



# STATEMENT OF ACCOUNTS

2018-2019

UNAUDITED VERSION 01



## Contents

- 02 - Narrative Report
- 20 - Independent Auditor's Report to the Members of Transport of the North
- 21 - Statement of Responsibility of the Accounts

### Primary Statements

- 22 - Comprehensive Income and Expenditure Statement
- 23 - Movement in Reserves Statement
- 24 - Balance Sheet
- 25 - Cash Flow Statement

### Notes to the Accounts

- 26 - Note 1 - Expenditure and Funding Analysis
- 26 - Note 2 - Note to the Expenditure and Funding Analysis
- 27 - Note 3 - Accounting Policies
- 33 - Note 4 - Accounting Standards Issued, Not Adopted
- 33 - Note 5 - Critical Judgements in Applying Accounting Policies
- 33 - Note 6 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty
- 33 - Note 7 - Material Items of Income and Expense
- 34 - Note 8 - Events After the Balance Sheet Date
- 34 - Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations
- 35 - Note 10 - Transfers to/from Earmarked Reserves
- 35 - Note 11 - Financing and Investment Income and Expenditure
- 35 - Note 12 - Taxation and Non-Specific Grant Income
- 36 - Note 13 - Expenditure and Income Analysed by Nature
- 36 - Note 14 - Intangible Assets
- 37 - Note 15 - Debtors
- 37 - Note 16 - Cash and cash equivalents
- 37 - Note 17 - Creditors
- 38 - Note 18 - Provisions
- 38 - Note 19 - Usable Reserves
- 39 - Note 20 - Unusable Reserves
- 41 - Note 21 - Cash flow from Operating Activities
- 42 - Note 22 - Cash flow from Investing Activities
- 42 - Note 23 - Members Allowances
- 42 - Note 24 - Officers' Remuneration
- 43 - Note 25 - External Audit Costs
- 43 - Note 26 - Grant Income
- 45 - Note 27 - Related Parties
- 46 - Note 28 - Capital Expenditure and Capital Financing
- 47 - Note 29 - Defined Benefit Pension Scheme
- 52 - Note 30 - Leases
- 53 - Annual Governance Statement 2018/19
- 63 - Glossary

## **Narrative Report**

### **Organisational Overview and External Environment**

#### **Our Purpose**

Transport for the North (TfN) is a statutory body of elected leaders and senior business representatives from across the North. Collectively, our members represent all the region's 15.4 million citizens and provide 'one voice' for the North on transport matters.

TfN is a symbol of the North's ambition and represents unprecedented collaboration toward a shared goal – to drive inclusive and sustainable economic growth and quality of life. We do this by identifying, making decisions on and planning the strategic transport infrastructure required to deliver an economic step change for the North. One that will leave a lasting legacy for future generations.

On 1 April 2018, after receiving parliamentary approval, we became a statutory body, the first of its kind in England. This meant for the first time, TfN became a standalone organisation, with the ability to hold our own funds, transact on our own behalf and employ our own staff.

The statutory powers that have been granted allow and empower us to:

- Develop and implement a Strategic Transport Plan for the North of England;
- Act as 'one voice' for the North, clearly communicating pan-Northern priorities to the Secretary of State for Transport;
- Coordinate and deliver smart ticketing systems across the North;
- Become a statutory partner in road and rail investment decisions, through the Rail North Partnership and Highways North Board;
- Oversee (jointly with the Department for Transport) franchised rail services covering Northern and TransPennine Express franchises;
- Promote highways improvements of Northern significance, with the agreement of Government and relevant local transport and highway authorities; and,
- Prioritise investment on the transport network.

Our primary function is to develop a long-term transport strategy for the North of England that will help to rebalance the UK economy and drive economic growth in the region. This has been done in the form of the Strategic Transport Plan – a robust blueprint to guide investment over the next 30 years.

We also play an important role in the here and now, delivering programmes that change the way people travel (such as Integrated and Smart Travel) and jointly overseeing rail franchise operators, which has entailed significant challenges in the past year.

