

**WEST MIDLANDS INTEGRATED TRANSPORT
AUTHORITY**

FINANCIAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

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NARRATIVE REPORT OF THE CLERK TO MEMBERS OF THE WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

The Authority present their report and financial statements for the twelve months ended 31 March 2016.

1. Activities

For the financial year ended 31 March 2016 the transport policies for the Metropolitan area have been determined by the West Midlands Integrated Transport Authority (ITA). The West Midlands Passenger Transport Executive (PTE) is the delivery body of the ITA responsible for implementing its policies and decisions and therefore responsible for improving, facilitating and securing the best possible passenger transport services, promoting public transport and ensuring that public transport services meet travel needs.

The ITA comprises the Leaders of each of the seven Metropolitan Authorities of the West Midlands and non-voting representatives from the three Local Enterprise Partnerships (LEPs) of the region.

The ITA is supported by a Members Committee, named the Transport Delivery Committee, acting under a scheme of delegation comprising councillors from the seven West Midlands Metropolitan Districts. It is responsible for ensuring that the PTE delivers the quality standards set by the ITA with regard to ensuring that passengers have the right bus, train and tram services to connect them to the places they need to get to including the use of new technology, Smart Ticketing, real time information and a comprehensive network of infrastructure including bus stations, shelters, stops, Travel Information Centres and a central Customer Services Centre.

On 17 June 2016 the West Midlands Combined Authority came into existence and is the umbrella organisation under which the ITA and PTE were combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA has ceased to exist and all of its functions, property, rights or liabilities have transferred to the Combined Authority as outlined in Note 24, Events after the Balance Sheet Date. 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.

The Combined Authority comprises of the seven existing Metropolitan Authorities as constituent members, together with six adjoining local authorities and three LEPs as non-constituent members. All will work together to move further the devolution agenda, across geographical boundaries and sectors. Work is underway to establish a robust governance framework to deliver the coordinated decision making needed for modern economic governance.

2. Review of the Year

The ITA is directly supported by the Policy and Strategy team who have produced a new Strategic Transport Plan which aligns with the LEPs Strategic Economic Plans, to connect people and places and support economic growth and jobs.

Work on the “Movement for Growth” Strategic Transport Plan includes the development of a 10-year Delivery Plan, a Transport Emissions Framework and an updated Freight Strategy.

In relation to High Speed Two (HS2), the ITA worked collaboratively with LEPs and authorities on the HS2 growth strategy and local connectivity programmes for HS2 infrastructure schemes and in addition assisted the region in developing the West Midlands Devolution deal.

“Midlands Connect” was also developed collaboratively, securing £5m government funding to develop a strategic transport strategy for the Midlands by March 2017.

West Midlands Rail devolution collaborative working arrangements with regional partners and the Department for Transport (DfT) continued to be developed to secure greater control over specification and management of local rail services. In addition, a West Midlands Bus Alliance was agreed to deliver bus policy objectives and unlock £125m of future bus vehicle infrastructure investment. West Midlands standards were also developed and agreed for progression of Sprint-Bus Rapid Transit.

Other work continued around business case developments for strategic transport schemes, policy development for Intelligent Mobility and cycling and walking, along with engagement, communications and advocacy activity throughout the year.

Successful funding bids included securing £40m from the DfT Highway Maintenance Challenge Fund to help invest in urgent road repairs across the Metropolitan area and £0.9m EU “Connecting Europe Facility” towards the development of the optimum transport solution for connectivity between HS2 Interchange, Birmingham Airport and the regional transport network.

3. Achieving Value for Money

The ITA has continued to drive efficiencies and to deliver the maximum value with the available funding. Due to the current economic climate, the transport levy has been reduced by 5% per year for the past three years. During the year a further review was undertaken to ensure that the ITA and the PTE could continue to deliver the ITA policies within the reduced funding levels. A robust monitoring framework measures our performance and gauges how we are doing against the Strategic Transport Plan vision of an effective, sustainable transport system supporting economic development. Measures include successful scheme delivery on time and to budget, patronage, transport operator performance and service quality, customer satisfaction and sustainability and environmental impacts. The ITA regularly monitors both revenue and capital expenditure progress against the approved Business Plan and performance delivery to ensure that costs are being driven down, and opportunities for efficiencies are being taken.

4. Explanation of the Statements

The Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Statement of Accounts includes:

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost of providing services in the year, according to the Code. An adjustment is required to be made between the accounting basis and the funding basis due to specified statutory provisions for the ITA to meet future capital and revenue expenditure, further details of which are shown in the Movement in Reserves Statement. The loss for the year under the funding basis is £0.051m (2015: surplus £0.153m).

Movement in Reserves Statement

This statement shows the movement of the different reserves in the year. These are analysed between 'usable reserves' (those that can be applied to fund expenditure) and 'unusable reserves' (those allocated for specific purposes). The majority of the unusable reserves is the capital adjustment account which relates to the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the ITA. The net liabilities (assets less liabilities) are matched by the reserves held.

Cashflow Statement

The Cashflow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the ITA generates and uses cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

5. Financial Results

The financial results of the ITA for the period are detailed in the financial statements on pages 20 to 37 of this report. These show a contribution from reserves of £0.051m. The Balance Sheet shows significant cash deposits as a result of grants received in advance, and total net liabilities of £191.2m funded primarily by the capital adjustment account and £1.6m in usable reserves.

The Finance, Delivery & Performance Monitoring Committee monitors the actual results compared to budget on a regular basis during the year. This has shown that the combined ITA and PTE has delivered a contribution to reserves of £1.023m compared to a budgeted contribution of £nil. Full details of this income and expenditure can be found in the Finance, Delivery & Performance Monitoring Committee reports which are available on Centro's website (www.centro.org.uk).

6. Financial Risk Management

Given the financial outlook in the public sector, financial risks have been reviewed and where necessary mitigations put in place. The ITA believes that its reserves are sufficient for the organisation given the financial outlook in the public sector. Details of financial risk management are shown in note 21 to the financial statements.

7. Borrowing facilities and sources of funds

The ITA levies an annual charge on the seven Metropolitan Authorities and also receives DfT funding to support the capital programme. This is then passed to either the PTE or district partners as appropriate.

