

**WEST MIDLANDS PASSENGER TRANSPORT**  
**EXECUTIVE**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED 31 MARCH 2016**

## **TABLE OF CONTENTS**

NARRATIVE REPORT OF THE MANAGING DIRECTOR AND MEMBERS OF THE WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE .....	2
STATEMENT OF RESPONSIBILITIES.....	9
ANNUAL GOVERNANCE STATEMENT.....	11
INDEPENDENT AUDITOR’S REPORT TO THE DIRECTORS OF WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE.....	19
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT .....	22
MOVEMENT IN RESERVES STATEMENT .....	23
BALANCE SHEET.....	24
CASHFLOW STATEMENT .....	25
NOTES TO THE ACCOUNTS .....	26

## **NARRATIVE REPORT OF THE MANAGING DIRECTOR AND MEMBERS OF THE WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE**

The Executive Board present their report and financial report 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 PTE operates under the name of Centro.

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 Centro 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.

### **Post Balance Sheet Event**

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 PTE has ceased to exist and all of its functions, property, rights or liabilities have transferred to the Combined Authority as outlined in Note 37, 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**

Our published Annual Review document for 2015/16 reports our achievements during the year in our role to formulate quality services and standards to ensure passengers

get the right bus, train, metro and other services; connecting them to places they need to get to and helping people make the best travel choices including developing smart ticketing, real-time passenger information and delivering major transport projects.

Our social responsibility continues to be an integral element of who we are and the onward development and delivery of our Corporate Social Responsibility Strategy supports our key environment and social objectives; enhancing the welfare of our diverse workforce, customers and wider community.

Despite further reductions in our funding we have continued to drive value for money and operate robust systems for procurement of goods and services and financial management. We have undertaken detailed scrutiny of all our resources and expenditure to ensure efficient and effective use. We have managed to deliver our 2015/16 Business Plan with reduced funding, whilst protecting all policies. Our risk management has been a fundamental part of delivery of our objectives with risks monitored and measured throughout delivery of the plan to ensure any concerns have been addressed at the earliest opportunity.

We have continued to oversee the English National Concessionary Travel Scheme for the West Midlands which locally for the region is extended to cover the local Rail and Metro Services and provide discounted travel for those in full-time education up to 18 years old.

We have worked in partnership with private transport companies and the seven Metropolitan Districts to promote public transport projects and have continued the subsidy of socially necessary bus services, along with operating and maintaining passenger transport infrastructure and information across the region. In addition Ring and Ride, the main demand responsive transport service for people in the West Midlands with limited mobility, has also continued to be primarily funded by the PTE.

## **Bus**

Centro developed and implemented a new Bus Alliance to encourage further investment in the bus network, increase standards and improve bus links. The Alliance brings together bus operators, councils and private sector partners to ensure that services are attractive and meeting the needs of local communities.

A successful bid to the Government's Clean Vehicle Technology Fund saw the installation of exhaust traps on buses in Coventry which are helping to improve air quality in the city.

Investment in high-quality bus stops continued and has included new facilities at Cradley Heath, Darlaston, Solihull town centre, Wolverhampton city centre and Coventry Rail Station. Centro has also worked in partnership with the University of Warwick and University Hospital in Coventry to develop new bus interchanges on these sites.

Brand new luxury 'Platinum' buses have been introduced by National Express as part of their partnership commitment with Centro on routes across the region and work has continued with local councils to make bus journey times more reliable through schemes targeted at reducing congestion.

Centro has been working closely with Birmingham City Council to ensure that bus services have been able to operate reliably into the city during the A38 tunnels closures in 2015 and throughout the redevelopment of Paradise Circus.

Further 24-hour routes have been introduced, and a comprehensive network of services was once again operated on Boxing Day, with growing demand from passengers.

## **Rail**

New Street Station re-opened in September 2015. The newly refurbished station concourse is around three times the size of the previous one, providing a lighter, brighter, more pleasant environment for passengers. Crucially, the larger concourse provides capacity for expected passenger growth.

Centro worked with Coventry City Council and Warwickshire County Council to deliver two new stations between Coventry and Nuneaton, at Coventry Arena and Bermuda Park as the first stage of a project to improve services on the line. These stations came into operation in January 2016.

Centro continued to work with Network Rail, London Midland and local authority partners on a scheme to electrify and deliver journey time improvements on the Chase Line between Rugeley, Walsall and Birmingham, expected to be delivered in December 2017. Electrification of the Cross City line to Bromsgrove is well underway and due to be completed by mid-2017.

The expansion of the Four Oaks station Park and Ride facility was completed in December 2015 delivering 75 five additional spaces, while Centro continued to explore other key rail projects in line with the economic needs and priorities of our region, including further investment in stations.

Working in partnership with local authorities from the surrounding region, West Midlands Rail Ltd has been established with the aim of increasing our influence over local rail services in the region. Work is now taking place with the Department for Transport (DfT) on the specification for the rail franchise that will replace the current London Midland franchise in 2017.

## **Metro**

Construction of Midland Metro in Birmingham city centre continued throughout the year with all the rail being installed by November 2016. Stops continued to be built at Bull Street, Corporation Street and Stephenson Street (to serve Grand Central and New Street station). The introduction of a new fleet of trams saw the capacity along the route increase by a third and the new vehicles are low floor and fully accessible.

The works at the Metro depot were completed, including the extension to the engineering shed to accommodate the new vehicles, further stabling sidings and a new testing and commissioning shed all became operational.

Consultation on a new Park and Ride site at Bradley Lane took place and a planning application was submitted to the local authority.

Design development continued following consultation on routes through Eastside and Transport and Works Act Orders were submitted to the Department for Transport for routes to Centenary Square and Wolverhampton rail station.

The Snow Hill station stop closed in October 2015, allowing works to connect the new city centre route to the existing route to take place, while the new stop in Bull Street opened in December 2015.

In November 2015 the Queen and HRH The Duke of Edinburgh visited Birmingham, naming a tram after former ITA Chairman Angus Adams in a ceremony at the Bull Street stop.

### **Technology**

The roll-out of 100 new Swift Collectors (remote fulfilment machines) brought the latest ticketing technology together with one of the UK's most advanced smartcards, giving more passengers easier access to topping up their Swift cards. More products were added to Swift, including Pay As You Go on most buses and Midland Metro, and all nBus passes moved to Swift. More products were added during the year.

Meanwhile, the introduction of the myswiftcard.com website, Android mobile App and a dedicated Twitter account ensured Swift became readily available to even more customers.

Real Time Information (RTI) displays continued to be improved and upgraded, increasing the accuracy of journey time details.

### **Crime Reduction**

Crime on the bus network dropped by 4% and crime on the rail network dropped by 7%. The Safer Travel Police Team have continued their intelligence lead operations and passenger perception of personal safety has improved with fear of Antisocial behaviour down to just 7%. The innovate Restorative Justice programme managed by Centro, has been a significant success with victim awareness and reparation sessions and plans to extend across the region.

In addition the CCTV service has continued to expand and now includes delivery of services for Solihull, London Midland and Chiltern Railways.

### **Environment and Active Travel**

Using the Government's Local Sustainable Transport Funding we have continued to roll out the Smarter Network, smarter choices program across the region. This has seen 140 businesses engaged in the programme covering over 141,000 staff, 120 educational establishments engaged in the programme, 20,000 local residents benefitting from tailored sustainable transport advice and an additional 8,700 people benefitting from cycling support. In addition the Workwise project has supported over 6,300 jobseekers to find, start and stay in employment with free journey planning and ticketing support to travel to interviews and jobs.

## **3. Achieving Value for Money**

Centro 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 organisation would meet the reduced funding levels. This resulted in a loss of several senior staff and the remodelling of management and assurance processes.

Our 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 Executive Board regularly monitors both revenue and capital expenditure 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 the different accounting treatments for capital grants and pension costs, further details of which are shown in the Movement in Reserves Statement. The surplus for the year under the funding basis is £1.074m (2015: £0.919m).

##### **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 deferred capital grants accounts which relates to the capital grants received for the capital programme and will be used to fund the depreciation on the assets that the grants relate to.

##### **Balance Sheet**

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the PTE. The net assets (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 PTE 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 PTE for the year are detailed in the financial report on pages 22 to 60 of this report. These show a contribution to reserves of £1.074m reflecting the prudent management of the PTE and results of the reorganisation. Total usable reserves stand at £14.9m of which £13.8m are earmarked for ongoing capital projects and £0.9m is available for ongoing services. This represents only 0.79% of the annual grant from the ITA which is considered to be low for an organisation such as ourselves but not unexpected given the public sector funding envelope.

Other operating expenditure includes £12.1m capital development schemes expenditure relating to Bromsgrove Rail Station. See note 16 to the accounts for further explanation.

The PTE's net worth in the Balance Sheet is now £163.9m (2015: £164.4m). This decrease of £0.5m reflects the investment in Midland Metro and other capital assets of £14.4m, offset by a reduction in net current assets of £7.1m and an increase in long-term liabilities of £7.8m. A detailed analysis of the results is shown in the Comprehensive Income and Expenditure Statement on page 22, with further analysis and explanations given in the notes to the financial report from pages 26 to 60.

The Balance Sheet includes employee benefits liability of £90.6m relating to the deferred benefit pension scheme. This recognises the actuarial valuation of the scheme assets and liabilities under IAS 19 as at 31 March 2016.

The Finance, Delivery & Performance Monitoring Committee monitor 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](http://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 PTE believes that the reserves set aside for risks and to provide funding to back capital investments are sufficient with the general fund available to meet unexpected short-term requirements. Details of financial risk management are shown in note 32 to the financial report.