Achieving statutory status was a landmark moment for devolution to our region. It ensures that Government is legally obliged to take into account the North's priorities when making transport infrastructure investment decisions.

#### **Vision & Objectives**

Our vision is of a thriving North of England where world class transport supports sustainable economic growth, excellent quality of life and improved opportunities for all.

We are making the case for strategic transport improvements across the whole of the North, which are needed to drive transformational economic growth to rebalance the UK economy. We are doing this by looking at how poor transport infrastructure is holding back the North's economic potential, to provide an evidence-based case for investment.

By connecting the key economic areas of the North, we will drive growth, improve access to jobs and ensure the North is a great place to invest and live.

Four pan-Northern objectives guide our members' decisions:

1. Increasing efficiency, reliability, integration and resilience in the transport system
2. Transforming economic performance
3. Improving inclusivity, health, and access to opportunities for all
4. Promoting and enhancing the built, historic and natural environment

These objectives have informed the development of our Strategic Transport Plan and align closely with the five foundations of productivity set out in the Government's Industrial Strategy; infrastructure, ideas, people, business environment and places.

## **Our Plan**

In February 2019, our members approved, and we subsequently published our Strategic Transport Plan. This embodied how, for the first time, the North has come together to articulate a high-level vision for transport interventions that will enable sustainable economic growth across the whole of the North.

Accompanying the Strategic Transport Plan is an ambitious, but deliverable, Investment Programme that will improve our roads and railways, ensuring we address the historic gap in investment and support the transformation of the North's economy.

The development of an Independent Integrated Sustainability Appraisal has ensured that TfN has embedded sustainability considerations into the Plan. An iterative assessment and appraisal process has ensured the Strategic Transport Plan, as it was developed, can ensure that potential significant negative effects arising from the Plan are identified, assessed, and mitigated as necessary, and that positive effects are enhanced. This process has also ensured that the Strategic Transport Plan incorporates the regulatory and guidance requirements for Strategic Environmental Assessment, Equality Impact Assessment, Health Impact Assessment, Community Safety Assessment and Habitats Regulation Assessment, as well as Government policy, including in relation to carbon reduction.

The Plan was developed in close collaboration with our Partners, informed by and built around the North's economic strengths and constraints, including those evidenced in the Northern Powerhouse Independent Economic Review.

From 2018/19 we:

- Completed formal public consultation on the draft Strategic Transport Plan
- Published and adopted a final version of the Strategic Transport Plan taking into account consultation responses
- Coordinated and launched the first long term Investment Programme to reflect the outputs of TfN's work programmes
- Prepared an outline review of the opportunities and threats for innovation in the delivery of the Strategic Transport Plan

In 2019/2020 we will:

- Play a critical strategic oversight role for the Investment Programme, across TfN work programmes
- Develop and agree an Assurance Framework to support TfN's decision making processes
- Review the initial Investment Programme during 2019/20
- Commence work on sequencing of the Investment Programme, building on the business case development work being undertaken on Northern Powerhouse Rail, Transpennine Route Upgrade, the Strategic Development Corridors, and the work programmes delivering the Long Term Rail Strategy
- Continue to demonstrate how the priorities deliver transformational economic growth across the North, ensuring the Investment Programme will promote the implementation of the policy positions in the STP
- Demonstrate how the TfN priorities align with those schemes being promoted by TfN's Partners at a local level as part of a whole journey approach
- Embrace Innovation in both transport technology and economic analysis

## **Our Values & Behaviours**

Developed in close collaboration with our employees, our values and behaviours underpin our unique culture which brings together experience and expertise from the public and private sectors. They influence how we operate as individuals and as an organisation, creating an agile and dynamic working environment where employees are trusted, valued and invested in.