Any borrowing required to meet the capital programme being delivered by the PTE is undertaken by the ITA.

8. Corporate Governance

The Annual Governance Statement can be found on pages 8 to 15.

9. Officers

The following held office in the ITA during 2015/16:

Keith Ireland - Clerk to the West Midlands Integrated Transport Authority

James Aspinall - Treasurer to the West Midlands Integrated Transport Authority

10. Members

Members of the ITA are local elected councillors that are appointed by their districts onto the ITA.

11. Auditors

Grant Thornton (UK) LLP are the auditors of the ITA for 2015/16. Their appointment was made under part 2 of the Audit Commission Act 1998.

On behalf of the West Midlands Integrated Transport Authority

Keith Ireland

Clerk to the West Midlands Combined Authority

(formerly Clerk to the West Midlands Integrated Transport Authority)

Date: 22 July 2016

STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The authority is required to:

- (i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. These responsibilities are discharged through the Treasurer to the authority which during 2015/16 was James Aspinall.
- (ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- (iii) Approve the Statement of Accounts.
- (iv) Provide policy and guidelines for passenger transport in the West Midlands.

2. The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Treasurer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the accounts

I certify that this Statement of Accounts give a true and fair view of the financial position of West Midlands Integrated Transport Authority at the reporting date and of its income and expenditure for the year ended 31 March 2016.

James Aspinall

**Director of Corporate Services, West Midlands Combined Authority
(formerly Treasurer to the West Midlands Integrated Transport Authority)**

Date: 22 July 2016

4. Approval of the accounts

I certify that the Statement of Accounts covering the period 1 April 2015 to 31 March 2016 has been approved by a resolution of the West Midlands Combined Authority Board Committee on 22 July 2016.

Councillor Roger Lawrence

**Member of the West Midlands Combined Authority
(formerly Chairman of the West Midlands Integrated Transport Authority)**

Date: 22 July 2016

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

This Annual Governance Statement reflects the close relationship between West Midlands Integrated Transport Authority (ITA) and West Midlands Passenger Transport Executive (PTE).

The ITA is made up of the seven Leaders of the Metropolitan Authorities and takes responsibility for the strategic direction for transport ensuring that it complements the economic and social strategies of the Metropolitan region. The Members Transport Delivery Committee has delegated responsibility to scrutinise the delivery functions of the PTE, with members appointed directly by the districts. The Transport Delivery Committee reports to the ITA and has its own committee.

Both the ITA and the PTE are responsible for ensuring that business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the members of the ITA are responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of functions, and for the management of risk. This includes responsibility, assurance and scrutiny of the PTE and its delivery.

The corporate governance arrangements are consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

This statement explains how the ITA has complied with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code and also meets the requirements of regulation 4[2] of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values which underpin the ITA and the PTE and control their activities through which they account to, engage with and lead the community. It enables the monitoring of the achievement of the ITA's strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an

ongoing process designed to identify and prioritise the risks to the achievement of the ITA's policies, aims and objectives and the PTE's delivery of the same to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The annual independent audit of the key systems of internal control carried out during the year concluded an adequate level of assurance with no key findings or recommendations requiring management action.

A Governance framework has been in place for the year ended 31 March 2016 and up to the transfer to the West Midlands Combined Authority including the continued existence of a Corporate Governance Officers Group to consider and act upon issues related to governance across the ITA and the PTE and to provide advice to the members and directors respectively as required.

The Assurance Framework

The framework of assurance in place needs to satisfy an organisation that the risks to delivery of its objectives and the risks inherent in undertaking its work have been properly identified and are being managed by controls that are adequately designed and effective in operation. This will typically comprise a variety of sources and not only the work of Internal Audit. Internal Audit can be seen as the 'third line of defence' with the first line being policies, procedures and controls and the second being managers' own checks of the control environment. Internal Audit does however provide an independent source of assurance on all internal controls and works alongside the other assurance roles contained within the Assurance team including gateway assurance, governance services, risk management, business continuity and business improvement.

Internal Audit is able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of assurance. This role includes responsibility for both assessing the assurance available from other sources and for implementing a plan of internal audit work to obtain the required assurance.

Internal Audit and other assurance reports are presented to the Audit Risk and Governance Committee, which is responsible for assessing the quality of the assurance available and concerns itself with the adequacy and effectiveness of the internal control environment as assessed.

The Chief Audit Executive has provided an end of year report to the Audit Risk and Governance committee on their opinion of the overall adequacy and effectiveness of the control environment and includes reference to the assurance made available by other areas as well as Internal Audit.

The opinion for 2015/16 is summarised below:

The Internal Audit Charter, sets out the range of assurance activity in place. This includes:

- the appointment of a Chief Audit Executive
- the role of Internal Auditor
- access of the Chief Audit Executive and Internal Auditor to the Chair of the Audit Risk and Governance Committee

- the development and delivery of an audit plan
- the issue of a formal audit report at the end of each audit
- the follow up of audit recommendations and reporting of progress
- maintenance of relations with external audit
- maintenance of performance indicators
- maintenance and submission of the National Fraud survey
- independent investigation of theft, fraud and unexplained financial losses in line with associated policies and procedures
- monitoring of projects using PTE's gateway process to ensure projects and programmes are delivered to time and to budget
- facilitation of lessons learned on all projects
- review of business practices to ensure best practice ways of working
- risk management arrangements across all areas of the business and reporting of corporate risks
- monitoring and reporting to Management Boards, Executive and the Audit Risk and Governance Committee against delivery of the Annual Plan

Collaborative working arrangements have now been put in place with the Sandwell/Wolverhampton Internal Audit teams to provide Internal Audit services to the ITA and the PTE. A contract has been agreed with City of Wolverhampton Council to take effect from April 2016. Sandwell/Wolverhampton have undertaken internal audits on behalf of the ITA and the PTE in this last reporting period.

On the basis of all assurance work undertaken during the year, the Chief Audit Executive considers that the ITA and PTE's control environment is adequate.