## **7. Borrowing facilities and sources of funds available to meet capital expenditure plans**

The PTE receives DfT funding (which has been passed to the PTE from the ITA) and capital grants from the ITA to finance its capital programme. The funding from the DfT takes the form of an integrated transport block allocation and funding for specific major projects. The PTE also receives funding from the DfT which it holds and administers for development of public transport facilities undertaken by the District Councils. Details of sources of funding and capital programme expenditure are shown in note 29 to the financial report.

The PTE does not borrow on its own behalf. Any borrowing required to meet the capital programme is undertaken by the ITA. The budget for the capital programme is put together based on the capital funding allocation from the DfT both in terms of the Integrated Transport Block funding and other major project funding, together with amounts which the ITA is able to finance as a capital grant either as a revenue contribution to capital or by borrowing.

## **8. Corporate Governance**

The Annual Governance Statement can be found on pages 11 to 18.

## 9. Directors

The following directors held office during the year:

Geoff Inskip (left 31 Dec 2015)

James Aspinall

Stephen Rhodes (left 20 Dec 2015)

Laura Shoaf (appointed 1 Jan 2016)

Chris Perry (appointed 1 Jan 2016)

## 10. Employees

Centro is an equal opportunity employer. The aim of our policy is to ensure that no job applicant or employee receives less favourable treatment on the grounds of their sex, marital status, disability, race, colour, nationality, ethnic or national origins or is disadvantaged by conditions or requirements which cannot be shown to be justifiable.

Through regular monitoring, reporting and team meetings, directors make employees aware of the financial and economic factors affecting them and the performance of the PTE.

The PTE continues to give special attention to the health and wellbeing of our employees.

During the year Centro continued to hold Investors in People champion status; was again ranked in the Sunday times top 100 Best not-for-profit organisations to work for; and was re-accredited as a Gold standard organisation by C2E Committed to Equalities.

The directors would like to thank everyone in the organisation for their commitment and professionalism during a difficult year, and especially in relation to the reorganisation and the work to transition to the West Midlands Combined Authority.

## 11. Auditors

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

### **On behalf of the Executive Board**

**James Aspinall**

**Director of Corporate Services, West Midlands Combined Authority  
(formerly Managing Director, West Midlands Passenger Transport Executive)**

**Date:**

## **STATEMENT OF RESPONSIBILITIES**

### **1. The Executive Board's Responsibilities**

The Executive Board 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 role of the Responsible Finance Officer (RFO) which during 2015/16 was James Aspinall, the Business Transformation Director to 30 September 2015 and Linda Horne, Head of Finance from 1 October 2015 to the end of the financial year.

(ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) Approve the Statement of Accounts.

### **2. The RFO's Responsibilities**

The RFO is responsible for the preparation of the PTE'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 RFO 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 RFO 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 gives a true and fair view of the financial position of West Midlands Passenger Transport Executive at the reporting date and of its income and expenditure for the year ended 31 March 2016.

**Linda Horne**

**Head of Finance, West Midlands Combined Authority**

**(formerly Responsible Finance Officer, West Midlands Passenger Transport Executive)**

**Date:**

### **4. Approval of the Accounts**

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

**James Aspinall**

**Director of Corporate Services, West Midlands Combined Authority**

**(formerly Managing Director, West Midlands Passenger Transport Executive)**

**Date:**

## **ANNUAL GOVERNANCE STATEMENT**

### **Scope of Responsibility**

This Annual Governance Statement reflects the close relationship between the 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 structure.

Both the ITA and 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 PTE 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 directors of the PTE 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.

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 PTE 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 date of 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 Centro'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 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 Centro in this last reporting period.

On the basis of all assurance work undertaken during the year, the Chief Audit Executive considers that Centro'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 have 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 authority's 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's 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 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 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 PTE is satisfied the systems of internal control that facilitate the effective exercise of the organisation’s 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 Passenger Transport Executive**

**James Aspinall**  
**Director of Corporate Services, West Midlands Combined Authority**  
**(formerly Managing Director, West Midlands Passenger Transport Executive)**  
**Date:**

**Linda Horne**  
**Head of Finance, West Midlands Combined Authority**  
**(formerly Responsible Officer, West Midlands Passenger Transport Executive)**  
**Date:**

## **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE**

We have audited the financial statements of West Midlands Passenger Transport Executive (the "Executive") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cashflow Statement, 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 Directors of the Executive, 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 Directors 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 Executive and the Executive's Directors as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Responsible Finance Officer and auditor**

As explained more fully in the Statement of the Responsible Finance Officer's Responsibilities, the Responsible Finance Officer 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 Executive's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the 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 DIRECTORS OF WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE**

## **Opinion on financial statements**

In our opinion the financial statements:

- present a true and fair view of the financial position of the Executive as at 31 March 2016 and of its 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 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 Executive 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 Executive's arrangements to secure value for money through economic, efficient and effective use of its resources**

### **Respective responsibilities of the Executive and auditor**

The Executive 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 Executive 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 Executive's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE**

### **Scope of the review of the Executive'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 Executive 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 Executive 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 Executive 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 Executive* 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.

### **Certificate**

We certify that we have completed the audit of the accounts of the Executive 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 PASSENGER TRANSPORT EXECUTIVE**  
**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 revenue grant received from the ITA. The PTE receives a grant from the ITA to cover expenditure in accordance with regulations which is different from the accounting cost. 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.

2014/2015				Notes	2015/16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			<b>Contractual expenditure</b>				
75,090	-	75,090	Concessionary fares	5	70,850	-	70,850
245	-	245	Rail services	6	526	-	526
9,236	-	9,236	Special needs services	7	8,519	-	8,519
8,908	(1,082)	7,826	Subsidised services	8	8,729	(1,276)	7,453
93,479	(1,082)	92,397			88,624	(1,276)	87,348
			<b>Operational expenditure</b>				
21,926	(8,889)	13,037	Infrastructure and other premises	9	23,132	(9,205)	13,927
6,520	-	6,520	Promotions, information and initiatives	10	6,385	-	6,385
12,910	(1,360)	11,550	Management costs	12	14,002	(1,311)	12,691
5,046	-	5,046	Other costs	14	5,352	-	5,352
24,643	(24,643)	-	Capital development and district schemes	18,29	9,223	(8,798)	425
71,045	(34,892)	36,153			58,094	(19,314)	38,780
<b>164,524</b>	<b>(35,974)</b>	<b>128,550</b>	<b>Highways and transport services</b>		<b>146,718</b>	<b>(20,590)</b>	<b>126,128</b>
834	-	834	Corporate and democratic core		739	-	739
847	-	847	Non-distributed costs	15	575	-	575
<b>166,205</b>	<b>(35,974)</b>	<b>130,231</b>	<b>Cost of services</b>		<b>148,032</b>	<b>(20,590)</b>	<b>127,442</b>
134	-	134	Other operating expenditure	16	12,336	-	12,336
3,349	(133)	3,216	Financing and investment income and expenditure	17	2,268	(83)	2,185
5,734	(164,983)	(159,249)	Taxation and non-specific grant income and expenditure	18	1,952	(163,207)	(161,255)
<b>175,422</b>	<b>(201,090)</b>	<b>(25,668)</b>	<b>Surplus on provision of services</b>		<b>164,588</b>	<b>(183,880)</b>	<b>(19,292)</b>
		872	Remeasurements of the net defined benefit liability/(asset)	31			19,823
		<b>(24,796)</b>	<b>Total comprehensive income and expenditure</b>				<b>531</b>
		(872)	Transfer to pension reserve	31			(19,823)
		24,749	Adjustments between accounting basis and funding basis*				18,218
		<b>(919)</b>	<b>Surplus for the year under funding basis</b>				<b>(1,074)</b>

\* 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 23).

