and ‘unusable reserves’ i.e. those allocated for specific purposes.

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the ITA and the PTE. The net assets (assets less liabilities) are matched by the reserves held by the ITA and the PTE. Reserves are reported in two categories – usable and unusable. Usable reserves are those that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that are not able to be used to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences.

**WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY**

**GROUP CASHFLOW STATEMENT**

The Cashflow Statement shows the changes in cash and cash equivalents of the ITA and the PTE during the reporting period. The statement shows how ITA and the PTE generate and use cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the ITA/PTE are funded by way of grant income or from the recipients of services provided by the PTE. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to future service delivery.

**WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY**

**NOTES TO THE GROUP ACCOUNTS**

1. **Group structure**

These accounts consolidate the accounts of the West Midlands Integrated Transport Authority (ITA) with the accounts of the West Midlands Passenger Transport Executive (PTE). The ITA is a Joint Authority of the seven Metropolitan Authorities in the West Midlands, and sets policies and budgets for the public sector transport responsibilities in the area. The policies are implemented by the PTE. As the ITA exerts considerable control over the PTE, a group relationship exists between the organisations.

The ITA is classified as a local authority and the PTE is classified as a 100% owned subsidiary of the ITA. The group accounts are therefore prepared, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), via merger accounting, as opposed to acquisition accounting.

The ITA has no formal relevant interests in any other organisations and consequently these accounts only consolidate the accounts of the ITA and the PTE.

The ITA is liable for any accumulated deficits / losses of the PTE. If these losses could not be met by the use of reserves, the ITA would have to raise a supplementary levy on the Districts. Continuing reviews of areas of risk are undertaken and the PTE / ITA hold reserves which could be used should these risks materialise. As at 31 March 2016 the PTE had net assets of £163.929m (2015: £164.460m). During the year the PTE made a net surplus of £1.074m (2015: £0.919m) to be transferred to the general fund.

1. **Basis of preparation**

The financial statements have been prepared in accordance with the Accounts and Audit Regulations 2011. Proper practices are set out in the Code.

Income and expenditure is accounted for on an accruals basis (recognised in the period to which they relate) rather than when cash payments are made or received.

1. **Significant accounting policies**
2. **Consolidation**

The accounts of Midland Metro Limited, Network West Midlands Limited, Centro Properties Ltd and West Midlands Rail Limited which are wholly owned subsidiaries of the PTE, have not been consolidated with those of the PTE because the companies have never traded and do not hold any assets or liabilities.

1. **Alignment of accounting policies**

The group accounts have been prepared by applying consistent accounting policies to the ITA and the PTE. This has ensured that consistent accounting policies have been applied during the consolidation of the two sets of accounts. These accounting policies can be found in the individual ITA and PTE accounts.

**Notes to the Group Comprehensive Income and Expenditure Statement**

1. **Consolidation adjustments**

The following adjustments were made to the PTE / ITA’s Comprehensive Income and Expenditure Statement in order to prepare the combined Group Income and Expenditure Statement.

* Revenue grants of £112.701m (2015: £116,546m) and capital grants of £24.310m (2015: £37.192m) paid by the ITA to the PTE have been removed from surplus/deficit on provision of services.
1. **Officers’ remuneration**

The remuneration paid to the ITA and PTE’s senior officers is as follows:

The PTE’s other employees receiving more than £50,000 remuneration for the year (excluding pension contributions) were paid the following amounts:

The numbers of exit packages with total cost per band and total cost of the compulsory redundancies as payable during the year are set out in the table below. Exit packages include pension contributions paid to the pension fund.

1. **Other costs**

Charges relating to work undertaken by external auditors:

1. **Financing and investment income and expenditure**

1. **Taxation and non-specific grant income**

**Notes to the Group Balance Sheet**

1. **Consolidation adjustments**

The following adjustments were made to net off inter-company balances and prepare the Group Balance Sheet:

* Short-term creditors and short-term debtors have been reduced by £35.381m (2015: £35.322m) receivable by the PTE from the ITA.
* The ITA grant element of the PTE’s deferred capital grants account of £93.697m (2015: £89.418m) has been offset against the ITA’s capital adjustment account.
1. **Property, plant and equipment**

Other land and buildings include the head office at Summer Lane and non-operational land acquired for the future expansion of park and ride sites and the Midland Metro system.

