TRANSPORT FOR THE NORTH


# TfN Audit & Governance Committee – Item 6b TfN Draft Statement of Accounts 2019/20

## Audit & Governance Committee

TRANSPORT FOR THE NORTH

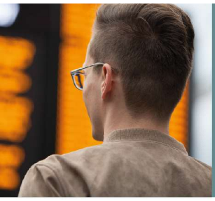
## Contents

## Public Inspection Period

- Statute requires us to hold our draft accounts open to public inspection
- Local electors may then exercise statutory rights to inspect records and ask questions of the external auditor
- The inspection period must last for 30 working days
- Regulations were changed this year to allow authorities an additional two months to prepare their accounts, but TfN opted to work to the existing timeline
- The FD authorised the publication of the draft accounts for public inspection on the 31st May for a period commencing 1rd June to 10th July

## Basis of Preparation

- TfN’s position as a local government body is prescribed by the Office for National Statistics
- TfN prepares its statutory accounts in the same manner as local government bodies such as local authorities and Combined Authorities
- The accounts are prepared in accordance with the CIPFA Code
- The CIPFA Code recognises accounting standards and statutory accounting requirements
    - Where accounting standards and statute differ, statute has precedence



# Key Items in this Year's Accounts


# Reclassification of Capitalised 2018/19 IST Phase 3 Expenditure as Revenue

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**Key Points**

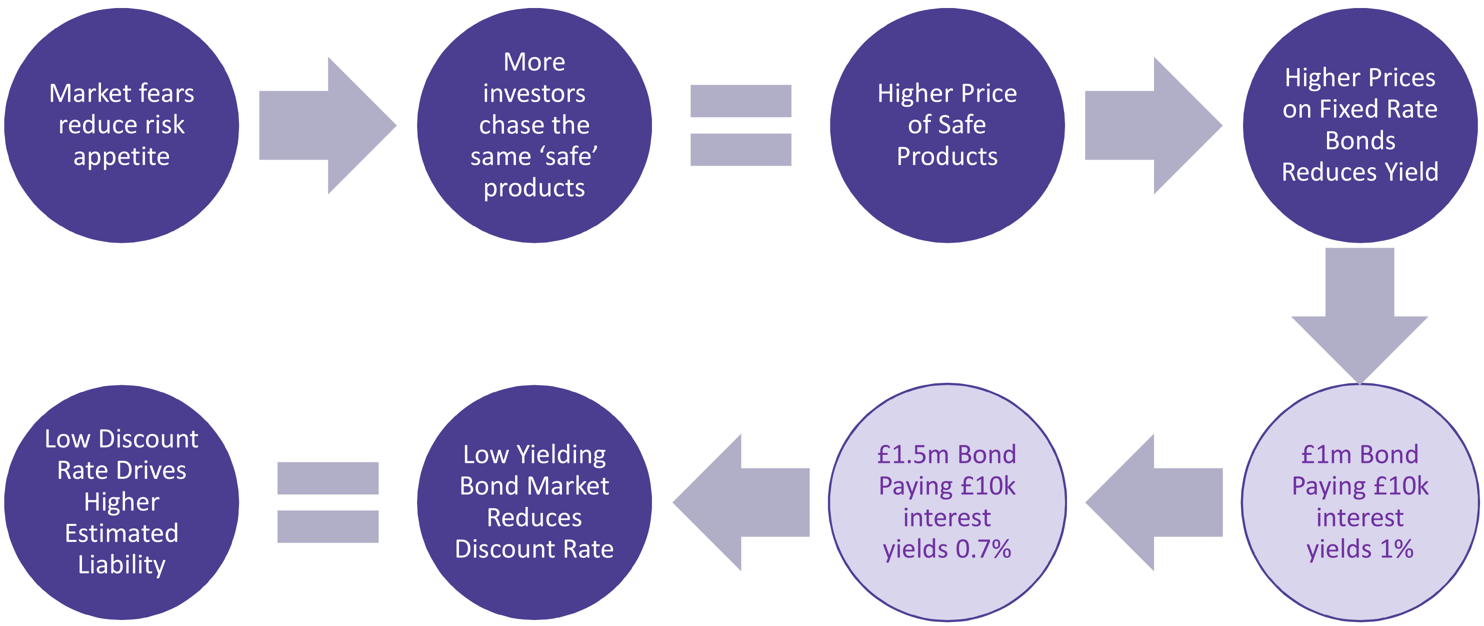
- In 2018/19 £4.32m of Phase 3 expenditure was capitalised as intangible asset under construction
  - This capitalisation was in accordance with proper accounting practice
- The January 2020 decision to cancel the scheme rendered the expenditure abortive
- To recognise this, the transaction is reclassified in 2019/20 as revenue, with the asset written down in full and funding adjusted
- The major movements are:
  - £4.32m of asset written down and charged to the CIES IST service line
  - £4.32m of new revenue grant from the DfT credited to the CIES IST service line
  - £4.32m of capital funding applied in 2018/19 and recognised in the Capital Adjustment Account is reversed out to the Capital Grants Unapplied Account
- After processing these transactions TfN is left with £4.32m in bank and Capital Grants Unapplied, which is available to resource other IST capital expenditure