### **Values:**

#### **We make a difference**

- We will create opportunities for people and businesses that would not happen without us
- We will improve and change the way things are done, capitalising on the North's unique strengths
- We will make the most of our position to stretch the boundaries of what we can achieve

#### **We do the right thing**

- We make sustainable, evidence-based decisions that maximise the positive outcomes they deliver for people and businesses across the North
- We will work together to improve connectivity and deliver a vibrant and growing economy across the North of England over the short, medium and long-term
- We embrace diversity and work with others with honesty and respect

#### **We are driven to succeed**

- We want to be the very best we can be. The drive for excellence and innovation informs everything we do
- We will develop and grow, learning from both our mistakes and successes and sharing this with our partners
- We are proud to represent the North and will facilitate a step change in connectivity across the North of England by being role models for how things are done

#### **We collaborate**

- We consult our partners and are the embodiment of a 'single voice for the North'
- We make the most of all our relationships, spanning the North of England and beyond, to deliver the right solutions
- We build our relationships based on openness, transparency, trust and integrity

### **Core Behaviours:**

**Cultivate Innovation:** Creating new and better ways for the organisation to be successful

**Ensure Accountability:** Holding self and others accountable to achieve results, even under challenging circumstances

**Collaborate:** Building partnerships and working collaboratively with others to meet shared objectives

**Instil Trust:** Gaining the confidence and trust of others through honesty, integrity and authenticity

**Financial Acumen:** Interpreting and applying understanding of key financial indicators to make better business decisions.

## **Governance**

Transport for the North is a unique arrangement that sees Northern elected leaders and Local Enterprise Partnerships (LEPs) working together to speak to central government with a united voice.

Our Partnership Board is made up of elected and LEP representatives from all areas of the North, along with the Secretary of State for Transport and representatives from Highways England, Network Rail and HS2 Ltd. The Board is chaired by an independent Chairman – John Cridland CBE. This body allows

the North to speak with one voice on the transport infrastructure investment needed to boost the North's economy.

That Partnership Board provides advice to the main decision making body: the Transport for the North Board.

At the beginning of 2018 we received parliamentary approval to become a statutory organisation as the first Subnational Transport Body in England.



In order to get a Statutory Instrument laid before parliament we had to achieve the consent of 56 authorities across the North, including all 19 of the constituent authorities that existed at that time, for our draft regulations. The powers that are included within our regulations are broadly consistent with those which were envisioned when Transport for the North was formed in 2015.

Having received the approval to become a statutory body, we embarked on a process of transition over the year. Before April 2018, we were not a standalone organisation, instead we were run and managed under the terms of a Principles Document agreed between the Department for Transport and Northern Local Transport Authorities, with the active participation of Northern Local Enterprise Partnerships and the national agencies (Network Rail, Highways England and HS2 Ltd).

As a statutory Sub-national Transport Body, we have moved from these temporary arrangements to being a standalone statutory entity. This allows Transport for the North to hold its own funds, transact on our own behalf, and employ our own staff.

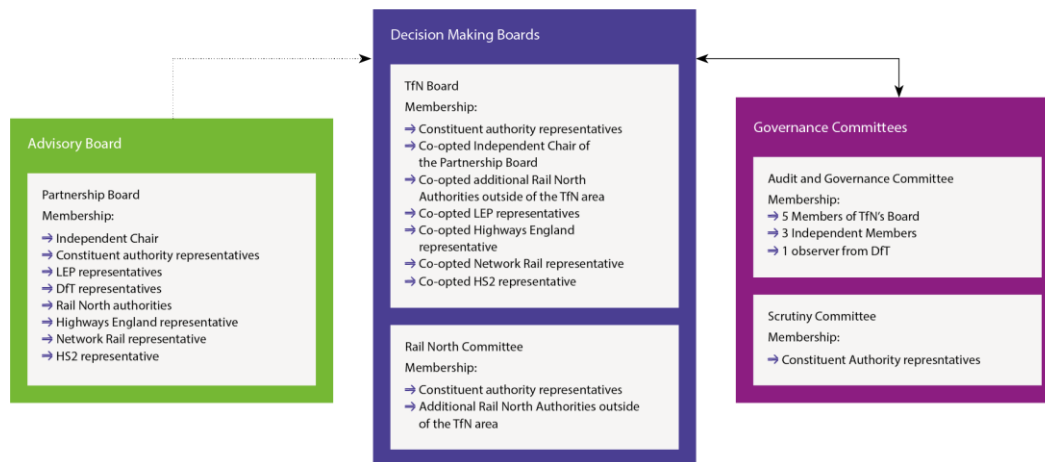
## How we make decisions

We are proud of the fact that we are a membership organisation – led by the North, for the North. All corners of the region are represented on our Board, made up of local politicians and business leaders with an independent Chairman. They are joined by representatives from our national delivery partners (Network Rail, Highways England and HS2 Ltd) and work closely with our neighbours in Wales, Scotland and the Midlands.

