

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY
AUDIT AND GOVERNANCE COMMITTEE

DATE: 29 June 2007

AGENDA ITEM NO: 6

**SUBJECT: FINAL ACCOUNTS OF THE AUTHORITY AND EXECUTIVE FOR
2006/07**

Report of the Clerk and Chief Financial Officer

1. MATTER FOR CONSIDERATION

1.1. Consideration of the Final accounts for the Authority and the Executive for 2006/07 and the Treasury Management statement.

2. INFORMATION

2.1. This report presents the final accounts for 2006/07 and has attached the following appendices:

Appendix 1 Final accounts of the Authority

Appendix 2 Final accounts of the Executive

(Income and expenditure Account and Balance Sheet only)

Appendix 3 Capital funding and Loans statement

Appendix 4 Treasury Management statement and report

Appendix 5 Schedule of capital expenditure in the year

Background

2.2. Once again there has been a change in the format of the accounts as a result of the new 2006 SORP (Statement of Recommended Practice). This must be complied with when producing the Authority's accounts. A further change is also anticipated next year when it is expected that a further step will be taken to align Local Authority accounts with those produced by companies. The two main changes this year are:

2.2.1. Firstly - the previous requirement of showing a capital charge in the accounts for notional interest on the Authority's only capital asset (Wellington House) which was then cancelled further down in the accounts to avoid it affecting the net expenditure - has been removed. This has no net effect but should simplify the accounts for the future.

- 2.2.2. Secondly the requirement for an AMRA (Asset Management Revenue Account) has been removed and replaced by a pair of statements following the Revenue account to explain the reasons why the surplus or deficit on the Authority's income and expenditure account is not actually the amount of the Authority's net revenue expenditure taken to the Reserves.
- 2.2.3. The effect of these two changes is meant to simplify the accounts and make them more readable. Members may or may not find this to be the case and further explanations can be provided at the meeting if required. However, the essential point is that the changes have no effect as far as the **net** position is concerned.
- 2.2.4. As a result members are required to consider several technical matters before signing the accounts and these are dealt with later in this report. There have also been a number of consequential changes to the notes to reflect the changing SORPs.
- 2.3. In accordance with the requirements of the Accounts and Audit regulations the accounts have already been placed on deposit for public inspection. The regulations then require that they must be formally considered and signed by the Audit and Governance Committee on behalf of the authority by the end of June; then audited and reconsidered by the Committee after the receipt of a copy of the Annual Governance report (auditors report on the accounts) and published before the end of September.

The Authority's Accounts

<u>Authority</u>	Budget £000	Actual £000	Variance £000
Income			
Levy	-83,701	-83,701	0
Rail and Bus Grants	-68,854	-68,855	-1
Interest receivable	-423	-1,203	-780
Other income	-1,159	-1,645	-486
	<u>-154,137</u>	<u>-155,404</u>	<u>-1,267</u>
Expenditure			
Debt charges	9,225	9,177	-48
Other expenses	1,381	1,358	-23
	<u>10,606</u>	<u>10,535</u>	<u>-71</u>
Net income before grant to PTE	-143,531	-144,869	-1,338
Net grant to PTE	143,580	145,737	2,157
Net use of Reserves	49	868	819

- 2.4. The above statement shows a comparison of the actual expenditure against the latest budget approved at the meeting in February 2007.
- 2.5. There are two significant variations with the remainder being consequences of the refinancing of loans causing slight adjustments in the short term for the level of interest payable and an increase in the set up charges for new loans.

- 2.6. The Interest receivable has significantly increased as opportunities for refinancing were taken and a discount of £724k achieved which form the majority of the £780k shown. Further details appear within the Capital funding appendix which also contains the Authority's Treasury management statement (Appendix 4), whilst the details of loans outstanding being shown in Appendix 3.
- 2.7. The area of the budget which shows a significant increase is other income. This includes the recovery achieved relating to the fraud. Because the 'debt' was treated as 'doubtful' for reasons of prudence in the accounts for 2005/06 the whole of the recovery now shows in the attached accounts as additional income. It is anticipated that the court case is close to completion and a final report can then be brought to Members.