# Pensions Accounting

- Fundamental difference between how TfN pays employers' pension contributions to its Pension Fund and how accounting standards value the net estimated liability

- The Pension Fund (GMPF) calculates on the basis of long-range reviews every three years
  - Reviews include assumptions around contributing members, pay inflation, mortality rates and forecast returns
  - The triennial review delivers a contribution rate, and monthly payments are made
- Accounting standards require a different basis of calculation
  - Largely driven by a discount-rate that is calculated from the spot performance of high quality bonds at the valuation date
  - The valuation date this year was the 31st March with financial markets in flux due to Covid-19
  - Annual return on investments as measured at 31st March was -8.5%
  - Financial shock drives a lower discount rate which increases the value of our liabilities

# Pensions Accounting




# Pensions Accounting

- TfN has comfort that the Fund has recently undergone its triennial revaluation in 2019/20 which re-set TfN's employer contributions to 17.4%
  - This coupled with employee contributions averaging 8% means over 25% of salary is being added to the Fund each year, a higher value than most bodies

- The impact of Covid-19 on the wider financial environment will inevitably impact on the Fund's future performance, but it is still too early to tell to what extent

- Whilst TfN's employee cohort continues to increase its accounting liability is likely to grow in the medium-term, but eventually correct itself
  - This again reflects differences between actuarial valuations and accounting valuations on how the assets and liabilities associated with employees transferring in previous LGPS positions into TfN's fund is measured

- Should financial market problems persist and fund performance lag behind forecast, it is possible that employer contributions will have to increase

## Grant Accounting

- TfN is an almost entirely grant funded organisation, so how TfN accounts for those grants as income is important

- The key issues are around how TfN:
  - Recognises the grants received as income
  - Where grant income is shown on the face of the CIES
  - How grants recognised as income but not yet applied to income are held

- Key determinants on how to apply treatments are:
  - Whether the conditions of use have been met
  - Whether there are restrictions on use
  - Whether unused allocations may have to be returned to the grantor
  - Whether the grants are capital or revenue in nature

# Grants Shown in the Consolidated Income & Expenditure Statement

Capital Grant received in year and applied to capital expenditure is shown through the CIES on the non-specific grant line along with any capital grant balances received in year but not applied. These values were higher last year due to Phase 3 activity being capitalised and also brought forward grant surplus balances transferred in from GMCA in April 2018 that were taken to Capital Grants Unapplied

### Grant Income Credited to Taxation and non-specific Grant Income and Expenditure

| 2018/19 £000 | | 2019/20 £000 |
|---|---|---|
| (16,141) | Core Grant | (10,000) |
| (1,408) | Integrated & Smart Ticketing Phase 1 | 0 |
| (920) | Integrated & Smart Ticketing OBC Development | 0 |
| (5,000) | Integrated & Smart Ticketing Capital | 0 |
| 0 | Integrated & Smart Ticketing Phase 2 Capital | (940) |
| **(23,470)** | **Total** | **(10,940)** |

TfN receives an annual allocation of £10m that is un-ringfenced (non-specific). This value was higher in the prior year as it included underspends from previous years transferred into TfN from GMCA (as accountable body) in April 2018. These prior year underspends form the basis of our Core Grant General Reserve.

Grants received that are ringfenced to certain projects are credited to the services that they relate to.