The programme assurance arrangements have also been strengthened further with a consistent approach to project/programme governance and arrangements being embedded. There is now a clear separation of assurance and approvals in the project/programme management environment. Roles, responsibilities and accountabilities for different stakeholders and boards have also been clarified. A Senior Responsible Owner (SRO) has been appointed to lead each programme. The SRO has ultimate accountability for delivering the programme objectives, with each SRO being a member of the PTE Executive team.

A Corporate Assurance team was formed as part of the organisational review in October 2015. The remit of the Corporate Assurance team includes:

- i. Programme Assurance
- ii. Corporate Risk
- iii. Business Continuity
- iv. Insurance
- v. Internal Audit

The National Audit Office defines assurance as 'an independent assessment of whether the required elements to deliver projects/programmes are successfully in place and operating effectively.' Assurance should help increase the chance of delivering the required programme outcomes.

To support the strengthening of the programme assurance arrangements, the team has developed a Corporate Assurance Plan 2016/17 which was approved by Audit, Risk & Governance Committee in March 2016. The plan includes a schedule of

project and programme assurance reviews for all the new programmes that will be independently undertaken by the Corporate Assurance team on behalf of the PTE Executive Board. This will support the Board in their decision making role by seeing an independent holistic view of all programme activity. A monthly corporate assurance report is produced by the Corporate Assurance Manager for the PTE Executive Board.

The Governance Framework

The ITA and the PTE have finalised a Code of Corporate Governance. The code is built upon the six core principles identified in the CIPFA/SOLACE (2007) guidance. The code provides a framework against which to progress and review the governance arrangements.

The way in which each of the six core principles of good governance is put into practice is set out below:

1. ‘Aims to Focus on the Purpose of the Authority and on Outcomes for the Community to Create and Implement a Vision for the Local Area’

The ITA and the PTE’s vision is to provide a “*world class public transport system delivered by a best in class organisation*”. This is achieved through annually reviewed business priorities which complement the regional Local Transport Plan (LTP) and the strategic policies and aims of the ITA. The LTP3 is a five year joint strategy between the seven West Midlands Metropolitan Authorities to deliver their shared transport objectives.

An Annual Business Plan has been developed corporately and on a team by team basis, which is the first stage of the delivery of the longer term ‘Strategic Transport Plan’. It sets a vision in which the needs and expectations of customers and partners are paramount.

2. ‘Ensures that Roles and Responsibilities of Members and Officers are Clearly Stated’

The ITA and the PTE’s approved committee structures, procedure rules, financial regulations and a member and officer relations protocol are brought together in a single Constitution. The Constitution sets out how the ITA and the PTE operate, how decisions are made and the procedures that are to be followed to ensure these are efficient, transparent and accountable to the local community. Contract Rules to ensure appropriate and authorised execution of agreements are contained within the Constitution along with clear and detailed Financial Regulations that govern delegated levels of authority and spend, captured within a robust procure to pay system set up to reflect the constitutional arrangements.

The Constitution is reviewed annually by the Corporate Governance Officers Group and where necessary changes approved by the ITA. It is currently in the process of being further updated following continued improvements to the management boards and the inception of the programme boards mentioned above.

3. ‘Promoting Values for the Authority and Demonstrating the Values of Good Governance through Upholding High Standards of Conduct and Behaviour’

Core values have been adopted and these drive the overarching behaviour of all individuals. The core values are:

Excellence - To be the very best and add value to everything we do
Behaviours:

- We lead by example
- We communicate
- We continuously improve through innovation and challenge
- We externally benchmark our progress
- We look for ways to drive out waste

Professionalism - We are committed to earning the trust and respect of our customers, partners and colleagues by acting with integrity in all that we do
Behaviours:

- We are honest and open
- We deliver our promises
- We take responsibility for our own actions
- We set the standard
- We work collaboratively to maximise everyone's contribution

Customer Focused - We are passionate about meeting the needs and expectations of our customers and partners to deliver the best possible customer experience

Behaviours:

- We identify and understand what is important to our customers
- We use our skills and share our expertise to continually improve the customer experience
- We put ourselves in our customers' place
- We are responsive and flexible to our customers' requirements
- We maximise the use of our resources for our customers and the environment

Outcome Driven - We are clear about what we will achieve and will deliver it
Behaviours:

- We openly and honestly communicate our outcomes and our progress towards them
- We take ownership for our outcomes
- We take responsibility for our contribution
- We have a 'can do' attitude
- We act quickly, positively and decisively

Our People Matter - We are understood and valued
Behaviours:

- We care about and treat each other with dignity and respect
- We embrace our differences and recognise and reward everybody's contribution to our success
- We create a positive environment to work in
- We encourage each other to reach our full potential and be the best we can
- We are proud of what we do

In addition a Code of Conduct is in place for all employees and the management reporting structure ensures that everyone is aware of these values and the importance of maintaining high standards.

4. ‘Taking Informed and Transparent Decisions which are Subject to Effective Scrutiny and Managing Risk’

The PTE has a management committee and individual delegations structure that provides clear accountability for decision making and reporting. This ensures that decisions are made at the appropriate level, with the relevant information and in the necessary timeframes.

The monthly reporting ensures that the Executive Committee has overall oversight of these decisions and ensures that they comply with relevant legislation by having dedicated systems and policies in place, including specific identification and management of corporate risks.

5. ‘Developing the Capacity and Capability of Officers to be Effective’

The PTE regularly assess the skills required by employees and make a commitment to develop those skills to enable roles to be carried out effectively, including a comprehensive assessment programme that identifies existing knowledge and skills gaps.

This is then used to put in place arrangements to develop the skills and performance of employees through their individual Performance Development Plans.

6. ‘Engaging with Local People and Other Stakeholders to Ensure Robust Public Accountability’

The ITA and the PTE seek to ensure through the Business Plan, the Annual Governance Statement and the Annual Accounts that it is clear to the community and stakeholders, what they are accountable for and to whom and that the arrangements for engaging with the community are effective.