Relationship with the Executive's Accounts

- 2.8. The Authority's attached accounts have been prepared to ensure they take account of the current capital finance regulations and the revenue consequences of the Executive's accounts. In particular the prudential code requires the Authority to take account of liabilities in the Executive's balance sheet. The funding of capital schemes has been done to ensure that resources are maximised and both capital and revenue grants have been matched in both sets of accounts.
- 2.9. As a consequence it is being recommended that in order to continue with the same level of balances in the Executive's accounts the payment of Authority's revenue grant to the PTE be amended accordingly.

The Executive's Accounts

<u>Executive</u>	Budget	Actual	Variance
	£000	£000	£000
Concessionary travel scheme	37,600	39,300	1,700
Subsidised bus services	22,091	22,317	226
Passenger Services	8,288	8,212	-76
Rail support	67,811	67,918	107
Pensions	1,458	1,457	-1
Financing charges	1,503	2,056	553
Central contingency	0	0	0
Other activities	4,829	4,477	-352
Net expenditure	<u>143,580</u>	<u>145,737</u>	<u>2,157</u>

- 2.10. The Executive is required to comply with FRS17 Accounting for Retirement Benefits, in the same way as the Authority. This requires a number of changes in the accounts to reflect the financial position of the Executive's element of the pension fund. The results are then shown in the notes to the accounts. However, to allow a proper comparison against the previously presented budget the figures which were required to be included in the Income and Expenditure account to

reflect the employer's contributions have been removed from the above figures. This adjustment makes no difference in net terms.

- 2.11. From the summary it can be seen that overall the Executive is showing an increase in expenditure against the approved budget. Most of this is on concessionary fares, due to the ruling of the adjudicator requiring an additional payment of £1.7m, and the additional spending of £440k on capital schemes. Both these items were referred to in the budget report presented to members in February 2007.
- 2.12. In total the other headings are close to the approved budget. However, as usual there are a number of more minor variations of both over and under spending. Comments on the more significant of these are set out below:
- 2.13. Spending on Subsidised Services shows a slight overspend of £200k against the budget of £20m. This mainly occurred on non-school services and reflects the difficulties of securing tenders at competitive prices.
- 2.14. The Passenger Services heading covers all expenditure on bus stations and customer facilities and contains a large number of small savings totalling £76k. Rail expenditure matches the grant received by the Authority and the pension line is virtually identical to the budget.
- 2.15. As mentioned earlier financing charges are up by £553k of which £441k relates to extra spending on capital. This was discussed in the Budget report in February. Since the LTP funding is restricted it was intended the additional amount should be funded from funds created by refinancing of loans. The actual amount the Authority achieved in this way was £724k – see paragraph 2.6.
- 2.16. The other activities shows a saving of £352k. This arises from a number of factors. Reduced spending on consultancy of £130k, salary savings due to unexpected vacancies, £30k on additional third party recoveries of some elements of real time plus many other smaller elements.
- 2.17. However, it is important to reiterate paragraph 2.10 which highlights that the figures in the above table, although exactly the same in total, as the accounts in Appendix 2 are very different in detail. As previously stated this is purely presentational and mainly relates to the inclusion of FRS17 adjustments in the Statutory accounts which net out in total.
- 2.18. Excluded from the above figures is the income on prepaid tickets since it is cancelled out by the consequential payments to operators. It may, however, be noted that sales have continued to increase from £20.5m in 2004/05 to £23.9m in 2005/06 and £26.6m in 2006/07.