This line relates to IST Phase 1 'REFCUS'. This income and expenditure is recognised through the CIES as no asset is recognised on TfN's balance sheet, but under statute the expenditure can be funded from capital grant

### Grant Income Credited to Services

| 2018/19 £000 | | 2019/20 £000 |
|---|---|---|
| (13,379) | NPR Transport Development Fund | (26,932) |
| (3,000) | Integrated & Smart Ticketing Revenue | (8,680) |
| (2,974) | Integrated & Smart Ticketing Phase 1 | (1,170) |
| (500) | Rail North Partnership Grant | (582) |
| (99) | Trans-Pennine Tunnel Traffic Modelling | (11) |
| (56) | Rail North Local Contributions | (67) |
| (524) | Rail North Rail Grant (via Local Contributions) | (542) |
| **(20,532)** | **Total** | **(37,984)** |

The significant increase in IST revenue income reflects Phase 3 issues. £4.32m is in relation to the reclassification of 2018/19 expenditure as revenue, whilst all Phase 3 activity in 2020/21 has been treated as revenue

Rail North income is indexed, so increase marginally every year

# Grant Accounting

At the year-end we had not applied all the grants we have received over the course of the year to expenditure. Dependent on the conditions placed on those grants, we hold unused allocations as either:

- Grants received in advance
  - Noting that there are restrictions on these grants that mean they may have to be returned to the Department for Transport if not used
- Grants Unapplied
  - This is a reserve for capital grants where conditions of use have been met but the resource has not yet been applied to meet expenditure
- Earmarked Revenue Reserves
  - This is a reserve for revenue grants that may only be applied to specific expenditure where conditions of use have been met but the resource has not yet been applied to meet expenditure
- General Fund Reserves
  - This our general reserve where revenue grant without restrictions on usage is held
  - In practice, this is where we hold unused allocations of our Core Grant

# Grant Unapplied

A reduction in TDF – Rail grant recognises that TfN used rolled forward grant already held to fund 2019/20 expenditure, rather than request new funding

Phase 1 capital grant has been drawn upon in year to supplement grant received in-year

£0.50m of Core Grant savings have been diverted to an earmarked reserve to enable TfN to react to the emerging devolution agenda with confidence

| | 2019/20 £m | Movement £m | 2018/19 £m |
|---|---|---|---|
| **Revenue Grants Received in Advance** | | | |
| - Transport Development Fund - Rail | £0.00 | -£0.87 | £0.87 |
| - Transport Development Fund – Road | £0.01 | -£0.01 | £0.02 |
| | £0.01 | -£0.88 | £0.89 |
| **<u>Usable Reserves</u>** | | | |
| **Capital Grants Unapplied** | | | |
| - Integrated & Smart Ticketing Phase 1 Grant | £0.30 | -£1.11 | £1.41 |
| - Integrated & Smart Ticketing General Grant | £3.69 | £2.99 | £0.70 |
| | £3.99 | £1.88 | £2.11 |
| **General Fund Revenue Reserves** | | | |
| - Core Grant | £6.46 | £0.88 | £5.58 |
| - Devolved Powers (Earmarked) | £0.50 | £0.50 | £0.00 |
| - Integrated & Smart Ticketing Grant (Earmarked) | £0.94 | -£1.00 | £1.94 |
| | £7.90 | £0.38 | £7.52 |
| **Total Usable Reserves** | **£11.89** | **£2.26** | **£9.63** |
| **Total Resource** | **£11.90** | **£1.38** | **£10.52** |

General IST capital grant has increased reflecting the re-recognition of £4.32m capital grant on the unwind on the 2018/19 P3 expenditure. Some of this balance was used to part resource cap ex in year.

The Core Grant reserve (the General Reserve) has increased reflecting slippage and savings in year.

The IST revenue grant reserved has decreased overall, reflecting the planned draw on this resource.

# Capital Expenditure

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- Development of Intangible Assets
  - ERP asset has been developed in-year (£0.11)
    - Operational and being amortised
  - Integrated & Smart Ticketing (IST) Phases 2  complex information systems are being developed (£2.28m)
    - The Disruption Messaging Tool moved into operational status during the year

- Revenue Expenditure Funded from Capital Under Statute (£2.27m)
  - Phase 1 IST expenditure results in capital assets being acquired, but for the train operating companies rather than TfN
  - Ordinarily, this would be treated as revenue expenditure
  - Statute allows TfN to override accounting standards and treat the expenditure as capital
  - Expenditure recognised in the CIES as no assets created on TfN's balance sheet

# Structure of the Accounts

# Structure of the Accounts

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The structure of the accounts is largely determined by regulation and guidance. The accounts can be usefully divided into three parts:

1. The Narrative Statement
2. The Statutory Accounts
3. The Annual Governance Statement

**Narrative Statement**
- Structure
- Objectives
- Qualitative Performance
- Financial Performance
- Outlook

**Independent Auditors Report**
- Inserted upon completion of the audit

**Statement of Responsibilities**
- Who's responsible for what in the Accounts

**Core Financial Statements**
- Comprehensive Income & Expenditure Statement
- Movement in Reserves

  Balance Sheet
- Cash Flow Statement

**Disclosure Notes**
- Explanatory Notes for:
- Notes to the Core Financial Statements
- Supporting Disclosure Notes
- Disclosures Required under Statute