Review of Effectiveness and Governance Issues

The good governance principles require arrangements for reviewing their effectiveness. The way governance is reviewed is set out below. These comprise a mixture of review as part of everyday business activity, as well as periodic reviews:

- The Executive Committee meets monthly, receiving regular reports from three management boards incorporating financial and operational summaries and key performance indicators.
- The Audit Risk and Governance Committee meets quarterly to review the annual audit plan and receives individual reports to provide an independent opinion on the level of assurance that can be placed upon the internal control environment, and to make recommendations as appropriate. Of the 17 recommendations made by Internal Audit to the Audit, Risk and Governance Committee during the year, five have been completed and eight are in the process of being implemented.
- Service delivery is monitored throughout the year. An Annual Business Plan is produced that sets out the overall goals, priorities and delivery plans. Progress against each priority is reviewed by one of three management boards formed of officers from various disciplines and including Executive Board level membership. The three management boards are:

- Continuous Improvement Management Board
- Smart Travel Management Board
- Passenger Focus Management Board
- These boards report monthly to the Executive Committee. An annual report is published on the activities, achievements, financial position and performance. This is reported to the ITA and the PTE via the appropriate committee.
- In addition to the three management boards, the Corporate Governance Officers Group (which includes Executive Board-level membership) meets as required to have oversight of all governance-related matters and developments as required to supplement the work of Continuous Improvement Management Board.
- The Finance, Delivery & Performance Monitoring Committee monitors financial performance throughout each year against the forecasts made. The PTE's Director of Business Support Services and relevant officers are in attendance at these meetings to present the reports and answer questions from members.

To supplement the management boards which monitor business performance, four new programme boards have also been established. The programme boards have been established to manage the performance of projects contained within each programme. The programme boards are:

- Metro Development
- Business Transformation
- Smart Mobility
- Connected to Growth

All programme boards have been set up with agreed standardised terms of reference to ensure that they operate consistently, and each board is led by a member of the Executive team.

To further strengthen governance, “assurance” and “approvals” activity have been separated. Executive Board are accountable for investment approvals, the programme boards monitor the performance of the projects within their programme and provide assurance. Each programme board reports to the Executive Board on a monthly basis and a separate corporate assurance report is sent to the Executive Board by the Corporate Assurance Manager.

Conclusion

In undertaking the review of internal control and the governance framework, the ITA is satisfied the systems of internal control that facilitate the effective exercise of its functions are in place and that all issues raised through the Audit, Risk and Governance Committee have been appropriately addressed and action taken.

On behalf of the West Midlands Integrated Transport Authority

Keith Ireland
Clerk to the West Midlands Combined Authority
(formerly Clerk to the Authority)
Date: 22 July 2016

Councillor Roger Lawrence
Member of the West Midlands Combined Authority
(formerly Chairman of the West Midlands Integrated Transport Authority)
Date: 22 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

We have audited the financial statements of West Midlands Integrated Transport Authority (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cashflow Statements, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, the Group Narrative Report, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

Grant Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Date

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

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). The West Midlands Integrated Transport Authority (ITA) pays revenue and capital grants to the West Midlands Passenger Transport Executive (PTE) to cover revenue as well as capital expenditure.

2014/15				Notes	2015/16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,320 37,192	(12) -	1,308 37,192	Highways and transport services Operational expenditure Infrastructure - capital grants	4 5	1,751 24,310	(117) -	1,634 24,310
38,512	(12)	38,500	Cost of services Other operating expenditure Financing and investment income and expenditure Non-specific grant income DfT grant income and expenditure	6 7 8 9	26,061 112,701 9,871 - 53,642	(117) - (303) (136,400) (53,642)	25,944 112,701 9,568 (136,400) -
116,546	-	116,546	Deficit/(surplus) on provision of services Adjustments between accounting basis and funding basis*		202,275	(190,462)	11,813
9,635 - 65,440	(269) (138,700) (65,440)	9,366 (138,700) -	Transfer to/(from) earmarked reserve Deficit/(surplus) for the year under funding basis				(11,617) (145) 51
230,133	(204,421)	25,712					
		(26,010) 145 (153)					

* Adjustments between accounting basis and funding basis are adjustments that are made to the total comprehensive income and expenditure recognised by the ITA in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the ITA to meet future capital and revenue expenditure. These are detailed in the Movement in Reserves Statement (page 21).

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the ITA, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic costs of providing the ITA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the general fund balance for levy setting shown in the line "Increase/decrease in year".

	Notes	Usable reserves			Unusable reserves	Total reserves
		General fund balance £'000	Earmarked reserve £'000	Total usable reserves £'000		
Balance at 31 March 2014		1,525	-	1,525	(155,222)	(153,697)
Movements in reserves during 2014/15						
Deficit on provision of services		(25,712)	-	(25,712)	-	(25,712)
Total comprehensive income and expenditure for the year		(25,712)	-	(25,712)	-	(25,712)
Adjustments between accounting basis and funding basis under regulations						
Capital grant paid to PTE	5	37,192	-	37,192	(37,192)	-
DfT grants received	9	(65,440)	-	(65,440)	65,440	-
DfT grants paid	9	65,440	-	65,440	(65,440)	-
Minimum revenue provision (MRP)	19	(7,738)	-	(7,738)	7,738	-
Debt repayment (Transferred debt)	16	(470)	-	(470)	470	-
Capital expenditure charged to the general fund	5	(2,974)	-	(2,974)	2,974	-
Total adjustments between accounting basis and funding basis under regulations		26,010	-	26,010	(26,010)	-
Net increase/(decrease) before transfers to earmarked reserves		298	-	298	(26,010)	(25,712)
Transfer to earmarked reserve		(145)	145	-	-	-
(Decrease)/increase in year		153	145	298	(26,010)	(25,712)
Balance at 31 March 2015		1,678	145	1,823	(181,232)	(179,409)
Movements in reserves during 2015/16						
Deficit on provision of services		(11,813)	-	(11,813)	-	(11,813)
Total comprehensive income and expenditure for the year		(11,813)	-	(11,813)	-	(11,813)
Adjustments between accounting basis and funding basis under regulations						
Capital grant paid to PTE	5	24,310	-	24,310	(24,310)	-
DfT grants received	9	(53,642)	-	(53,642)	53,642	-
DfT grants paid	9	53,642	-	53,642	(53,642)	-
Revenue grants unapplied	18	(4,563)	4,563	-	-	-
Minimum revenue provision (MRP)	19	(7,156)	-	(7,156)	7,156	-
Debt repayment (Transferred debt)	16	(517)	-	(517)	517	-
Capital expenditure charged to the general fund	5	(457)	-	(457)	457	-
Total adjustments between accounting basis and funding basis under regulations		11,617	4,563	16,180	(16,180)	-
Net increase/(decrease) before transfers to earmarked reserves		(196)	4,563	4,367	(16,180)	(11,813)
Transfer from earmarked reserve		145	(145)	-	-	-
(Decrease)/increase in year		(51)	4,418	4,367	(16,180)	(11,813)
Balance at 31 March 2016		1,627	4,563	6,190	(197,412)	(191,222)