Capital Expenditure for 2006/07

- 2.19. The Authority is required to follow Prudential Borrowing rules thus a statement showing borrowing, investments and how they have been operated and controlled through those rules is set out in Appendix 4.
- 2.20. Total capital expenditure in the year was £19.928m. This is intended to be funded by a combination of borrowing, grants and internal resources as set out in Appendix 3. The total capital grant of £15.178m paid by the Authority to the Executive came from borrowing approvals of £8.9m and Section 56 grants of £6.3m.
- 2.21. In 2006/07 full use was made of the resources provided under the LTP for that year as well as a small balance of £258k from the Mybus allocation brought forward from 2004/05. This reflects well on the control of the programme and will continue to assist in the scoring of achievements under the LTP monitoring.
- 2.22. The full schedule of capital expenditure undertaken in 2006/07 is shown in Appendix 5 with its financing in Appendix 3. All schemes are within the level approved by the Authority with the exception of the Yorkshire Bus programme which covers improvements and replacements of shelters and corridor shelter schemes. Members are asked to note that the final expenditure for the year was £3.842m against that reported in February as £3.573m. The increase reflects the faster than anticipated implementation of corridor improvements and is funded as part of the £441k referred to earlier.
- 2.23. The MyBus project proceeded into its third year during 2006/07 with expenditure incurred of £6.5m being met from Section 56 grant of £6.3m and £0.2m by borrowing under a borrowing approval from the DfT. Further expenditure of some £2m is anticipated in 2007/08 to be met from Section 56 (now Section 31) grants from the project budget.

Statement of Internal Control (The SIC)

- 2.24. This statement is now a mandatory element of the Authority's accounts. It is intended to set out the internal arrangements that the Authority has in place to demonstrate they have a regular review of their control arrangements which are secure and efficient. In this context the control arrangements are deemed to cover all aspects of the Authority's management and financial arrangements from the formulation, review and implementation of policy through the working environment to the security of financial systems culminating in the approval of the final accounts.
- 2.25. Whilst the Statement itself sets out the requirements and how they are met the more important methods the Authority has to satisfy itself that the arrangements are satisfactory are:
 - 2.25.1. The work of the internal audit section including their reports

- 2.25.2. The work of the external auditors and their reports
 - 2.25.3. Consideration of such matters by an Audit Committee
 - 2.25.4. The Standing Orders and Financial Regulations
 - 2.25.5. The Code of conduct for Members and Officers
 - 2.25.6. The Risk management arrangements and the review of financial systems
- 2.26. A new Audit and Governance Committee was set up at the Authority's annual meeting in June 2006. It meets quarterly and reviews all aspects of governance and is providing a valuable overview of the finance and governance arrangements of the Authority. The SIC itself appears elsewhere on the agenda.

Technical Accounting matters

- 2.27. As stated above in recent years the accounts have become more technical and detailed and require Members to satisfy themselves that various aspects are dealt with satisfactorily. The following paragraphs therefore deal with some of those aspects and Members are asked to consider not only those paragraphs but also the accounts to satisfy themselves that they understand and are happy with the final accounts being presented.
- 2.28. The regulations (mainly the SORP – Statement of Recommended Practice) which must be followed when drawing up the accounts has changed significantly in recent years. In 2005/06 the accounts were expanded by about a third to include a set of 'Group' figures to incorporate the Executive's accounts. In 2006/07 a change has occurred in the layout of the Authority's income and expenditure account with additional tables being added to show a basic position and further adjustments to create the movement on the Authority's revenue reserve account. Finally in 2007/08 there will be yet another change intended to move the accounts much closer to the format used by the Companies Act legislation on which the Executive's accounts are based.
- 2.29. All of these changes tend to confuse but should ultimately make the accounts much closer to those produced by private companies. It is, however, important to note that none of these changes affect the level of the Reserves shown in the accounts.

Property Revaluation

- 2.30. In accordance with the Statement of Recommended Practice (the SORP) which the Authority must follow it is necessary to re-value the Authority's main asset - 'Wellington House'. This is done every five years and was last done at 31 March 2006. Similarly the Authority must confirm that it is unaware that any 'impairment' (ie that the

property has suffered no diminution of value through deterioration or neglect etc) has taken place. Since the revaluation was at the end of last year and no significant changes have taken place during the year Members are advised that there is no reason to assume the value has been affected by any matter other than the revaluation.