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

## WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE

### MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the 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). The surplus or deficit on the provision of services line shows the true economic costs of providing the PTE'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 £'000
		General fund balance	Ear-marked reserve	Capital grants/receipts unapplied	Total usable reserves	Revaluation reserve	Deferred capital grants account	Pension reserve	
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Balance at 31 March 2014</b>		<b>6,713</b>	<b>12,704</b>	<b>207</b>	<b>19,624</b>	<b>7,802</b>	<b>194,163</b>	<b>(81,925)</b>	<b>139,664</b>
<b>Movements in reserves during 2014/15</b>									
Surplus on provision of services		25,668	-	-	25,668	-	-	-	25,668
Actuarial losses on pension assets/liabilities	31	-	-	-	-	-	-	(872)	(872)
<b>Total comprehensive income and expenditure for the year</b>		<b>25,668</b>	<b>-</b>	<b>-</b>	<b>25,668</b>	<b>-</b>	<b>-</b>	<b>(872)</b>	<b>24,796</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>									
Capital grants received	18	(42,703)	(84)	(11)	(42,798)	-	42,798	-	-
Capital grants released (depreciation and amortisation)	19	12,868	-	-	12,868	-	(12,868)	-	-
Capital grants released (disposals and revaluations)	19	133	-	-	133	-	(133)	-	-
Grants applied	28	7,223	(7,218)	(5)	-	-	-	-	-
Transfer to pension reserve	31	(2,483)	-	-	(2,483)	-	-	2,483	-
Depreciation transfer on land and buildings		213	-	-	213	(213)	-	-	-
<b>Total adjustments between accounting basis and funding basis under regulations</b>		<b>(24,749)</b>	<b>(7,302)</b>	<b>(16)</b>	<b>(32,067)</b>	<b>(213)</b>	<b>29,797</b>	<b>2,483</b>	<b>-</b>
<b>Net increase/(decrease) before transfers to earmarked reserves</b>		<b>919</b>	<b>(7,302)</b>	<b>(16)</b>	<b>(6,399)</b>	<b>(213)</b>	<b>29,797</b>	<b>1,611</b>	<b>24,796</b>
Transfers to/(from) earmarked reserves	28	(4,951)	4,951	-	-	-	-	-	-
<b>Increase/(decrease) in year</b>		<b>(4,032)</b>	<b>(2,351)</b>	<b>(16)</b>	<b>(6,399)</b>	<b>(213)</b>	<b>29,797</b>	<b>1,611</b>	<b>24,796</b>
<b>Balance at 31 March 2015</b>		<b>2,681</b>	<b>10,353</b>	<b>191</b>	<b>13,225</b>	<b>7,589</b>	<b>223,960</b>	<b>(80,314)</b>	<b>164,460</b>
<b>Movements in reserves during 2015/16</b>									
Surplus on provision of services		19,292	-	-	19,292	-	-	-	19,292
Actuarial losses on pension assets/liabilities	31	-	-	-	-	-	-	(19,823)	(19,823)
<b>Total comprehensive income and expenditure for the year</b>		<b>19,292</b>	<b>-</b>	<b>-</b>	<b>19,292</b>	<b>-</b>	<b>-</b>	<b>(19,823)</b>	<b>(531)</b>
<b>Adjustments between accounting basis and funding basis under regulations</b>									
Capital grants received	18/28	(43,034)	1,516	-	(41,518)	-	41,518	-	-
Capital grants released (depreciation and amortisation)	19	14,377	-	-	14,377	-	(14,377)	-	-
Capital grants released (disposals and revaluations)	19	12,583	-	-	12,583	-	(12,583)	-	-
Grants applied	28	1,099	(908)	(191)	-	-	-	-	-
Transfer capital receipts		(247)	-	247	-	-	-	-	-
Transfer to pension reserve	31	(3,208)	-	-	(3,208)	-	-	3,208	-
Depreciation transfer on land and buildings		212	-	-	212	(212)	-	-	-
<b>Total adjustments between accounting basis and funding basis under regulations</b>		<b>(18,218)</b>	<b>608</b>	<b>56</b>	<b>(17,554)</b>	<b>(212)</b>	<b>14,558</b>	<b>3,208</b>	<b>-</b>
<b>Net increase/(decrease) before transfers to earmarked reserves</b>		<b>1,074</b>	<b>608</b>	<b>56</b>	<b>1,738</b>	<b>(212)</b>	<b>14,558</b>	<b>(16,615)</b>	<b>(531)</b>
Transfers to/(from) earmarked reserves	28	(2,860)	2,860	-	-	-	-	-	-
<b>Increase/(decrease) in year</b>		<b>(1,786)</b>	<b>3,468</b>	<b>56</b>	<b>1,738</b>	<b>(212)</b>	<b>14,558</b>	<b>(16,615)</b>	<b>(531)</b>
<b>Balance at 31 March 2016</b>		<b>895</b>	<b>13,821</b>	<b>247</b>	<b>14,963</b>	<b>7,377</b>	<b>238,518</b>	<b>(96,929)</b>	<b>163,929</b>

## WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE

### BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the PTE. The net assets of the PTE (assets less liabilities) are matched by the reserves held by the PTE. Reserves are reported in two categories – usable and unusable. Usable reserves are those that the PTE 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 PTE 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
231,489	Property, plant and equipment	19	245,895
62	Intangible assets	20	-
<b>231,551</b>	<b>Long term assets</b>		<b>245,895</b>
32,872	Short-term debtors	22	25,728
35,322	Amounts receivable from ITA	23	35,381
2,515	Cash and cash equivalents	24	4,378
<b>70,709</b>	<b>Current assets</b>		<b>65,487</b>
(1,610)	Finance lease liabilities	25	(1,647)
(31,780)	Short-term creditors	26	(32,593)
(5,307)	Provisions	27	(6,297)
<b>(38,697)</b>	<b>Current liabilities</b>		<b>(40,537)</b>
<b>32,012</b>	<b>Net current assets</b>		<b>24,950</b>
(1,000)	Provisions	27	(1,000)
(4,324)	Finance lease liabilities	25	(2,677)
(13,465)	Capital grants receipts in advance	30	(12,610)
(80,314)	Employee benefit	31	(90,629)
<b>(99,103)</b>	<b>Long term liabilities</b>		<b>(106,916)</b>
<b>164,460</b>	<b>Net assets/(liabilities)</b>		<b>163,929</b>
2,681	General fund balance		895
10,353	Earmarked reserve	28	13,821
191	Capital grants/receipts unapplied reserve	28	247
<b>13,225</b>	<b>Usable reserves</b>		<b>14,963</b>
7,589	Revaluation reserve	28	7,377
223,960	Deferred capital grants account	28	238,518
(80,314)	Pension reserve	31	(96,929)
<b>151,235</b>	<b>Unusable reserves</b>		<b>148,966</b>
<b>164,460</b>	<b>Total reserves</b>		<b>163,929</b>

This financial report replaces the unaudited financial report certified by Linda Horne on 16 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 PASSENGER TRANSPORT EXECUTIVE

### CASHFLOW STATEMENT

The Cashflow Statement shows the changes in cash and cash equivalents of the PTE during the reporting period. The statement shows how the PTE 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 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 the PTE's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital to the PTE.

31 March 2015 £'000		31 March 2016 £'000
25,668	<b>Net surplus on the provision of services</b>	19,292
	<b>Adjustments to net surplus or deficit on the provision of services for non-cash movements</b>	
13,687	Charges for depreciation and impairment of non-current assets (note 19)	14,529
421	Amortisation of intangible assets (note 20)	62
3,069	Net amounts of non-current assets written off on disposal	12,336
(2,483)	Change in pension reserve	(3,208)
	Working capital adjustments:	
(12,891)	(Increase)/decrease in short-term debtors	7,144
-	Pension prepayment 2016/17 (note 31)	(6,300)
18	Decrease in impairment provision for bad debts	-
21,267	Decrease in amounts due from the ITA	(59)
937	Increase in short-term creditors	813
2,655	Change in provisions	990
26,680	<b>Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>	26,307
(42,703)	Capital grants received (note 18)	(43,034)
<b>9,645</b>	<b>Net cash flows from operating activities</b>	<b>2,565</b>
	<b>Investing activities</b>	
(45,734)	Purchase of property, plant and equipment and intangible assets	(41,518)
-	Proceeds for disposal of property, plant and equipment	247
42,703	Capital grants received for the purchase of property, plant and equipment and intangible assets	43,034
31	Reduction in investment	-
<b>(3,000)</b>		<b>1,763</b>
	<b>Financing activities</b>	
(1,574)	Payment of finance lease liabilities and investments	(1,610)
(7,301)	(Decrease) in capital grants receipts in advance	(855)
<b>(8,875)</b>	<b>Net cash from financing activities</b>	<b>(2,465)</b>
<b>(2,230)</b>	<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>1,863</b>
4,745	Cash and cash equivalents at 1 April	2,515
<b>2,515</b>	<b>Cash and cash equivalents at 31 March</b> (note 24)	<b>4,378</b>

# WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation

#### a) General principles

The financial report has been prepared in accordance with the Accounts and Audit Regulations 2011. Paragraph 17 of the Accounts and Audit Regulations 2015 states that 'A statement of accounts of a Passenger Transport Executive must be prepared as if the proper practices in relation to accounts applicable to a local authority were, so far as appropriate, applicable to an Executive'. Proper practices are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (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 accounts of Midland Metro Limited, Network West Midlands Limited, Centro Properties Limited 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.

The PTE's accounts are incorporated into the West Midlands Integrated Transport Authority Group accounts.

#### 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 income 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 statement of financial position.

#### c) Income

Revenue grants and other funding income is recognised on an accruals basis where there is reasonable assurance that the income will be received and all attached conditions have been complied with.

Income other than grant income, which all arises within the United Kingdom and is stated net of value added tax, represents income arising from bus station departure charges, the provision of timetable information, rental income and advertising revenues. Income is recognised to the extent that reliably measured economic benefits will flow to the PTE and includes estimates in respect of services provided and rental income which have not been invoiced at the period end.

**d) Capital and revenue grants**

Grants and contributions are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement, except to the extent that the grant or contribution has a condition that the PTE has not satisfied. Where a grant has been received and conditions remain outstanding at the Balance Sheet date, the grant is recognised in the Balance Sheet in grants receipts in advance. Once the condition has been met, the grant or contribution is transferred from grants receipts in advance and recognised as income in the Comprehensive Income and Expenditure Statement.

With respect to capital grants, if the expenditure to be financed from the grant has been incurred at the Balance Sheet date, the grant is transferred from the general fund to the deferred capital grants account via the Movement in Reserves Statement. If the expenditure has not been incurred at the Balance Sheet date, the grant is transferred to the capital grants unapplied reserve via the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred to the deferred capital grants account via the Movement in Reserves Statement.

With respect to revenue grants, if the expenditure has not been incurred at the Balance Sheet date, the grant is transferred to earmarked reserves via the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred back via the Movement in Reserves Statement.

**e) Capital development schemes**

The PTE meets the cost of up-grading transport facilities within the West Midlands as part of the policy of improving and co-ordinating public transport within the area. These costs are attributed to tangible assets where possible with the remainder written off to cost of services in the year.

**f) District schemes**

The PTE holds funds for development of public transport facilities undertaken by the District Councils. These funds are paid out to Districts as work is undertaken. This expenditure is written off to the Comprehensive Income and Expenditure Statement together with the corresponding funding. Funds held at the Balance Sheet date not paid out are included in capital grants receipts in advance.