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the ITA. The net liabilities of the ITA (assets less liabilities) are matched by the reserves held by the ITA. Reserves are reported in two categories – usable and unusable. Usable reserves are those that the ITA may use 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 the ITA is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences.

31 March 2015 £'000		Notes	31 March 2016 £'000
108	Short-term debtors	10	75
10,000	Short-term investments	11	-
24,878	Cash and cash equivalents	12	24,969
34,986	Current assets		25,044
(3,701)	Short-term creditors	13	(5,477)
(2,668)	PWLB	14	(7,672)
(109)	Other loans	15	(109)
(517)	Dudley MBC	16	(569)
(35,322)	Amounts payable to PTE	17	(35,381)
(42,317)	Current liabilities		(49,208)
(7,331)	Net current liabilities		(24,164)
(153,010)	PWLB	14	(147,719)
(10,000)	Other loans	15	(10,000)
(9,068)	Dudley MBC	16	(8,499)
-	Capital grants received in advance	9	(840)
(172,078)	Long term liabilities		(167,058)
(179,409)	Net liabilities		(191,222)
1,678	General fund balance	18	1,627
145	Earmarked reserve	18	4,563
1,823	Usable reserves		6,190
(181,232)	Capital adjustment account	18	(197,412)
(181,232)	Unusable reserves		(197,412)
(179,409)	Total reserves		(191,222)

These financial statements replace the unaudited financial statements certified by Linda Horne on 26 May 2016. They were approved for issue by the West Midlands Combined Authority Board Committee on 22 July 2016. Events after the Balance Sheet date have been considered up to the date of approval.

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

CASHFLOW STATEMENT

The Cashflow Statement shows the changes in cash and cash equivalents of the ITA during the reporting period. The statement shows how the ITA generates and uses 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 are funded by way of long-term borrowing. Investing activities represent the extent to which cash outflows have been made for resources which are held on behalf of the PTE's future service delivery.

31 March 2015 £'000	31 March 2016 £'000
(25,712)	(11,813)
	Net (deficit)/surplus on the provision of services
	Adjustments to net surplus or deficit on the provision of services for non-cash movements and non revenue uses
37,192	24,310
9,366	9,568
(29)	33
(21,267)	59
3,327	1,776
	35,746
28,589	
(9,470)	(9,878)
269	303
(9,201)	(9,575)
	14,358
(6,324)	
	Investing activities
(10,000)	10,000
(10,000)	10,000
	Net cash flows from investing activities
	Financing activities
20,000	-
(152)	(280)
(470)	(517)
(65,440)	(53,642)
65,440	54,482
(37,192)	(24,310)
(17,814)	(24,267)
	Net (decrease)/increase in cash and cash equivalents
(34,138)	91
59,016	24,878
24,878	24,969
	Cash and cash equivalents at 31 March (note 12)

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements have been prepared in accordance with the Accounts and Audit Regulations 2015. Proper practices are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2015/16 Financial Statements are prepared in accordance with 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.

2. Significant accounting policies

a) Consolidation

The PTE accounts are not incorporated into the ITA accounts. However, a Group Financial Report is produced which consolidates the accounts of the ITA with the accounts of the PTE (see Appendix 1).

b) Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Irrecoverable VAT on the purchase of assets or services is recognised as an expense in the comprehensive income and expenditure statement.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to the taxation authority is included as part of receivables or payables in the Balance Sheet.

c) ITA levy

Levy income due from the districts is recognised on an accruals basis. It is passed on to the PTE as a revenue grant as and when required for cash flow purposes.

d) Grant income

DfT grants are accounted for on a cash basis and recognised immediately in the Comprehensive Income and Expenditure Statement. The ITA then passes the funding to the PTE or district partners to fund capital programmes.

e) Capital development schemes

The ITA meets the cost of upgrading transport facilities within the seven West Midlands Metropolitan Authorities, via the PTE's capital programme as part of its policy of improving and co-ordinating public transport within the area. These costs are included in Infrastructure as part of the capital grant paid to the PTE.

f) Financial assets

The ITA's financial assets include trade debtors, short-term investments and cash and cash equivalents. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits with

original maturities of three months or less. Deposits with original maturities of over three months are classified as short-term investments. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For the purpose of the cash flow statement, bank overdrafts that are repayable on demand and form an integral part of the ITA's cash management are included as a component of cash and cash equivalents.

Trade debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable, it is written off to the Comprehensive Income and Expenditure Statement in the period in which it is recognised.

g) Financial liabilities

Financial liabilities include loans and borrowings and trade creditors.

Financial liabilities are recognised initially at cost. Subsequent to initial recognition loans and borrowings are measured at amortised cost using the effective interest method. Trade creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Comprehensive Income and Expenditure Statement in the period in which it is recognised.

h) Impairment

Financial assets (including receivables)

The ITA's financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

i) Contingent liabilities

A contingent liability arises where an event has taken place that gives the ITA a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the ITA. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with the Code requires the ITA to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements

In applying the accounting policies set out in note 2, the ITA has had to make certain judgements about complex transactions or those involving uncertainty about future events. The ITA does not consider that there are any complex transactions that are not covered by the accounting policies outlined in note 2, that required any judgements and hence disclosure.

Estimates and assumptions

The financial statements contain no estimated figures that are based on assumptions made by the ITA about the future or that are otherwise uncertain.