Assets under construction consists of expenditure on the extension to park and ride facilities and the construction of the Midland Metro extension. Vehicles, plant and equipment include Ring and Ride vehicles with a carrying value of £1.715m (2015: £1.855m), included on the PTE’s Balance Sheet in accordance with IFRIC 4. Additions during the year for Ring and Ride were £0.519 (2015: £nil).

Movements in 2015/16:

Comparative movements in 2014/15:

 **Revaluations**

All other land and buildings are revalued at least every five years at fair value and a valuation was carried out as at 31 March 2014. This valuation was carried out by Bruton Knowles, an accredited independent valuer in accordance with the Practice Statements in the Valuation Standards (The Red Book) published by The Royal Institution of Chartered Surveyors. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices adjusted for any difference in the nature, location or condition of the asset.

Between valuations, a desktop review is carried out by independent valuers for indications of material changes to values and adjustments are made to the carrying value of assets as appropriate. The desktop review at 31 March 2016 was carried out by Bruton Knowles confirmed that there were no adjustments to be made.

1. **Intangible assets**

Intangible assets consist of costs incurred in the development and implementation of equipment, systems and services for introducing ITSO-compliant smartcard ticketing in the West Midlands. The costs are fully funded by capital grants.

1. **Investments**

The PTE owns 100% of the issued shares of the following subsidiaries, which were incorporated in England. The investments were held at 31 March 2015 and 31 March 2016.

Midland Metro Ltd was incorporated under the Companies Act 1985 as a private limited company on 16 March 1988.

Network West Midlands Ltd was incorporated under the Companies Act 1985 as a private limited company on 31 July 2000.

Centro Properties Ltd was incorporated under the Companies Act 2006 as a private limited company on 01 December 2009.

West Midlands Rail Ltd was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 10 April 2014. This company is non-trading.

1. **Short-term debtors**

1. **Short-term investments**

1. **Cash and cash equivalents**

The PTE holds £2.750m (2015: £2.750m) from Altram, its private sector partner in the Midland Metro Project, as a deposit against unforeseen circumstances. Centro invests this sum short-term with any interest accruing repaid to Altram.

1. **Finance lease liabilities**

 In 1998 the PTE entered into two finance leases with Royal Bank Leasing in connection with the vehicles for Metro Line 1. The first lease covers two vehicles and the second lease covers the remaining 13. The initial cost of all 15 vehicles was £20.747m. The leases are repayable by equal instalments over 20 years based on LIBOR interest rates. The leases are due to terminate in 2018/19. Any monetary fluctuations due to interest rate changes are settled on an annual basis.

 These vehicles are no longer operational as they have been replaced by new trams. The cost and accumulated depreciation of £20.747m at 31 March 2015 have been written out of the books during the year (note 10).

Finance lease liabilities are repayable as follows:

1. **Short-term creditors**

1. **Provisions**

**Rail fares and services**

This has been provided in order to meet anticipated future liabilities and risks in relation to local rail services.

**Insurance/other**

The insurance/other provision provides for various activities including redundancy and the net expected costs of claims outstanding, and their administration, relating to the activities of the PTE as a bus operator prior to 26 October 1986**.**

**Building maintenance**

This has been provided to meet contractual obligations in respect of the PTE’s properties.

**Transport developments**

This has been provided to meet the PTE’s commitments to the West Midlands regions’ transport developments.

1. **Capital grants receipts in advance**

The ITA and the PTE receive grants which they administer and pass onto 3rd parties (the Department for Transport grants having been passed to the PTE from the ITA). These grants are credited to capital grants receipts in advance on receipt and released to the Comprehensive Income and Expenditure Statement when the expenditure is incurred.