**g) Pension scheme**

Employees of the PTE are members of the West Midlands Metropolitan Authorities Pension Fund. This is a funded defined benefits career average salary statutory scheme administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013 (previously a funded defined benefits final salary statutory scheme). The scheme provides defined benefits to members (e.g. retirement lump sums and pensions) which are earned as employees who worked for the West Midlands Passenger Transport Executive. The fund is valued every three years by a professionally qualified independent actuary.

Pension costs have been charged to the comprehensive income and expenditure statement and the PTE's share of the fund's assets and liabilities are recognised in the Balance Sheet in accordance with IAS 19. The Comprehensive Income and Expenditure Statement has therefore been charged with the full cost of providing for future pension liabilities arising from in-year service.

In the Movement in Reserves Statement an appropriation equal to the difference between this amount and the actual employer's pension contribution is made to the pension reserve, so that any additional costs arising from applying IAS 19 do not impact on the amount to be levied by the ITA on the Local Authorities, and therefore ensuring no additional impact on local taxation. This appropriation is made under the general application of the Code. The negative balance that arises on the pension reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

#### **h) Financial assets**

The PTE's financial assets include trade debtors, amounts receivable from the ITA 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. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For the purpose of the Cashflow Statement, bank overdrafts that are repayable on demand and form an integral part of the PTE'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.

#### **i) Financial liabilities**

Financial liabilities include loans and borrowings and trade creditors. Loans and borrowings consist of bank overdrafts and finance leases.

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.

Financial assets and liabilities are offset and the net amount presented in the Balance Sheet when, and only when, the PTE has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **j) Property, plant and equipment**

##### **Recognition and measurement**

Infrastructure and assets under construction are measured at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Assets classified as infrastructure include bus stations, bus shelters, park and ride sites, trams and Midland Metro infrastructure. As all bus stations and park and ride sites were valued as at 31 December 2008 by Lambert Smith Hampton, for the conversion to accounting under the Code, historical cost is deemed to be the carrying amount of the asset at 31 March 2009 or at the date of acquisition (if later) adjusted for subsequent depreciation.

All other assets are measured at fair value. Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for fair value as they have short useful lives and/or low values. Fair value for land and buildings is interpreted by the Code as the amount that would be paid for the asset in its existing use. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying amount.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The PTE does not have a de-minimis level for capitalisation. Each capital project is reviewed on an individual basis and the costs considered for capitalisation. Non-enhancing expenditure is written off to the Comprehensive Income and Expenditure Statement.

Any revaluation surplus is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Comprehensive Income and Expenditure Statement, in which case the increase is recognised in the Comprehensive Income and Expenditure Statement. A revaluation deficit is recognised in the Comprehensive Income and Expenditure Statement, except to the extent that it offsets an existing surplus on the same asset in the revaluation reserve.

An annual transfer is made from the revaluation reserve to the general fund for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other operating expenditure. When revalued assets are sold, any revaluation reserve relating to the particular asset is transferred to the general fund.

### **Depreciation**

Depreciation is calculated on a straight line basis over the estimated useful life of the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. A full year's depreciation is charged in the financial year that the asset becomes operational.

The PTE's fixed assets are recorded at significant component level. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. The estimated useful lives for the current and comparative periods are as follows:

- Buildings 40 years
- Equipment 5 – 40 years
- Midland Metro
  - Infrastructure 10 - 30 years
  - Trams 30 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### **Midland Metro**

The PTE has developed a Light Rail Rapid Transit system for the West Midlands known as Midland Metro which commenced operation on 31 May 1999. Capital expenditure associated with the Metro is depreciated over the expected life of each significant component part of the infrastructure.

### **Midland Metro – future routes**

Expenditure, other than land purchase, on other areas of the network will be capitalised once approval for a particular line is received and the development is likely to proceed. Development costs are written off in year. Land acquired for the expansion of the network is capitalised and included in land, measured at fair value.

### **Assets under construction**

Expenditure in respect of assets which are not yet complete at the reporting date is classified as assets under construction. Upon the asset becoming operational, the expenditure is transferred to property, plant and equipment. In the event that capital expenditure does not directly result in an operational asset, the costs are recognised within the Comprehensive Income and Expenditure Statement.

### **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.

## **k) Intangible assets**

Development expenditures on an individual project are recognised as an intangible asset only if the costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Executive intends to and has sufficient resources to complete development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less accumulated amortisation and accumulated impairment losses. During the period of development, the asset is tested for impairment annually.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

Smartcard ticketing – 5 years

#### **l) Leases**

Leases in terms of which the PTE assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Comprehensive Income and Expenditure Statement.

Operating leases are not recognised in the Balance Sheet but charged as an expense in the Comprehensive Income and Expenditure Statement on a straight line basis over the lease term.

#### **m) Impairment**

##### **Financial assets (including receivables)**

The PTE'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.

##### **Non-financial assets**

The carrying value of the PTE's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

Impairment losses are recognised in the Comprehensive Income and Expenditure Statement. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **n) Provisions and contingent liabilities**

Provisions are recognised when the PTE has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to the provision is recognised in the Comprehensive Income and Expenditure Statement.

A contingent liability arises where an event has taken place that gives the PTE 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 PTE.

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 report in conformity with the Code requires the PTE 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 PTE has had to make certain judgements about complex transactions or those involving uncertainty about future events. The PTE 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 report contain estimated figures that are based on assumptions made by the PTE about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the PTE's Balance Sheet at 31 March 2016 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

- **Property revaluation:**  
The PTE carries its land and buildings and land held for future expansion at fair value. Periodically, external surveyors are used, and the last full independent survey was carried out as at 31 March 2014. Between independent surveys desktop reviews are carried out by the external valuers at the Balance Sheet date. Such valuations and any attached estimates are subject to some sensitivity.
- **Pension benefits:**  
The cost of defined benefit pension plans is determined using independent actuarial valuation involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end, and determined jointly between the pension fund management and the actuaries. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next full actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects of changes in individual assumptions have been measured by the funds actuaries in their 2016 IAS 19 valuation report:

- A 0.1% p.a. increase in the discount rate will reduce the pension fund liability by £3.063m.
- An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £11.059m.
- 0.1% p.a. increase in inflation will increase the pension fund liability by £2.948m.

#### **4. Amounts reported for resource allocation decisions**

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Local Authority Code of Practice. However, decisions about resource allocation are taken by the Executive's Board on the basis of budget reports and management accountability. These reports are prepared on a different basis from the accounting policies used in the financial report. In particular, capital grants are credited to the revenue account over the life of the asset to offset depreciation charges and the cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year. The report presented to the Executive Board is on a consolidated basis taking into account the operations of the ITA.

The table below shows the total return for the PTE in the format presented to the Executive Board together with a reconciliation to the surplus on provision of services disclosed in the Comprehensive Income and Expenditure Statement.

2014/15 £'000		2015/16 £'000
	<b>Reconciliation of return reported to the Executive Board</b>	
	<b>Income</b>	
116,546	Levy	112,701
16,747	Other grants and income	16,109
133,293	<b>Total grants and income</b>	128,810
	<b>Expenditure</b>	
(91,597)	Contractual expenditure	(86,693)
(33,384)	Operational expenditure	(33,868)
(7,393)	Pension costs	(7,175)
(132,374)	<b>Total expenditure</b>	(127,736)
<b>919</b>	<b>PTE return reported to the Executive Board</b>	<b>1,074</b>
	<b>Reconciliation to comprehensive income and expenditure statement</b>	
<b>25,668</b>	<b>Surplus on provision of services</b>	<b>19,292</b>
	Adjustments for different accounting for grants:	
(42,703)	Add back capital grants credited to non-specific grant income	(43,034)
7,223	Add back applied revenue grants	1,099
-	Add back capital receipts	(247)
	Deduct charges in respect of non-current assets offset by release of capital grants	
12,868	- Depreciation and amortisation	14,377
133	- Revaluation and disposal losses	12,583
(22,479)		(15,222)
(2,483)	Transfer to pension fund reserve	(3,208)
213	Depreciation transfer on land and buildings	212
<b>919</b>		<b>1,074</b>
153	ITA return	(51)
<b>1,072</b>	<b>Total return reported to the Executive Board</b>	<b>1,023</b>

## 5. Concessionary grant and payments

Payment to operators has been broken down into payments for the statutory free English National Concessionary Scheme available to Senior Citizens and those qualifying as blind or disabled; the additional non-statutory service provided by the ITA which extends the national scheme for West Midlands' residents to include rail services and the Metro; and the non-statutory child concession where children pay approximately a half fare and Centro provides operators with a top-up to an equivalent of 2/3rds of a commercial fare. This revised child top-up was introduced in August 2015, previously the top up was equivalent to a full commercial fare.

The decrease in operator payments for the Senior Citizen/Disabled scheme reflects an ongoing year on year patronage decline partly offset by fares increases. The decrease in child concession costs reflects the change in operator reimbursement.

2014/15 £'000		2015/16 £'000
	<b>Gross expenditure</b>	
	Payments to operators	
57,386	Senior citizens/disabled statutory concession	55,278
4,246	Non-statutory free concession	3,634
13,458	Child concession	11,938
<b>75,090</b>	<b>Net expenditure</b>	<b>70,850</b>

## 6. Rail

Expenditure in this area relates to local rail service enhancements part financed by Centro in partnership with Staffordshire, Warwickshire and Cannock Chase councils during the 2015/16 financial year. These were specified in addition to those required to be provided within the current Rail Franchise between the DfT and London Midland. The enhancements relate to additional Saturday and evening rail services between Walsall and Rugeley and Birmingham and Walsall, and also additional services between Birmingham and Stratford-upon-Avon. In addition, this year costs include one-off compensation paid to passengers relating to the period of the Metro closure at Snow Hill due to the construction of the extension.