**Annual Governance Statement**
- Details how decisions are made
- How risks are identified, managed, and mitigated
- Any areas of concern


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# Core Financial Statements

# Comprehensive Income & Expenditure Statement

- Details income and expenditure for the year in accounting terms

- Differs from management outturn due to:
  - Accounting standards
  - Statutory provision

- Key issues include
  - Treatment of capital items
  - Treatment of net estimated pension liabilities
  - Recognition of grant income
  - Recognition of a provision for accumulated absences

# Comprehensive Income & Expenditure Statement

IST income & expenditure is elevated reflecting 2 interrelated points: 2018/19 IST P3 capital has been reclassified as revenue resulting in £4.32m of income and expenditure. All P3 activity has been revenue in year, compared to capital last year.

The CIES structure is shown in accordance with our management accounts reporting structure

| 2018/19 Expenditure £000 | 2018/19 Income £000 | 2018/19 Net £000 | Notes | | 2019/20 Expenditure £000 | 2019/20 Income £000 | 2019/20 Net £000 |
|---|---|---|---|---|---|---|---|
| 2,638 | (99) | 2,539 | | Major Roads Programme (Strategic Development Corridors) | 1,500 | (11) | 1,489 |
| 14,173 | (13,379) | 794 | | Northern Powerhouse Rail | 28,077 | (26,932) | 1,145 |
| 4,129 | (5,974) | (1,845) | | Integrated and Smart Ticketing | 12,181 | (9,850) | 2,331 |
| 1,772 | (1,081) | 692 | | Rail Operations | 2,138 | (1,243) | 895 |
| 9,184 | (0) | 9,184 | | Operational Areas | 6,582 | (0) | 6,582 |
| **31,896** | **(20,532)** | **11,364** | | **Cost of Services** | **50,478** | **(38,036)** | **12,442** |
| 134 | (154) | (20) | **11** | Financing and Investment Income and Expenditure | 234 | (234) | 0 |
| 0 | (23,470) | (23,470) | **12** | Taxation and Non-Specific Grant Income | 0 | (10,940) | (10,940) |
| **32,030** | **(44,156)** | **(12,126)** | | **Surplus or Deficit on Provision of Services** | **50,712** | **(49,210)** | **1,502** |
| | | 989 | **29** | Remeasurement of the net defined benefit liability / asset | | | 1,009 |
| | | **989** | | **Other Comprehensive Income and Expenditure** | | | **1,009** |
| | | **(11,137)** | | **Total Comprehensive Income and Expenditure** | | | **2,511** |

Rail Operations has been added to the service line reflecting the change to our management reporting structure

Zero income in the Operational Areas reflects that they are funded from the non-ringfenced Core Grant

Income on this line has reduced considerably year-on-year reflecting the absorption of significant brought forward balances in TfN's first year

This includes pensions financing costs and income, and the standard income from cash on deposit

Income above this line is revenue grant that is ringfenced to the areas of activity

Income below this line includes non-ringfenced grant, capital grants received in year and applied to cap ex, and income from investments

Note further pension revaluation expenditure


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# Balance Sheet

- Details assets and liabilities
- Reserves show how the net assets are funded
- Reserves are split between:
    - Usable – available to resource expenditure
        - General Fund Reserves
        - Capital Grants Unapplied
    - Unusable – not available to resource expenditure
        - Capital Adjustment Account
        - Pensions Reserves
        - Accumulated Absence Reserve
    - Unusable reserves allow for statutory overrides of accounting standards to be managed

# Balance Sheet

The reduction in intangible assets recognises the reclassification of the Phase 3 capitalised expenditure from 2018/19 as revenue

| 31 March 2019 £000 | Notes | | 31 March 2020 £000 |
|---|---|---|---|
| 5,824 | **14** | Intangible Assets | 3,529 |
| **5,824** | | **Long Term Assets** | **3,529** |
| 178 | **15** | Short-Term Debtors | 599 |
| 14,371 | **16** | Cash and Cash Equivalents | 19,307 |
| **14,549** | | **Current Assets** | **19,906** |
| (4,087) | **17** | Short-Term Creditors | (8,046) |
| (77) | **18** | Provisions | (126) |
| (893) | **26** | Grants Receipts in Advance - Revenue | (10) |
| **(5,058)** | | **Current Liabilities** | **(8,182)** |
| (3,631) | **29** | Pension Liability | (6,080) |
| **11,684** | | **Net Assets** | **9,173** |
| (9,627) | **19** | Usable Reserves | (11,887) |
| (2,057) | **20** | Unusable Reserves | 2,714 |
| **(11,684)** | | **Total Reserves** | **(9,173)** |