However, collaboration extends beyond this, and is characterised in the way that we work. Transport and economic officers from across the North work with us day-to-day, taking part in working groups for our major programmes and having significant input in the ongoing development of our Strategic Transport Plan and Investment Programme.



## Transport for the North Board and Committee Structure



## Business Model

TfN is a single-entity organisation, meaning we do not have a group-structure.

Our first Business Plan as a statutory body, published in April 2018, set out TfN's Strategic Objectives and commitments for the year. That Business Plan can be downloaded here:

<https://transportforthenorth.com/calendar/tfn-board-5apr18/>

The Business Plan is set out around our four pan-Northern objectives, set out in the previous 'Vision and Objectives' section of this report.

In 2017 we established a framework to monitor and measure the progress and performance of TfN and ensure that we provide value for money. This framework focuses on two areas of performance:

1. **Organisational Key Performance Indicators:** these indicators measure our performance in the establishment of TfN as a Sub-National Transport Body and planning for the future. This includes ensuring we have the right capability and culture to deliver our vision.
2. **Programme Key Performance Indicators:** these indicators measure the performance of all our work programmes. There are four measures used to monitor the performance of our programme delivery, project scope; meeting programme objectives; milestone delivery; and budget. These are reported internally to our boards and externally through the Business Plan to demonstrate progress achieved in the previous year.

## Delivering on Our Objectives

### Our People:

Transport for the North's employees are critical to achieving our vision. We take a holistic approach to attracting and retaining the best – ensuring we have the right people with the right skills at the right time to respond to our ever-evolving landscape.

Having achieved Statutory Body Status, we became an employer in our own right in July 2018, with staff TUPE transferred from various host partners. Since then, we've put in place a comprehensive people strategy – one that is the bedrock of our core values of making a difference; collaborating; doing the right thing; and being driven to succeed.

In representing the sub-region, it's vital we adopt the current thinking around best practice that our public sector partners have championed in the North. Our suite of employment policies serves to create

a fair, equitable and attractive workplace that ultimately secures the diverse workforce we have and will continue to attract.

As an accredited Living Wage employer, our employees receive a fair day's pay for a hard day's work. This expectation extends to our supply chain, meaning we leave a positive imprint on the economy beyond our own walls. Elsewhere, our status as Disability Confident employer means we actively embrace the talents of a diverse workforce, including those who may need additional support.

But one size does not fit all. Our agile workforce and flexible family friendly working practices – including flexible working hours and locations – help us create the right mix of employees from across the North and beyond. It's meant we have been able to successfully attract people from both the public and private sector; from diverse geographic locations; and with different lifestyles and experiences – something that is critical to the success of our programmes.

We are proud of and value our workforce. That is demonstrated through the Employee Forum, which gives a voice to our employees and a role in helping shape the organisation for the better. Likewise, we also recognise UNISON, collaborating regularly to support our teams regarding working practices, making sure we do that right thing, that we collaborate and that employees have a strong voice.

Fundamental to Transport for the North's vision is opportunity. We're committed to doing our bit. Our apprentice scheme is creating highly-skilled opportunities for school-leavers. In 2019/20 we will build on its foundations, taking on two further apprentices (taking the total to 7), meaning apprentices will continue to make up around 4.5% of our workforce. This is almost double the Government's target for larger public sector organisations for apprenticeships to reach 2.3% of all new starters by March 2021.

We have also ensured that we have in place robust and transparent job evaluation, pay, reward practices; training and upskilling programmes; and distinct career pathways provide opportunities for our employees to continue to thrive and further grow once they join us. This is further underpinned by the Competency and Behavioural Framework and comprehensive appraisal and career development processes in place to plan for our needs in the future.