Level of Reserves

- 2.31. The Authority, once it approves its Levy for the year, has a finite level of income which, unlike a private company, cannot be increased. It is illegal to issue an increased Levy during a year. As a result it is extremely important to ensure that the Authority has adequate resources and there are sufficient reserves available should any unforeseen costs arise.
- 2.32. The policy to maintain reserves (of the PTA and PTE combined) at 5% of expenditure ie £2m was set some years ago before there were substantial increases required in the Transport budget. This level has been reviewed each year in the light of the 3 year financial strategy and felt to be adequate. It was briefly re-considered by Members in February this year when the budget was approved. At that time, in the light of recent changes to the Concessionary fares Scheme, it was felt that a level of £2m may no longer be appropriate but that any change should be delayed until a more accurate assessment could be made of the impact of the national scheme.
- 2.33. The overall level of transport expenditure of the PTA and PTE combined is around £180m although once prepaid tickets and the grants for Rail and rural Bus are removed the 'funding' level is nearer £85m. This is expected to increase in 2008/09 to around £95m when the Concessionary Fares Scheme is expanded by the government.
- 2.34. Other organisations use different levels of reserves, often around 2%. It is currently considered inappropriate to increase the Authority's level of reserves to approaching £5m, as the current 5% policy would suggest but to maintain the level at £2m until a further information is available and a proper risk assessment can be undertaken following full implementation of the national scheme. Currently reserves are £5.7m although it is anticipated around £2 to £3m may be required to meet the Authority's deficit for 2007/08.

Accounting Policies

- 2.35. There have been no significant changes to any of the accounting policies this year.

Next steps

- 2.36. This report appears on the agenda after the SIC. Once the SIC is approved and signed Members are asked to consider this report and the attached accounts. Once they are satisfied with the accounts those

accounts should be signed by the Chair and Officers where appropriate.

- 2.37. The accounts were passed to the auditors on 11 June for their consideration and placed on deposit on 18 June for view by any interested member of the public. The auditors have agreed to present a draft of their Annual Governance Report (which sets out their audit findings for the year) to officers in August with a formal presentation to the Audit and Governance Committee at the end of September. At that meeting Officers also present the final accounts incorporating any changes required as a result of the audit.
- 2.38. Assuming there is no dispute between the Auditor and the Authority an audit certificate must be passed to the Authority at that point and the final accounts published by the end of September.
- 2.39. Finally the Auditors produce an Annual Audit letter encompassing all audit activities and findings during the year which is normally presented to the committee before 31 December.
- 2.40. For the past two years (2004/05 and 2005/06) the auditors have only issued an opinion on the accounts and have yet to issue a final audit certificate due to the continuing court case concerning the fraud. Since that case has now been heard by the court and sentencing should take place before September it is expected that this year the Authority should receive not only a full Audit opinion and certificate for 2006/07 but also the 'missing' certificates for 2004/05 and 2005/06.

3. FINANCIAL AND EC PROCUREMENT IMPLICATIONS

- 3.1. These are set out in paragraph 2 above.

4. STAFFING IMPLICATIONS

- 4.1. None directly arising from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

- 5.1. None directly arising from this report.

6. RECOMMENDATIONS

- 6.1. That the attached accounts of the Authority be approved and authorised for signing as appropriate by the Chair and Officers
- 6.2. That the revaluation of the assets in 2006 be noted and that the Authority confirm that they are unaware of any reason for impairment to have occurred
- 6.3. That the attached Executive's accounts be noted

- 6.4. That the revenue grant to the Executive for 2006/07 be amended to £145,737,351.98.
- 6.5. That the capital grant to the Executive of £15,177,792.00 be approved
- 6.6. That the Treasury Management policy and prudential decisions set out in Appendix 4 be approved together with the matters related to individual capital schemes in this report, including the methods of capital funding shown in Appendix 3

**Clerk and Chief Financial Officer of the Authority
West Yorkshire Passenger Transport Authority**

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