Debtors have increased due to one of the larger Combined Authorities not paying their Rail Grant until after the year-end

Cash has increased in line with the growth in short-term creditors and usable reserves

Increase in provisions reflects TfN taking on accommodation remediation obligations

Usable reserves increase due to underspend on Core Grant funded activity and the reclassification of P3 capital funding moved from the Capital Adjustment Account to Capital Grants Unapplied

Material reduction in Grants Receipts in Advance recognises our application of TDF grant rolled over from 2018/19 in 2019/20

Pension liability increases reflect the valuation of the portfolio in March after the lockdown, along with the triennial valuation and costs of transfer into the scheme

Unusable reserves has moved into debit reflecting an increase in pension liability and the reclassification of P3 capital funding moved to usable reserves

# Cash Flow Statement

- Details the inflows and outflows of cash in TfN's bank accounts over the course of the year
- The Statement removes non-cash transactions required under accounting standards such as depreciation and amortisation
- The Statement is split between flows of cash relating to:
  1. **Operating Activities**
     Day-to-day activity, normally of a revenue nature
  2. **Investing Activity**
     Ordinarily capital investment activity
  3. **Financing Activity**
     How TfN has financed its activities through credit
- TfN's powers prohibit it from accessing credit, so the Statement is limited to operating and investing activity

# Cash Flow Statement

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| Notes | 2018/19 £000 | | 2019/20 £000 |
|---|---|---|---|
| | (12,126) | Net (surplus) or deficit on the provision of services | 1,502 |
| | (7,279) | Adjustment to surplus or deficit on the provision of services for noncash movements | (4,760) |
| | 7,328 | Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities | 940 |
| **21** | **(12,076)** | **Net cash flows from operating activities** | **(2,318)** |
| **22** | (2,295) | Net cash flows from investing activities | (2,618) |
| | **(14,371)** | **Net (increase) or decrease in cash and cash equivalents** | **(4,936)** |
| | 0 | Cash and cash equivalents at the beginning of the reporting period | 14,371 |
| | **14,371** | **Cash and cash equivalents at the end of the reporting period** | **19,307** |

This is the CIES deficit as shown on previous slide and forms the starting point for determining cash movements

The CIES deficit is then adjusted for items in their that do not represent cash movements. This includes accruals, provisions, net pensions adjustments, and amortisation charges

TfN has no financing activity, so this simply relates to investment items in the CIES. In 2019/20 this only reflects the £0.94m of Phase 2 capital grant received and applied in year.

Investing activities include all capital expenditure, capital income recognised in the CIES (£0.94m) movement on capital creditors, and capital grants taken to capital grant unapplied

The sum of the net cash flow from operating activities and investing activities should equal the movement on cash at the start of the year to cash at the end of the year.

**£19,307 - £14,371 = £4,936**

# Reconciliation of Management Outturn to CIES


## Differences between the costs and income shown in the management accounts arise from accounting standards and statutory overrides

| **Income** | **£m** | |
|---|---|---|
| **Outturn Position** | **-£46.82** | |
| **Adjustments for:** | | |
| Pensions | -£0.13 | In CIES not in outturn |
| Funding of Phase 3 write-down | -£4.32 | In CIES not in outturn |
| Revenue Funding from Reserves | £1.67 | In outturn not in CIES |
| Capital Funding from Reserves | £2.44 | In outturn not in CIES |
| | | |
| **Amounts taken to General Fund Balance:** | | |
| IST Revenue Grant - Transferred to Earmarked Reserve | -£0.66 | In CIES not in outturn |
| Core Grant - Taken to General Fund Reserve | -£0.88 | In CIES not in outturn |
| Core Grant – Transferred to Devolved Powers Reserve | -£0.50 | In CIES not in outturn |
| **CIES Balance** | **-£49.21** | |

| **Expenditure** | **£m** | |
|---|---|---|
| **Outturn Position** | **£46.82** | |
| **Adjustments for:** | | |
| Depreciation | £0.35 | In CIES not in outturn |
| Pensions | £2.58 | In CIES not in outturn |
| Write-down of Phase 3 | £4.32 | In CIES not in outturn |
| Movement on Absence Provision | £0.03 | In CIES not in outturn |
| IST Capital - Phase 2 | -£2.28 | In outturn not in CIES |
| Enterprise Resource Planning Capital | -£0.11 | In outturn not in CIES |
| **CIES Balance** | **£51.72** | |


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