## 7. Special needs services

Centro provides a grant to Ring and Ride West Midlands Ltd for the provision of services in the West Midlands for all people who find it physically difficult or impossible to use conventional public transport. Ring and Ride provides an on-call service to people meeting this criteria, transporting them to local amenities. The service is operated by Ring and Ride West Midlands Ltd, a charitable subsidiary company of WMSNT (Holdings) Ltd, a registered charity and a company limited by guarantee. Part of the grant is used to fund the purchase of the special purpose Ring and Ride Vehicles.

Although the arrangement is not in the legal form of a lease, the PTE has determined that the funding of the Ring and Ride vehicles takes the form of a finance lease under IFRIC 4. Accordingly, the vehicles have been brought onto the Executive's Balance Sheet within Property, Plant and Equipment (note 19) and the depreciation of the vehicles included within special needs services costs.

## 8. Subsidised services

Centro subsidise bus services to operate at times and places that are socially necessary but where operators have determined they would not be commercially viable. These are subject to policy guidelines, as defined by the ITA.

2014/15 £'000		2015/16 £'000
8,908	<b>Gross expenditure</b> Subsidised bus contracts	8,729
(1,082)	<b>Gross income</b> Bus Service Operators Grant (BSOG)	(1,276)
<b>7,826</b>	<b>Net expenditure</b>	<b>7,453</b>

## 9. Infrastructure and other premises

Centro provides passenger interchange facilities, bus shelters and stops, park and ride sites and passenger information centres.

2014/15 £'000		2015/16 £'000
3,142	<b>Gross expenditure</b> Shelters	3,265
1,246	CCTV/RTI	1,025
3,717	Maintenance and utilities	4,088
12,890	Depreciation and write downs	13,814
931	Other	940
21,926		23,132
(4,705)	<b>Gross income</b> Advertising	(4,576)
(3,684)	Bus stations and other infrastructure	(4,065)
(500)	Rent receivable	(564)
(8,889)		(9,205)
<b>13,037</b>	<b>Net expenditure</b>	<b>13,927</b>

## 10. Promotions, information and initiatives

Centro actively promotes public transport across the West Midlands via multiple media outlets to inform the public about the public transport services available.

2014/15 £'000		2015/16 £'000
5,160	Marketing and sustainability*	5,015
145	Travel centres	97
871	Transport initiatives	755
344	Market research*	518
<b>6,520</b>	<b>Net expenditure</b>	<b>6,385</b>

\* Marketing and sustainability and market research includes Smart Network, Smarter Choices as funded by Local Sustainable Transport Funding grant.

## 11. Fares and ticketing

Centro's nNetwork scheme is a ticketing system which allows holders of period tickets to travel on bus, rail and Metro services within the West Midlands. The nBus and Bus/Metro schemes are ticketing systems covering the majority of bus services within the West Midlands and also Midland Metro. The net revenue of these schemes is allocated to public transport operators on an agreed basis.

31 March 2015				31 March 2016		
nNetwork £'000	nBus £'000	Bus/Metro £'000		nNetwork £'000	nBus £'000	Bus/Metro £'000
16,747	12,221	423	<b>Ticket sales</b>	17,618	12,743	405
(99)	(87)	-	<i>Less:</i>			
(123)	(244)	(22)	Executive commission	(114)	(145)	-
(103)	(148)	-	Agency commission	(116)	(203)	(21)
(427)	(61)	-	Agency administration	(97)	(124)	-
			Other costs	(408)	(63)	-
<b>15,995</b>	<b>11,681</b>	<b>401</b>		<b>16,883</b>	<b>12,208</b>	<b>384</b>
			<b>Payment to operators</b>			
6,930	11,680	358	- Bus operators	7,338	12,206	343
8,511	-	-	- Rail operators	8,913	-	-
554	1	43	- Metro operators	632	2	41
<b>15,995</b>	<b>11,681</b>	<b>401</b>		<b>16,883</b>	<b>12,208</b>	<b>384</b>
-	-	-	<b>Total</b>	-	-	-

## 12. Management costs

2014/15 £'000		2015/16 £'000
	<b>Gross expenditure</b>	
8,808	Salaries - PTE	8,657
1,488	Salaries - LSTF*	1,625
927	NI - employers contribution	991
-	Redundancy costs	493
239	Expenses	186
11,462		11,952
1,897	Pension costs - current service/admin expense	2,594
(449)	Transfer to corporate and democratic core	(544)
12,910		14,002
	<b>Gross income</b>	
-	DfT grants	-
(1,360)	Other income	(1,311)
(1,360)		(1,311)
<b>11,550</b>	<b>Net expenditure</b>	<b>12,691</b>

\* Local Sustainable Transport Fund

The average number of employees (full-time equivalent) was 341 (2015: 334).

### 13. Officers' remuneration

The remuneration paid to the PTE's senior employees is as follows:

2014/15					2015/16			
Salary	Compensation	Pension	Total		Salary	Compensation	Pension	Total
£'000	for Loss of Office £'000	Contributions £'000	£'000		£'000	for Loss of Office £'000	Contributions £'000	£'000
156	-	19	175	Chief Executive - Geoff Inskip	117	157	14	288
106	-	12	118	Finance Director	114	-	13	127
98	-	11	109	Customer Experience Director	72	-	8	80
-	-	-	-	Director of Integrated Mobility	84	-	10	94
-	-	-	-	Strategic Director for Transport	34	-	4	38
11	-	-	11	Non Executive Director	-	-	-	-
11	-	-	11	Non Executive Director	-	-	-	-

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

2014/15 No's		2015/16 No's
11	£50,000 - £54,999	9
7	£55,000 - £59,999	5
6	£60,000 - £64,999	4
1	£65,000 - £69,999	5
6	£70,000 - £74,999	2
-	£75,000 - £79,999	2

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.

2014/15		Exit package cost band	2015/16	
No's	£'000		No's	£'000
13	161	£0 - £20,000	3	30
6	151	£20,001 - £40,000	1	21
2	91	£40,001 - £60,000	-	-
3	203	£60,001 - £80,000	1	80
1	91	£80,001 - £100,000	-	-
-	-	£100,001 +	2	414
<b>25</b>	<b>697</b>	<b>Total</b>	<b>7</b>	<b>545</b>

#### 14. Other costs

2014/15 £'000		2015/16 £'000
	<b>Gross expenditure</b>	
1,236	External advice and audit	421
230	Partnerships	1,097
268	Office equipment and consumables	311
394	Insurance	382
2,196	Information and communication	2,494
549	Depreciation and amortisation	124
288	HR, training and development	372
270	Other costs	346
5,431		5,547
(385)	Transfer to corporate and democratic core	(195)
<b>5,046</b>	<b>Net expenditure</b>	<b>5,352</b>

Charges relating to work undertaken by the external auditors:

2014/2015 £'000		2015/16 £'000
18	Other services	17
39	Annual statutory audit	39
<b>57</b>	<b>Total</b>	<b>56</b>

#### 15. Non-distributed costs

2014/15 £'000		2015/16 £'000
	Pension costs	
254	Past service costs/curtailments (note 31)	-
593	Pension payroll*	575
<b>847</b>	<b>Gross expenditure</b>	<b>575</b>

\* Up until March 2009, the PTE had an early retirement scheme where additional years service were added to employee's pension entitlement. The impact of this is a liability on the PTE not the Local Government Pension Scheme and is therefore reflected in the financial report.

## 16. Other operating expenditure

2014/15 £'000		2015/16 £'000
134	Loss on disposal of property, plant and equipment	285
-	Capital development schemes	12,051
<b>134</b>	<b>Net expenditure</b>	<b>12,336</b>

Capital development schemes expenditure consists of costs for Bromsgrove Rail Station previously included within assets under construction but now written off as the asset will be owned by Network Rail and leased back to the PTE via a finance lease.

## 17. Financing and investment income and expenditure

2014/15 £'000		2015/16 £'000
	<b>Gross expenditure</b>	
3,349	Net interest cost of pension scheme (note 31)	2,268
3,349		2,268
	<b>Gross income</b>	
(13)	Interest on overnight deposits	(8)
(120)	Other income	(75)
(133)		(83)
<b>3,216</b>	<b>Net expenditure</b>	<b>2,185</b>

## 18. Non-specific grant income and expenditure

2014/2015 £'000		2015/16 £'000
116,546	<b>Revenue grants</b>	
-	ITA - revenue grant	112,701
-	LSTF - revenue grant	5,467
	Other	53
<b>116,546</b>		<b>118,221</b>
37,192	<b>Capital grants</b>	
5,000	ITA - capital programme	24,310
1,451	DfT - Bilston	-
5,734	Local Growth Fund - accrued grant	-
23,036	Capital grants paid to districts	1,952
	Trs from capital grants received in advance (note 30)	25,487
72,413		51,749
(23,976)	Grants funding capital development/district schemes	(8,798)
(5,734)	Capital grants paid to districts (note 30)	(1,952)
42,703	Grants funding property, plant and equipment	40,999
-	Ring and Ride vehicles (note 19)	519
-	Trs from capital grants received in advance (note 30)	1,516
<b>42,703</b>		<b>43,034</b>
<b>159,249</b>	<b>Total grants</b>	<b>161,255</b>

## 19. 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 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 in the PTE's Balance Sheet in accordance with IFRIC 4 (note 7). Additions during the year for Ring and Ride were £0.519m (2015: £nil).