4. Operational expenditure

31 March 2015 £'000		31 March 2016 £'000
	Corporate and democratic core	
102	Members - basic allowances	83
95	Members - special responsibility allowances	68
31	Members - other costs	19
216	Democratic services	195
444		365
	Policy, strategy and programmes	
876	Services for Policy and Strategy Unit	844
-	Midlands Connect programme	542
876		1,386
1,320	Gross expenditure	1,751
(12)	Recharge to ITA Pension Fund	(12)
-	Midlands Connect contributions	(105)
(12)	Gross income	(117)
1,308	Net expenditure	1,634

During the year, the ITA secured DfT funding of £5m (note 8) for the Midlands Connect programme to develop a strategy for transforming transport connectivity across the region in order to drive economic growth. Programme costs of £0.542m were incurred during the year.

Charges relating to work undertaken by the external auditors

31 March 2015 £'000		31 March 2016 £'000
18	Other services	-
20	Annual statutory audit	20
38	Total expenditure	20

Chief Officer's salaries

During the year, the ITA paid £8,964 allowances and pension contributions to the Treasurer (2015: £11,791).

5. Infrastructure – capital grants

During the year, capital grants of £24.310m (2015: £37.192m) were made to the PTE in respect of the capital programme and these were financed as follows:

31 March 2015 £'000		31 March 2016 £'000
37,192	Total capital grant	24,310
	Financed by:	
7,738	Use of MRP	7,156
20,000	Borrowing	-
6,480	Use of short term cash balances	16,697
2,974	Capital expenditure charged to general fund	457
37,192		24,310

This capital grant is partly funded by reserves and available short-term cash balances which will eventually need to be replenished by approved borrowing.

6. Amounts reported for resource allocation decisions

The net revenue budget for the year was £131.400m and the outturn was £131.451m as shown below:

31 March 2015 £'000		31 March 2016 £'000
138,700	Levy on Metropolitan District Councils	131,400
138,700	Total revenue funding	131,400
116,546	Grant to Executive Administration, Policy and Strategy Unit and programme costs	112,701
1,308	- Midland Connect grant utilised	1,634 (437)
17,843	Capital financing charges	17,544
(269)	Investment income	(303)
2,974	Revenue contribution to capital	457
145	Transfer to/(from) earmarked reserve	(145)
138,547	Total revenue expenditure	131,451
153	ITA comprehensive income and expenditure	(51)
919	PTE comprehensive income and expenditure	1,074
1,072	Total comprehensive income and expenditure	1,023

The ITA's expenditure includes a grant to the PTE, which funds a significant part

of PTE's overall revenue programme.

7. Financing and investment income and expenditure

The expenditure on interest and other charges during the year was as follows:

31 March 2015 £'000		31 March 2016 £'000
	Gross expenditure	
8,989	External interest on borrowing	9,264
646	External interest on transferred debt	607
9,635		9,871
	Gross income	
-	Heritable Bank	(161)
(269)	Investment interest received	(142)
(269)		(303)
9,366	Net expenditure	9,568

*A deposit of £4m was placed with the Heritable Bank which subsequently went into administration on 8th October 2008. The balance owing as at that date was £4.052m including interest accrued. Total income received to date at 31 March 2016 was £3.971m.

8. ITA levy and non-specific grant income

The ITA exercises control over the PTE in that it sets the policies which the PTE then implements. The ITA receives levy payments from the seven West Midlands Districts which they are required to make following an ITA resolution under the Transport Levying Bodies Regulations 1992.

31 March 2015 £'000		31 March 2016 £'000
	Levy on District Councils	
54,492	Birmingham City Council	51,563
16,223	Coventry City Council	15,569
15,743	Dudley MBC	14,842
15,629	Sandwell MBC	14,837
10,411	Solihull MBC	9,861
13,602	Walsall MBC	12,850
12,600	Wolverhampton City Council	11,878
138,700		131,400
	Revenue grants	
-	DfT - Midlands Connect programme	5,000
-		5,000
138,700		136,400

9. DfT grant income and expenditure

All DfT grant funding is awarded to the ITA as the statutory authorised body. The ITA then passes the funding to the PTE or District partners to fund capital programmes.

2014/2015				2015/2016		
DfT grants paid £'000	DfT grants received £'000	Net Income £'000		DfT grants paid £'000	DfT grants received £'000	Net Income £'000
4,510	(4,510)	-	Major scheme funding: Birmingham Metro Extension Minor scheme funding: Bilston Road Track Replacement ITSO Smartcard - New Street Rail	-	-	-
5,000	(5,000)	-	Local Sustainable Transport Fund	-	-	-
208	(208)	-	Local Pinch Point Fund	410	(410)	-
-	-	-	Bus Service Operator Grant	4,741	(4,741)	-
1,880	(1,880)	-	Clean Vehicle Technology Fund	-	-	-
1,792	(1,792)	-		1,792	(1,792)	-
404	(404)	-		486	(486)	-
13,794	(13,794)	-		7,429	(7,429)	-
37,395	(37,395)	-	Integrated transport block	17,617	(17,617)	-
14,251	(14,251)	-	Highways capital maintenance	16,296	(16,296)	-
-	-	-	Highways maintenance - challenge fund	12,300	(13,140)	(840)
65,440	(65,440)	-		53,642	(54,482)	(840)
-	-	-	Transfer to capital grants received in advance	-	840	840
65,440	(65,440)	-	Total	53,642	(53,642)	-

The analysis of DfT grants paid to the PTE and Districts is shown below:

2015/16 movements	Integrated transport block £'000	Highways capital maintenance £'000	Challenge fund/other £'000	Total £'000
Districts				
Birmingham City Council	5,159	-	65	5,224
Coventry City Council	1,558	2,765	350	4,673
Dudley MBC	1,485	3,036	3,795	8,316
Sandwell MBC	1,484	3,209	2,502	7,195
Solihull MBC	987	2,620	3,022	6,629
Walsall MBC	1,286	2,415	1,725	5,426
Wolverhampton City Council	1,188	2,251	841	4,280
	13,147	16,296	12,300	41,743
Executive	4,470	-	7,429	11,899
Total	17,617	16,296	19,729	53,642