\*Other – Road Safety Fund, Congestion Target Fund, ITSO Smartcard ticketing and DfT Clean Vehicle Technology Funding

1. **Reserves**

Movements in the group’s reserves are detailed in the Movement in Reserves Statement on page 3. The purpose of the individual reserves are as follows:

Usable reserves:

**General fund balance**

The general fund balance is a statutory fund which represents funds available to the PTE and the ITA to meet unexpected short-term requirements.

**Earmarked reserves**

The earmarked reserve contains additions in year to provide funding to back capital programme commitments and the revenue grants that the ITA and PTE have received where the expenditure has not been incurred at the Balance Sheet date. These grants are transferred to the general fund via the Movements in Reserves Statement as the expenditure is incurred (see table below).

**Capital grants unapplied reserve**

The capital grants unapplied reserve contains the capital grants and receipts that the PTE has received where the expenditure has not been incurred at the Balance Sheet date. These grants will be transferred to the deferred capital grants account via the Movements in Reserves Statement once the expenditure has been incurred.

The PTE has the following unusable reserves:

**Revaluation reserve**

The revaluation reserve contains the gains made by the PTE arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

* revalued downwards or impaired and the gains are lost,
* used in the provision of services and the gains are consumed through depreciation, or
* disposed of and the gains are realised.

**Deferred capital grants account**

The deferred capital grants account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets to the financing of those assets by capital grants.

The account is credited with capital grants that have been applied to finance capital expenditure via the Movements in Reserves Statement. The capital grants are then released to the general fund via the Movement in Reserves Statement to offset the write downs of the historical costs of assets as they are consumed by depreciation and impairment or written off on disposal.

**Pension reserve**

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the reserve shows the shortfall in the benefits earned by past and current employees and the resources the PTE has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The ITA has the following unusable reserves:

**Capital adjustment account**

This account sets out the cumulative capital financing costs made to the PTE to support its capital programme. The account is debited with the capital grants which the ITA makes to the PTE via the Movements in Reserves Statement. The account is credited with amounts which the ITA has set aside to finance the expenditure.

1. **Defined benefit pension scheme**

Employees of the PTE participate in the West Midlands Metropolitan Authorities Pension Fund, a defined benefit average salary statutory scheme administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013.

An actuarial valuation of this fund was carried out by Mercer Limited, an independent firm of actuaries in accordance with the Regulations as at 31 March 2013. Based on the results of the valuation of this fund at 31 March 2013, the actuaries advise that the cost of pensions to be charged to the Comprehensive Income and Expenditure Statement from 1 April 2015 should be 11.7% of the current employees pensionable pay plus £6.800m per annum to meet 100% of the overall fund liabilities. This pension cost has been determined after allowing for the amortisation of the difference between the assets and the accrued liabilities relating to the PTE over the average remaining service lives of the current members of the fund.

 Barnett Waddingham LLP is now the fund’s actuary and has performed the valuation at 31 March 2016.

**Calculation method**

 The figures as at 31 March 2016 are based on the 31 March 2013 formal valuation of the fund. Membership data as at 31 March 2013 was used to develop current funding requirements. Liabilities are based on benefit payment and contribution information provided by the fund’s administrator as at 31 March 2016. This valuation was carried out by Barnett Waddingham LLP.

**Net liability and pension reserve**

The net amount recognised on the Balance Sheet at 31 March 2016 is a deficit of £90.629m compared to a deficit of £80.314m at 31 March 2015. The net deficit has been reduced by a prepayment of £6.3m for 2016/17 contributions. As a result the pension liability does not agree to the pension reserve by that amount.