The PTE's fixed assets are funded by capital grants. The depreciation on these assets is charged in full to the Comprehensive Income and Expenditure Statement but offset by a release from the deferred capital grants account via the Movement in Reserves Statement, so that only the net depreciation remains a charge to the general fund. The amount of capital grant released for the current year together with the capital grants released in respect of the amortisation of intangible assets (note 20) amounted to £14.377m (2015: £12.868m).

Likewise, the amount of capital grant released to offset charges to the Comprehensive Income and Expenditure Statement in respect of losses on disposals, transfer to provision of services and revaluation decreases for property, plant and equipment was £12.583m (2015: £0.133m).

## Movements in 2015/16:

	Other land and buildings	Vehicles, plant and equipment	Infrastructure assets			Assets under construction	Total
			Bus stations, shelters, park and ride sites	Trams	Midland Metro		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>							
As at 1 April 2015	3,906	36,373	65,717	56,951	158,972	62,602	384,521
Additions - capital programme	-	1,081	1,197	-	1,324	37,397	40,999
Additions - other	-	519	-	-	-	-	519
Transfers	-	724	3,932	2,756	36,245	(43,657)	-
Transfer to provision of services	-	-	-	-	-	(191)	(191)
Disposals	(330)	-	(70)	(20,747)	-	(12,051)	(33,198)
<b>As at 31 March 2016</b>	<b>3,576</b>	<b>38,697</b>	<b>70,776</b>	<b>38,960</b>	<b>196,541</b>	<b>44,100</b>	<b>392,650</b>
<b>Accumulated depreciation</b>							
As at 1 April 2015	97	23,059	15,483	21,954	92,439	-	153,032
Charge for the year	98	2,681	2,899	1,300	7,551	-	14,529
Disposals	-	-	(59)	(20,747)	-	-	(20,806)
<b>As at 31 March 2016</b>	<b>195</b>	<b>25,740</b>	<b>18,323</b>	<b>2,507</b>	<b>99,990</b>	<b>-</b>	<b>146,755</b>
<b>Net Book Value</b>							
<b>As at 31 March 2016</b>	<b>3,381</b>	<b>12,957</b>	<b>52,453</b>	<b>36,453</b>	<b>96,551</b>	<b>44,100</b>	<b>245,895</b>
As at 31 March 2015	3,809	13,314	50,234	34,997	66,533	62,602	231,489

## Comparative movements in 2014/15:

	Other land and buildings	Vehicles, plant and equipment	Infrastructure assets			Assets under construction	Total
			Bus stations, shelters, park and ride sites	Trams	Midland Metro		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>							
As at 1 April 2014	4,606	34,582	61,229	20,747	141,588	79,659	342,411
Additions - capital programme	-	1,666	3,190	8,476	3,397	29,005	45,734
Transfers	(700)	376	1,735	27,728	13,987	(43,126)	-
Transfer to provision of services	-	-	-	-	-	(2,936)	(2,936)
Disposals	-	(251)	(437)	-	-	-	(688)
<b>As at 31 March 2015</b>	<b>3,906</b>	<b>36,373</b>	<b>65,717</b>	<b>56,951</b>	<b>158,972</b>	<b>62,602</b>	<b>384,521</b>
<b>Accumulated depreciation</b>							
As at 1 April 2014	-	20,549	13,146	19,718	86,487	-	139,900
Charge for the year	97	2,750	2,652	2,236	5,952	-	13,687
Disposals	-	(240)	(315)	-	-	-	(555)
<b>As at 31 March 2015</b>	<b>97</b>	<b>23,059</b>	<b>15,483</b>	<b>21,954</b>	<b>92,439</b>	<b>-</b>	<b>153,032</b>
<b>Net Book Value</b>							
<b>As at 31 March 2015</b>	<b>3,809</b>	<b>13,314</b>	<b>50,234</b>	<b>34,997</b>	<b>66,533</b>	<b>62,602</b>	<b>231,489</b>
As at 31 March 2014	4,606	14,033	48,083	1,029	55,101	79,659	202,511

## 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 carried out by Bruton Knowles confirmed that there were no adjustments to be made.

	Other land and buildings £'000	Vehicles, plant and equipment £'000	Infrastructure assets			Assets under construction £'000	Total £'000
			Bus stations, shelters, park and ride sites £'000	Trams £'000	Midland Metro £'000		
<b>Carried at historical cost</b>	-	38,697	70,776	38,960	196,541	44,100	389,074
<b>Valued at fair value as at:</b> 31 March 2014	3,576	-	-	-	-	-	3,576
<b>Total cost or valuation</b>	<b>3,576</b>	<b>38,697</b>	<b>70,776</b>	<b>38,960</b>	<b>196,541</b>	<b>44,100</b>	<b>392,650</b>

## 20. 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.

31 March 2015 £'000		31 March 2016 £'000
13,327	<b>Cost</b>	13,327
-	At 1 April	-
	Additions	
13,327	At 31 March	13,327
12,844	<b>Amortisation</b>	13,265
421	At 1 April	62
	Charge for the year	
13,265	At 31 March	13,327
<b>62</b>	<b>Net Book Value</b>	-
	As at 31 March	

## 21. 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.

	Share capital	Nature of business
Midland Metro Limited	£100	Non - trading
Network West Midlands Limited	£100	Non - trading
Centro Properties Ltd	£100	Non - trading
West Midlands Rail Limited	n/a - limited by guarantee	Non - trading

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.

## 22. Short-term debtors

31 March 2015 £'000		31 March 2016 £'000
10,717	Trade debtors and accrued income	12,338
2,940	Other debtors	2,050
19,215	Prepayments	11,340
<b>32,872</b>	<b>Total</b>	<b>25,728</b>
	Analysed between the following classes of debtors:	
4,317	Central government bodies	4,780
6,175	Other local authorities	5,822
22,380	Other entities and individuals	15,126
<b>32,872</b>	<b>Total</b>	<b>25,728</b>

The main items within trade debtors and accrued income include monies owed in respect of grant funding claims from the Enterprise Zone and the Local Growth Funds and also monies owed in respect of ticketing. Prepayments consist of prepayments for concessions to operators, lease payments for Metro and capital prepayments for Bromsgrove Rail Station and Metro Centenary Square.

## 23. Amounts receivable from ITA

The ITA undertakes the treasury management function for both the ITA and the PTE, only transferring cash to the PTE as required. The ITA debtor therefore represents short-term cash balances not yet paid over to the PTE to meet its liabilities.

## 24. Cash and cash equivalents

31 March 2015 £'000		31 March 2016 £'000
2,100	Money market deposit	3,350
2,750	Altram refundable deposits	2,750
415	Cash at bank	1,028
5,265		7,128
(2,750)	Less amount to be repaid to Altram	(2,750)
<b>2,515</b>	<b>Cash and cash equivalents in the balance sheet</b>	<b>4,378</b>

Daily cash balances are invested overnight. The balance at 31 March 2016 represents monies held on deposit as at 31 March 2016 to be repaid on the next available banking day. Interest is earned at the respective short-term deposit rates.

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.

## 25. Finance lease liabilities

In 1998 the PTE entered into two finance leases with Royal Bank Leasing in connection with the vehicles for Metro. 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 19).

Finance lease liabilities are repayable as follows:

31 March 2015			31 March 2016	
Future minimum payments £'000	Finance lease liabilities £'000		Future minimum payments £'000	Finance lease liabilities £'000
1,676	1,610	Within 1 year	1,712	1,647
4,412	4,324	Within 2 - 5 years	2,766	2,677
-	-	More than 5 years	-	-
6,088	5,934	Total minimum lease payments	4,478	4,324
(154)	-	Finance costs payable in future years	(154)	-
<b>5,934</b>	<b>5,934</b>	<b>Present value of minimum lease payments</b>	<b>4,324</b>	<b>4,324</b>

## 26. Short-term creditors

31 March 2015 £'000		31 March 2016 £'000
28,867	Trade creditors and accruals	29,415
285	Taxes and social security	352
2,628	Payments received on account	2,826
<b>31,780</b>	<b>Total</b>	<b>32,593</b>
	Analysed between the following classes of creditors:	
1,043	Central government bodies	559
7,110	Other local authorities	8,096
23,627	Other entities and individuals	23,938
<b>31,780</b>	<b>Total</b>	<b>32,593</b>

The main items included in trade creditors and accruals are accruals for capital expenditure relating to various projects, amounts due to operators for concessions, subsidised services and ticketing, and sundry accruals for other goods and services. Payments received on account include ticketing income received but not yet paid to operators and advertising income billed in advance.

## 27. Provisions

2015/16 Provisions	Redundancy	Rail fares and services	Insurance/ other	Buildings maintenance	Transport development	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2015	59	520	383	1,330	4,015	6,307
Additional provision	-	216	-	85	1,840	2,141
Amounts used	(59)	-	(5)	(143)	(944)	(1,151)
<b>At 31 March 2016</b>	<b>-</b>	<b>736</b>	<b>378</b>	<b>1,272</b>	<b>4,911</b>	<b>7,297</b>
Current 2016	-	736	378	272	4,911	6,297
Long term 2016	-	-	-	1,000	-	1,000
<b>Total</b>	<b>-</b>	<b>736</b>	<b>378</b>	<b>1,272</b>	<b>4,911</b>	<b>7,297</b>
Current 2015	59	520	383	330	4,015	5,307
Long term 2015	-	-	-	1,000	-	1,000
<b>Total</b>	<b>59</b>	<b>520</b>	<b>383</b>	<b>1,330</b>	<b>4,015</b>	<b>6,307</b>

2014/15 Provisions	Redundancy	Rail fares and services	Insurance/ other	Buildings maintenance	Transport development	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 April 2014	771	345	383	1,486	667	3,652
Additional provision	-	175	-	47	4,015	4,237
Amounts used	(712)	-	-	(203)	(667)	(1,582)
<b>At 31 March 2015</b>	<b>59</b>	<b>520</b>	<b>383</b>	<b>1,330</b>	<b>4,015</b>	<b>6,307</b>
Current 2015	59	520	383	330	4,015	5,307
Long term 2015	-	-	-	1,000	-	1,000
<b>Total</b>	<b>59</b>	<b>520</b>	<b>383</b>	<b>1,330</b>	<b>4,015</b>	<b>6,307</b>
Current 2014	771	345	383	486	667	2,652
Long term 2014	-	-	-	1,000	-	1,000
<b>Total</b>	<b>771</b>	<b>345</b>	<b>383</b>	<b>1,486</b>	<b>667</b>	<b>3,652</b>

### **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 Centro 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.