2014/15 comparatives	Integrated transport block £'000	Highways capital maintenance £'000	Other £'000	Total £'000
Districts				
Birmingham City Council	8,714	-	-	8,714
Coventry City Council	2,594	2,806	-	5,400
Dudley MBC	2,518	2,432	-	4,950
Sandwell MBC	2,499	3,080	-	5,579
Solihull MBC	1,665	2,267	-	3,932
Walsall MBC	2,175	1,822	-	3,997
Wolverhampton City Council	2,015	1,771	-	3,786
Executive	22,180	14,178	-	36,358
	15,215	73	13,794	29,082
Total	37,395	14,251	13,794	65,440

10. Short-term debtors

31 March 2015 £'000		31 March 2016 £'000
58	Trade debtors and accrued income	24
50	Other debtors	51
108	Total	75
	Analysed between the following classes of debtors:	
50	Central government bodies	51
58	Other entities and individuals	24
108	Total	75

11. Short-term investments

Short-term surplus funds are invested temporarily on the money market, and are used to provide working capital on a day-to-day basis. These funds are placed with financial institutions that are on the ITA's counterparty list, based on selected criteria as set out in the ITA's Treasury Management Strategy.

31 March 2015 £'000		31 March 2016 £'000
10,000	Short-term deposits (original maturity over three months)	-
10,000	Total	-

12. Cash and cash equivalents

31 March 2015 £'000		31 March 2016 £'000
378	Cash balances held at bank	169
24,500	Short-term deposits (original maturity three months or less)	24,800
24,878	Total	24,969

13. Short-term creditors

31 March 2015 £'000		31 March 2016 £'000
551	Trade creditors	3,977
3,150	DfT grant due to 3 rd parties	1,500
3,701	Total	5,477
-	Analysed between the following classes of creditors:	
3,701	Other local authorities	3,162
	Other entities and individuals	2,315
3,701	Total	5,477

Items included within trade creditors are amounts due to local authorities for grant claim returns and accruals for operational expenditure and interest.

14. Public Works Loan Board (PWLB)

The ITA adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the ITA did not undertake any short-term borrowing. The amount of fixed rate debt is 100% (2015: 100%) with no variable rate debt (2015: nil).

International Financial Reporting Standard 13 Fair Values (IFRS 13) was adopted by CIPFA/LASSAC into the 2015/16 Code. IFRS 13 replaces the various definitions of "fair value" in earlier accounting standards with a uniform one that applies whenever other standards permit or require fair values to be disclosed. Fair value is now defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

The IFRS 13 fair value calculated by the ITA's treasury management advisors for all PWLB loans as at 31 March 2016 is £208.246m (2015: £214.746m). The valuation method used is to discount contractual (or expected) cash flows at the market rate for local authority loans of the same remaining term.

In November 2012 the PWLB introduced the certainty new loan rate (CNLR), allowing authorities to borrow at a reduction of 20 base points (bps) on the standard PWLB rate. The ITA applied for the certainty rate and was

acknowledged by PWLB as being on their approved list of authorities who could access the preferential rates.

The table below gives a maturity profile of the PWLB loans:

31 March 2015 £'000		31 March 2016 £'000
280	Repayable within 1 year	5,291
	Repayable after more than one year	
5,327	Between 1 and 2 years	5,303
33,912	Between 3 and 5 years	33,985
6,842	Between 6 and 10 years	1,915
27,955	Between 11 and 20 years	28,151
9,572	Between 21 and 30 years	9,080
36,818	Between 31 and 40 years	36,881
32,584	Over 41 years	32,404
153,010		147,719
153,290	Total PWLB loans	153,010

Loan interest that is accrued for the year of £2.381m (2015: £2.388m) and the principal to be repaid in 2016/17 of £5.291m (2015: £0.280m) are shown in current liabilities. The remaining principal is included within long-term liabilities.

15. Other loans

During 2005/06 the ITA entered into a £10.0m LOBO ("Lenders Option Borrowers Option") loan with Barclays Bank Plc at 4.03% repayable in 2055/56.

The bank has the option to raise the interest rate on the debt; however they have not exercised their option to date. If they do exercise their option, the ITA also has the option to repay the debt in full without any financial penalties. There is no certainty that the bank will exercise its option and increase the interest rate on the debt and there is no certainty that the ITA will take the opportunity at that time to repay the debt.

The fair value of this loan (calculated by the ITA's treasury management advisors) as at 31 March 2016 is £14.550m (2015: £14.602m), compared to the carrying value of £10.109m (principal and accrued interest). The valuation method used is to discount contractual (or expected) cash flows at the market rate for local authority loans of the same remaining term and add the value of the lenders option from a market option pricing model.

16. Transferred debt (Dudley MBC)

The loans were inherited from the former West Midlands County Council and are managed by Dudley MBC on behalf of all the West Midlands authorities.

When the County Council was disbanded, the loans were nominally distributed amongst the various local government authorities in the West Midlands with the ITA's share of the loan set at 5.495%.

The table below shows the nominal (carrying value) of the debt compared to the fair value.

Nominal Value 31 March 2015 £'000	Fair Value 31 March 2015 £'000		Nominal Value 31 March 2016 £'000	Fair value 31 March 2016 £'000
10,000	13,004	Market debt	10,000	12,484
162,577	198,089	PWLB	151,705	182,933
6,783	8,284	Stock	6,784	7,888
179,360	219,377		168,489	203,305
(4,922)	(4,922)	Other balances	(3,468)	(3,468)
174,438	214,455	Total value of debt	165,021	199,837
9,585	11,784	WMITA share of fund as at 31st March	9,068	10,981
5.495%	5.495%	Percentage of overall debt	5.495%	5.495%

The loan is repayable in annual instalments with the last instalment due in 2025/26. The principal repayable within the next 12 months of £0.569m (2015: £0.517m) is shown within short-term creditors; the remaining principal is included within long-term liabilities.

17. Amounts payable to PTE

The ITA undertakes the treasury management function for both the ITA and the PTE. Due to timings of major cash flows the ITA holds and invests cash balances and transfers cash to the PTE as required.