 **Transactions relating to post employment benefits**

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the levy is based on the cash payable in the year, so the real cost of post employment benefits is reversed out of the general fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the general fund balance via the Movement in Reserves Statement during the year:



 **Assets and liabilities in relation to post-employment benefits**

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Reconciliation of present value of the scheme liabilities (defined benefit obligation)

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 Reconciliation of fair value of the scheme assets



The plan assets at the year end were as follows:



**Basis for estimating assets and liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The expected rate of return on plan assets is based on market expectations, at the beginning of the period, for investments returns over the entire life of the related obligation.



It is assumed that 50% of retiring members will take the maximum tax-free lump sum available and 50% will take the standard 3/80ths cash sum.

**Five year history**

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**Movement in pension fund liability during the year**

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**Movement in pension reserve during the year**

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Employer’s pension contributions expected to be paid in 2016/17 are estimated at £1.229m (2015/16 £8.075m). This significant reduction is due to the pension prepayment made during the year.

1. **Other notes to the accounts**

No other disclosures relating to the Group Comprehensive Income and Expenditure or Balance Sheet are considered necessary as adequate disclosures are made elsewhere in the individual ITA and PTE accounts.

1. **Capital commitments**

The PTE has major committed capital contracts amounting to £14.591m (2015: £16.885m) reflecting outstanding contracts in relation to the Metro extension.

1. **Guarantees**

The PTE has guarantees with local authorities lodged with the bank in connection with works being undertaken at various car parks as follows:

 **£’000**

Sandwell MBC (4 guarantees) 147

 Birmingham City Council (1 guarantee) 97

 HSBC (1 guarantee) 472

1. **Related party disclosures**

The following table identifies related party transactions during the year:



 Appointments held by the PTE’s current directors include the following:

(i) The Managing Director is a director of Biz 365 Limited and Balsall and Berkswell Football Club Limited and is a board member of Colmore Business Improvement District. There were no financial transactions with these entities during the year or the prior year.

(ii) The Managing Director is a director of the wholly owned subsidiary companies Midland Metro Limited, Centro Properties Ltd and Network West Midlands Limited. These companies are dormant.

(iii) The Director of Integrated Mobility is a Director of West Midlands Transport Services Limited (WMTIS). During the year Centro made payments to WMTIS of £34,927. There was no balance due to/from WMTIS at 31 March 2016. He is also a director of Network West Midland Limited which is dormant.

(iv) The Strategic Director for Transport is a director of Sustainability West Midlands Limited. During the year Centro made payments of £2,460 to this company. There were no other transactions during the year.

 There are no comparatives for items (iii) and (iv) as these directors were appointed during the year.

Appointments held by the PTE’s directors who retired during the year (up to the date of retirement) include the following:

1. The Chief Executive is a director of UK Tram. Centro has received £117,700 from UK Tram during the year (2015: £116,423). £28,341 remains payable to Centro at 31 March 2016 (2015: £63,114).
2. The Chief Executive is a director and member of GI Consultants Limited. There were no financial transactions with this company (2015: no transactions)
3. The Chief Executive was a director of PTEG Limited. During the year Centro made payments to PTEG Limited of £98,262 (2015: £111,098). There was no balance due to/from PTEG Limited as at 31 March 2016 or 31 March 2015.
4. The Chief Executive was a director of the wholly owned subsidiary companies Midland Metro Limited, Centro Properties Ltd and Network West Midlands Limited. These companies are dormant.
5. The Chief Executive was a director of the wholly owned subsidiary West Midlands Rail Limited. This company is non-trading.

(vi) The Chief Executive is a member of Union Internationale des Transports Publics (UITP). During the year, £275 (2015: £1,168) was received for a recharge of flight costs. £nil remained outstanding at 31 March 2016 (2015: £276).

1. **Events after the Balance Sheet date**

On 17 June 2016 the West Midlands Combined Authority came into existence and is the umbrella organisation under which the ITA and the PTE are combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA and PTE have ceased to exist and all of their functions, property, rights or liabilities have transferred to the Combined Authority. Where reconfigurations of this nature take place within the public sector, Government accounting requires that the activities concerned are to be considered as continuing operations, and therefore these accounts have been prepared on a “going concern” basis.