## **28. Reserves**

Movements in the PTE's reserves are detailed in the Movement in Reserves Statement on page 23. 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 to meet unexpected short term requirements.

### **Earmarked reserve**

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

	LSTF £'000	BBAF £'000	European/other schemes £'000	Capital Programme £'000	Total £'000
At 1 April 2014	10,985	1,426	293	-	12,704
Utilised revenue	(6,564)	(475)	(263)	-	(7,302)
Additions in year	-	-	-	4,951	4,951
<b>At 1 April 2015</b>	<b>4,421</b>	<b>951</b>	<b>30</b>	<b>4,951</b>	<b>10,353</b>
Received	5,467	-	53	1,516	7,036
Utilised revenue	(6,005)	(145)	(44)	(234)	(6,428)
	(538)	(145)	9	1,282	608
Released in year	-	-	-	(945)	(945)
Additions in year	-	-	-	3,805	3,805
	-	-	-	2,860	2,860
<b>At 31 March 2016</b>	<b>3,883</b>	<b>806</b>	<b>39</b>	<b>9,093</b>	<b>13,821</b>

### Capital grants/receipts unapplied reserve

The capital grants/receipts 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.

## 29. Capital expenditure and capital financing

The total amount of capital expenditure incurred in the year, together with the resources that have been used to finance it are shown in the tables below.

<b>2015/2016 capital expenditure</b>	<b>Sustain-ability</b>	<b>Bus Infrastructure</b>	<b>Rail Infrastructure</b>	<b>Midland Metro</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Property, plant and equipment (note 19)	-	2,530	5,672	32,530	267	40,999
Capital expenditure written off to cost of services:						
Capital development/district schemes	2,054	1,313	1,346	3,985	525	9,223
<b>Total</b>	<b>2,054</b>	<b>3,843</b>	<b>7,018</b>	<b>36,515</b>	<b>792</b>	<b>50,222</b>

<b>2015/2016 source of funding</b>	<b>Sustain-ability</b>	<b>Bus Infrastructure</b>	<b>Rail Infrastructure</b>	<b>Midland Metro</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Allocation from capital grants received in advance account (note 30)						
DfT - ITB block allocation	5	2,205	3,183	716	514	6,623
DfT - LSTF/BBAF	142	1,169	37	-	-	1,348
DfT - other	-	-	208	-	-	208
Enterprise Zone - BCC	-	-	-	2,271	-	2,271
Local Growth Fund - GBS LEP	-	-	29	10,056	273	10,358
Local Growth Fund - BC LEP	1,907	-	-	1,913	-	3,820
Other	-	12	-	842	5	859
	<b>2,054</b>	<b>3,386</b>	<b>3,457</b>	<b>15,798</b>	<b>792</b>	<b>25,487</b>
Use of reserves - capital	-	-	-	425	-	425
ITA capital grant	-	457	3,561	20,292	-	24,310
<b>Total funding</b>	<b>2,054</b>	<b>3,843</b>	<b>7,018</b>	<b>36,515</b>	<b>792</b>	<b>50,222</b>

All Department for Transport grant funding is awarded to the ITA as the statutory authorised body. The ITA then passes the grants to the PTE to fund the capital programme.

Prior year comparatives:

<b>2014/2015 capital expenditure</b>	<b>Joint Initiatives</b>	<b>Bus Infrastructure</b>	<b>Rail Infrastructure</b>	<b>Midland Metro</b>	<b>Other</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Property, plant and equipment (note 19)	-	72	12,452	29,882	392	42,798
Capital expenditure written off to cost of services:						
Capital development/district schemes	5,796	4,187	3,285	10,454	921	24,643
<b>Total</b>	<b>5,796</b>	<b>4,259</b>	<b>15,737</b>	<b>40,336</b>	<b>1,313</b>	<b>67,441</b>

2014/2015 source of funding	Joint Initiatives £'000	Bus Infrastructure £'000	Rail Infrastructure £'000	Midland Metro £'000	Other £'000	Total £'000
Allocation from capital grants received in advance account (note 30)						
DfT - ITB block allocation	-	1,216	5,037	1,390	505	8,148
DfT - LSTF/BBAF	5,796	3,022	68	-	-	8,886
Enterprise Zone - BCC	-	-	-	3,607	-	3,607
DfT - Local Pinch Point Fund	-	-	1,907	-	-	1,907
Other	-	10	15	-	463	488
	5,796	4,248	7,027	4,997	968	23,036
Use of provisions (note 27)	-	-	667	-	-	667
Use of reserves	-	11	84	-	-	95
ITA capital grant	-	-	7,950	28,897	345	37,192
DfT - scheme specific allocation						
DfT Bilston	-	-	-	5,000	-	5,000
DfT Local Growth Fund	-	-	9	1,442	-	1,451
<b>Total funding</b>	<b>5,796</b>	<b>4,259</b>	<b>15,737</b>	<b>40,336</b>	<b>1,313</b>	<b>67,441</b>

### 30. Capital grants receipts in advance

The PTE receives grants which it administers and passes onto 3<sup>rd</sup> 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.

2015/16 movements	ITB £'000	LSTF/ BBAF £'000	Joint Initiatives/ Other* £'000	Local Growth fund £'000	Total £'000
<b>At 1 April 2015</b>	11,234	1,126	1,105	-	13,465
Grants received/accrued					
DfT - ITB block allocation	4,380	-	90	-	4,470
DfT -other	-	-	896	-	896
Enterprise Zone - BCC	-	-	2,271	-	2,271
Local Growth Fund - GBS LEP	-	-	-	16,400	16,400
Local Growth Fund - BC LEP	-	-	-	3,821	3,821
Other	-	-	953	-	953
	4,380	-	4,210	20,221	28,811
Grants applied to funding capital programme (note 29,18)	(6,623)	(1,348)	(3,338)	(14,178)	(25,487)
Grants paid out to districts (note 18)	(1,952)	-	-	-	(1,952)
Grants credited to comprehensive income and expenditure statement	(299)	-	(412)	(1,516)	(2,227)
<b>At 31 March 2016</b>	<b>6,740</b>	<b>(222)</b>	<b>1,565</b>	<b>4,527</b>	<b>12,610</b>

Prior year comparatives:

2014/15 movements	ITB £'000	LSTF/ BBAF £'000	Joint Initiatives/ Other* £'000	Local Growth fund £'000	Total £'000
<b>At 1 April 2014</b>	10,410	10,012	344	-	20,766
Grants received					
DfT - Integrated transport block (ITB)	14,706	-	509	-	15,215
Enterprise Zone - BCC	-	-	3,777	-	3,777
DfT - Local Pinch Point	-	-	1,880	-	1,880
Other*	-	-	626	-	626
	14,706	-	6,792	-	21,498
Grants applied to funding capital programme (note 29,18)	(8,148)	(8,886)	(6,002)	-	(23,036)
Grants paid out to districts (note 18)	(5,734)	-	-	-	(5,734)
Grants credited to comprehensive income and expenditure statement	-	-	(29)	-	(29)
<b>At 31 March 2015</b>	<b>11,234</b>	<b>1,126</b>	<b>1,105</b>	<b>-</b>	<b>13,465</b>

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

### 31. 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:

31 March 2015 £'000		31 March 2016 £'000
	<b>Comprehensive income and expenditure statement</b>	
	Cost of services	
1,986	Current service cost	2,497
32	Administration expenses	97
254	Past service cost/curtailments	-
	Financing and investment income and expenditure	
3,349	Net interest cost	2,268
5,621	<b>Total post employment benefit charged to the surplus or deficit on provision of services</b>	4,862
	Other post employment benefit charged to the comprehensive income and expenditure statement	
872	Remeasurements (liabilities and assets)	19,823
<b>6,493</b>	<b>Total post employment benefit charged/(credited) to the comprehensive income and expenditure statement</b>	<b>24,685</b>
	<b>Movement in reserves statement</b>	
	Reversal of net charges made to the surplus or deficit on provision of services for post employment benefits in accordance with the Code	
(5,621)		(4,862)
	Actual amount charged against the general fund balance for pensions in the year	
8,104	Employer's pension contributions payable to scheme	8,070
<b>2,483</b>		<b>3,208</b>

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

31 March 2015 £'000		31 March 2016 £'000
(306,754)	Present value of scheme liabilities	(316,284)
226,440	Fair value of scheme assets	225,655
<b>(80,314)</b>	<b>Funded status</b>	<b>(90,629)</b>
(80,314)	<b>Amounts recognised as</b> Liabilities	(90,629)

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

31 March 2015 £'000		31 March 2016 £'000
284,687	Opening balance at 1 April	306,754
1,986	Current service costs	2,497
11,919	Interest cost	9,289
788	Contributions by scheme participants	818
22,941	Remeasurements (liabilities)	12,058
(15,821)	Benefits paid	(15,132)
254	Past service costs/curtailments	-
<b>306,754</b>	<b>Closing balance at 31 March</b>	<b>316,284</b>