18. Reserves

Movements in the ITA's reserves are detailed in the Movement in Reserves Statement on page 20. The purpose of individual reserves is as follows:

General fund balance

The general fund balance is a statutory fund into which all the receipts of the ITA are required to be paid and out of which all liabilities of the Authority to be met, except where statutory overrides apply, which cover adjustments between accounting basis and funding basis. These represent funds available to the ITA to meet unexpected short-term requirements.

Capital adjustment account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is reduced by the MRP, repayment of debt (principal/transferred) and any contributions to meet capital expenditure (revenue contribution) and is offset by the capital grant provided to meet capital expenditure.

Earmarked reserve

This represents unapplied grant income from the DfT for the Midlands Connect programme.

19. Minimum revenue provision (MRP)

During the year, £7.156m (2015: £7.738m) was charged to revenue in compliance with the statutory requirement to set aside MRP for the repayment of external loans.

The ITA is required to provide for the repayment of long-term capital programme borrowing through a revenue charge (MRP).

Capital Finance Regulations require the approval of an MRP Statement setting out the ITA's approach. The approved MRP statement for the year is:-

- “For capital expenditure incurred before 1st April 2009 or which in future will be financed by supported borrowing, the ITA will follow previous practice, with MRP broadly based as being 4% of the underlying Capital Financing Requirement.
- From 1st April 2009 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated life of the asset or a depreciation calculation.”

MRP will commence in the financial year after the asset has become operational.

The approved MRP statement has been amended to state that the MRP will be calculated at 2% of the underlying Capital Financing Requirement for capital expenditure incurred before 1st April 2009. This takes into effect from 2016/17.

20. Financial instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2015				31 March 2016			
Carrying amount		Fair value £'000		Carrying amount		Fair value £'000	
Current £'000	Long-term £'000			Total £'000	Current £'000		
			Financial instruments Financial assets: Loans and receivables Trade debtors (note 10) Short-term investments (note 11) Cash and cash equivalents (note 12)		24 - 24	24	
58 10,000 24,878	- 10,000 - 24,878	58 10,000 24,878		24,969	- 24,969	24,969	
			Non-financial instruments Other debtors	51	- 51	51	
34,986	-	34,986	Total financial assets	25,044	-	25,044	
			Financial instruments Financial liabilities at amortised cost Short-term creditors (note 13) Borrowings PWLB (note 14) Other loans (note 15) Dudley MBC (note 16) Amounts payable to PTE (note 17)				
3,701 2,668 109 517 35,322	- 153,010 10,000 9,068 - - -	3,701 155,678 10,109 9,585 35,322	3,701 214,746 14,602 11,784 35,322	5,477 7,672 109 569 35,381	- 147,719 10,000 8,499 - 840	5,477 155,391 10,109 9,068 35,381 840	
			Non-financial instruments Capital grants received in advance				
42,317	172,078	214,395	280,155	Total financial liabilities	49,208	167,058	
					216,266	275,475	

Trade debtors, short-term investments, cash and cash equivalents and short-term creditors approximate to their carrying amounts due to the short-term nature of these instruments. The valuation methodology for borrowings is disclosed in the relevant note. The prior year fair value for PWLB loans has been restated to the IFRS 13 valuation.

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

31 March 2015				31 March 2016		
Financial assets: Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000		Financial assets: Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000
(269) -	- 9,635	(269) 9,635	Interest income (note 7) Interest expense (note 7)	(303) -	- 9,871	(303) 9,871
(269)	9,635	9,366	Net loss/(gain) for the year in surplus or deficit on the provision of services	(303)	9,871	9,568

21. Financial risk management

The ITA's treasury activities expose it to three key areas of risks:

- Credit risk – the possibility that others parties might fail to pay amounts due to the authority.
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments.
- Market risk – the possibility that financial loss arises for the authority as a result of changes in such measures as interest rates.

Credit risk

Credit risk arises from deposits with banks, other financial institutions and local authorities. The ITA manages this risk by restricting its exposure with financial institutions to those that are on the official lending list as compiled by the ITA's treasury management advisors.

The criteria for these lending lists are set out in the Treasury Management Strategy report and credit ratings monitored constantly through the receipt of credit rating bulletins from its treasury management advisors.

If a financial institution fails to meet the criteria they are removed from the official lending list. The lending list contains financial as well as duration limits to reduce risk.

Liquidity risk

The ITA has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The ITA maintains a sufficient level of liquidity through the use of Money Market Funds/overnight deposits and call accounts. If longer term funding is required, the ITA has ready access to borrowings from the money markets and the Public Works Loans Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the ITA will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates, but effective cash management ensures any borrowing is undertaken at favourable rates.

Market risk

The ITA is exposed to the risk of interest rate movements on its borrowings and investments. It manages those risks as follows:

- New long-term borrowings are only undertaken if required to meet cash flow requirements.
- Debt restructuring is undertaken when financially viable to take account of fluctuating interest rates.
- Limits are set on the proportion of its borrowing limits in accordance with the Treasury Management Strategy.

22. Contingent liabilities

ITA Pension Fund

The ITA Pension Fund is guaranteed by National Express PLC. In the event of the ITA Pension Fund becoming insolvent and National Express PLC not meeting their guarantee, then the ITA would be liable to meet any excess liabilities.

The pension fund was established by Government Regulation on 29th November 1991 and became active on 4th December 1991. The date of the last triennial actuarial valuation was 31 March 2013, the actuarial value was £563m (£28m was offset against this value to allow for market changes after the valuation date). The valuation resulted in a deficit of £86m against the market value of £449m. As at 31 March 2016 the market value of the pension fund was £461m (2015: £476m).

23. Related party transactions

The following table records material transactions with related parties that are not adequately disclosed elsewhere in the accounts. There are no interests requiring disclosure in respect of members and officers. Members' allowances are disclosed in note 4.

31 March 2015 £'000		31 March 2016 £'000
	Recharges from District Councils	
13	Birmingham City Council	7
336	Solihull MBC	367
26	Wolverhampton City Council	10
375		384
	Recharges to District Councils	
-	Birmingham City Council	131
-		131

24. 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 were combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA has ceased to exist and all of its 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.