### Reconciliation of fair value of the scheme assets

31 March 2015 £'000		31 March 2016 £'000
202,762	Opening balance at 1 April	226,440
8,570	Interest on plan assets	7,021
(32)	Administration expenses	(97)
22,069	Remeasurements (assets)	(7,765)
8,104	Employer contributions paid - current year	8,070
-	Employer contributions paid - prepayment for 2016/17	6,300
788	Contributions by scheme participants	818
(15,821)	Benefits paid	(15,132)
<b>226,440</b>	<b>Closing balance at 31 March</b>	<b>225,655</b>

The plan assets at the year end were as follows:

31 March 2015			31 March 2015	
Plan assets %	Plan assets £'000		Plan assets %	Plan assets £'000
59.07	133,758	<b>Asset category</b>		
7.87	17,821	Equities	60.52	136,572
10.64	24,093	Government bonds	7.79	17,583
8.73	19,768	Other bonds	4.66	10,508
4.09	9,261	Property	8.25	18,609
9.60	21,739	Cash/liquidity	4.57	10,307
		Other	14.21	32,076
<b>100.00</b>	<b>226,440</b>	<b>Total</b>	<b>100.00</b>	<b>225,655</b>

## 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.

31 March 2015		31 March 2016
	<b>Valuation assumptions</b>	
3.1%	Discount rate	2.7%
3.75%	Rate of salary increase	3.75%
2.0%	Rate of pension increase	2.0%
2.0%	Inflation assumption	2.0%
	Future life expectancies from age 65	
	Retiring today:	
23.0	Males	23.0
25.6	Females	25.7
	Retiring in 20 years:	
25.2	Males	25.3
28.0	Females	28.0

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

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Present value of liabilities	(285,888)	(317,471)	(284,687)	(306,754)	(316,284)
Fair value of assets in the pension scheme	189,660	208,581	202,762	226,440	225,655
Deficit/(surplus) in the scheme	(96,228)	(108,890)	(81,925)	(80,314)	(90,629)
Difference between the expected and actual return on scheme assets	(7,597)	13,622	(7,523)	22,069	(7,765)
Percentage of scheme assets	-4.0%	6.5%	-3.7%	9.7%	-3.4%
Experience gains and (losses) on scheme liabilities	-	-	4,315	(22,941)	(12,058)
Percentage of scheme liabilities	-	-	1.5%	-7.5%	-3.8%
Changes in actuarial assumptions	(6,580)	(27,574)	29,430	-	-
Percentage of scheme liabilities	-2.3%	-8.7%	10.3%	0.0%	0.0%
Net actuarial gain/(loss) recognised	(14,177)	(13,952)	26,222	(872)	(19,823)
Percentage of scheme liabilities	-5.0%	-4.4%	9.2%	-0.3%	-6.3%
Cumulative actuarial loss recognised	(85,476)	(99,428)	(73,206)	(74,078)	(93,901)

## Movement in pension fund liability during the year

31 March 2015 £'000		31 March 2016 £'000
81,925	Balance at 1 April	80,314
(8,104)	Employer's pension contributions payable in the year	
	Current year	(8,070)
	Prepayment for 2016/17	(6,300)
		(14,370)
	Post employment benefit charged to the surplus or deficit on provision of services	
1,986	Current service cost	2,497
254	Past services/curtailment	-
32	Administration expenses	97
3,349	Net interest cost	2,268
5,621		4,862
872	Remeasurements (liabilities and assets)	19,823
<b>80,314</b>	<b>Balance at 31 March</b>	<b>90,629</b>

## Movement in pension reserve during the year

31 March 2015 £'000		31 March 2016 £'000
81,925	Balance at 1 April	80,314
872	Remeasurements (liabilities and assets)	19,823
	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the comprehensive income and expenditure statement	4,862
5,621	Employer's pension contributions payable in the year:	
(8,104)	Current year contributions	(8,070)
<b>80,314</b>	<b>Balance at 31 March</b>	<b>96,929</b>

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.

## 32. Financial risk management

The PTE's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to fund the PTE's operations. The PTE has trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The PTE does not enter into any derivative transactions.

The PTE is exposed to market risk, credit risk and liquidity risk. Currency risk is not a significant factor for the PTE since it ensures that substantially all financial assets and liabilities are contracted for in sterling.

## Market risk

The PTE is exposed to the risk of interest rate movements on its investments. The PTE does not undertake any borrowings. All investments are placed with HSBC overnight money market funds or with the Debt Management Office (DMO – Treasury), both of which have low interest rate risk. The Executive is not subject to any interest rate risk on the investment of the Altram deposit, as all interest is repaid to Altram.

## Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The PTE is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions and amounts receivable from the ITA.

Credit risk from balances with banks and other financial institutions is managed by ensuring only UK counterparties are used which meet the criteria set in the ITA Treasury Management Strategy. Minimal balances are held for daily cashflow management and any surplus funds are invested on the overnight money market with HSBC Bank PLC.

Customer credit risk: customers for goods and services are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the PTE.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount 31 March 2015 £'000		Note	Carrying amount 31 March 2016 £'000
10,717	Trade debtors and accrued income	22	12,338
5,265	Cash and short term deposits	24	7,128
<b>15,982</b>			<b>19,466</b>

## Liquidity risk

Liquidity risk covers the ease of access to finance. The ITA undertakes the treasury management function for both the ITA and the PTE, only transferring cash to the PTE as required. The PTE does not undertake any borrowing in its own right; this is undertaken by the ITA.

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.

### Maturity analysis of financial liabilities:

All trade and other payables are due to be paid in less than one year. The maturity profile of finance lease liabilities is shown in note 25.

## 33. Financial Instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

31 March 2015			31 March 2016	
Carrying amount £'000	Fair value £'000		Carrying amount £'000	Fair value £'000
		<b>Financial instruments</b>		
		<b>Financial assets: Loans and receivables</b>		
10,717	10,717	Trade debtors and accrued income (Note 22)	12,338	12,338
35,322	35,322	Amounts receivable from ITA (Note 23)	35,381	35,381
105	105	Other debtors (Note 22)	-	-
2,515	2,515	Cash and cash equivalents (Note 24)	4,378	4,378
48,659	48,659		52,097	52,097
		<b>Non-financial instruments</b>		
2,835	2,835	Other debtors (Note 22)	2,050	2,050
19,215	19,215	Prepayments (Note 22)	11,340	11,340
70,709	70,709		65,487	65,487
		<b>Financial instruments</b>		
		<b>Financial liabilities at amortised cost</b>		
5,934	5,934	Finance lease liabilities (Note 25)	4,324	4,324
28,867	28,867	Trade creditors and accruals (Note 26)	29,415	29,415
2,628	2,628	Payments received on account (Note 26)	2,826	2,826
37,429	37,429		36,565	36,565
		<b>Non-financial instruments</b>		
285	285	Taxes and social security (Note 26)	352	352
37,714	37,714		36,917	36,917

Cash and short-term deposits, finance lease liabilities, overdraft, trade and other receivables, trade and other payables approximate to their carrying amounts largely due to the short-term nature of these instruments.

## 34. Operating leases

### Leases as lessee

Land and buildings - the PTE has acquired land for park and ride sites and bus stations by entering into operating leases. Some of these leases are non-cancellable with typical lives of 25 years.

Supported bus services - the PTE has determined that the tendered service contracts of six (2015: six) bus operators take the form of operating leases under IFRIC 4.

Rolling stock – the PTE leases rolling stock (four trains) which it then sub-leases out. All the leases ended in September 2015.

The future minimum lease payments payable under non-cancellable operating leases at 31 March 2016 are as follows:

31 March 2015 £'000		31 March 2016 £'000
	<b>Land and buildings</b>	
226	Less than one year	232
717	Between two and five years	701
3,401	More than five years	3,266
4,344		4,199
	<b>Supported bus services</b>	
	Total contract spend:	
277	Less than one year	157
113	Between two and five years	94
390		251
	<b>Rolling stock</b>	
286	Less than one year	-
-	Between two and five years	-
286		-

### Leases as lessor

The PTE leases out parts of the head office at Summer Lane, various units at bus stations and land and buildings acquired for the future expansion of park and ride sites whilst they are awaiting development. These are a mixture of cancellable and non-cancellable operating leases.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2016 are as follows:

31 March 2015 £'000		31 March 2016 £'000
	<b>Land and buildings</b>	
251	Less than one year	214
388	Between two and five years	389
2,093	More than five years	2,007
2,732		2,610
	<b>Rolling stock</b>	
475	Less than one year	-
-	Between two and five years	-
475		-

### 35. 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.

### 36. Guarantees

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

	<b>£'000</b>
Sandwell MBC (4 guarantees)	147
Birmingham City Council (1 guarantee)	97
HSBC (1 guarantee)	472

### 37. 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 PTE 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.

### 38. Related party disclosures

The following table identifies related party transactions during the year referenced to accounts where applicable.

31 March 2015 £'000		Note	31 March 2016 £'000
116,546	<b>WMITA</b> Revenue grant	note 18	112,701
37,192	Capital grant	note 18	24,310
29,009	DfT grants	note 12, 18, 30	11,899
1,308	Cost/expenditure		1,634
<b>184,055</b>			<b>150,544</b>
<b>8,104</b>	<b>West Midlands Metropolitan Pension fund</b> Employers contribution	note 31	<b>14,370</b>

Appointments held by the PTEs 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:

- (i) 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).
- (ii) The Chief Executive is a director and member of GI Consultants Limited There were no financial transactions with this company (2015: no transactions).
- (iii) 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.
- (iv) 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.
- (v) 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).