### **Our Resourcing Plan:**

As agreed by our members, to maximise value for money we have continued to reduce reliance on external consultants' posts, increasing our directly employed workforce to 122 employees.

This gives us certainty over resources and the balance of skillsets we can deploy. However, we are mindful of both the length of time needed to fill roles and the funding conditions within which we operate. Our profile for both 2018/19 and 2019/20 is as follows:

	Year-End FY2018-19	Year-End FY2019-20
Permanent Posts	92	105
Fixed-term Posts (up to two years)	25	40
Apprentices (All levels – L2 to L4)	5	7
Total Workforce	122	152

The main changes are around ensuring we are sufficiently resourced to meet northern aspirations. With additional Transport Development Funding for Northern Powerhouse Rail, we will need highly skilled team members to support the programme's pace.



Our increase in people to support our Strategic Rail and Rail North Partnership teams will mainly be funded from the rail grant we receive. This is in response to the significant events of 2018/19 across the North's rail network and the ongoing need for a strong voice and oversight from Transport for the North.

As outlined in the Business Plan, essential to making the case for investment across the North is a robust and credible evidence base. In order to deliver on the ambitions of our Investment Programme, additional resource is planned for our analysis and appraisal team.

Reflecting the substantial increase in activity across TfN, further small staffing additions have been made to support services team.

## Our Funding:

Transport for the North has no powers to raise money from precepts and levies as most comparator transport authorities do. Instead, almost all of our funding is received in the form of Department for Transport from grants. This is reflective of the fact that TfN has, in the main, drawn down powers from central government that were previously funded through general taxation.

That grant funding principally comes in the form of discrete grant ring-fenced to specific areas of programme activity. Each year, the DfT also provides a general 'Core' funding grant that enables us to deliver on statutory obligations to providing good governance and value for money, our commitment to evidence-based decision making, whilst also resourcing some development activity.

Aside from the 'Core' grant allocations and Rail North grant made available to us to discharge our statutory functions, we must earn grant support through bidding into the Department for development resource or passing business case gateway reviews to unlock delivery resource.

Where ring-fenced grants are unused, the balance of funds will be returned to the DfT. Unused 'Core' grant allocations are taken to reserves and used to fund future period activity, reflecting that there are often timing differences between funding being provided and funding being required.

In 2018/19 the DfT made grant available to resource our opening base budget of £80.03m:

Funding Stream	Restrictions	£m	%
Integrated & Smart Ticketing Grant	Ringfenced	£48.61	61%
Northern Powerhouse Rail Transport Development Fund	Ringfenced	£17.94	22%
Rail North Grant and Contributions	Ringfenced	£0.96	1%
Core Grant	Unrestricted	£12.52	15%
		<b>£80.03</b>	

## Our Medium-Term Financial Plan:

Our medium-term financial plan is focussed on two key financial challenges:

1. Ensuring that our financial resource is aligned to our Business Plan objectives in a sustainable manner; and,
2. Managing key inherent financial risk that arises from TfN's organisational and legal design.

That latter issue reflects that we are unable to access long or short-term credit (such as bank loans and overdrafts) to support investment or manage day-to-day cash flow fluctuations, and also have limited means of generating funds.

With discrete ring-fenced grants being made available to support our programme activity, our principal medium-term budgetary challenge is to ensure that our finite Core grant allocations are used in a manner that enables us to:

1. Discharge our statutory obligations through the implementation and maintenance of organisational capacity and infrastructure; whilst,
2. Delivering on our commitment to evidenced based decision making; and,
3. Support preliminary development activity on key priorities that do not attract discrete grant support, such as the Strategic Development Corridor workstreams.

Whilst Core grant allocations are fixed annually, our activity and resource requirements inevitably change. To manage this situation we have implemented a reserves strategy that supports the flexible use of Core grant allocations over a multi-year period.

Principally, this means holding over Core grant allocations in reserves and then releasing to support one-off development costs. This policy was used in 2018/19 to support the delivery of the Strategic Development Corridors and will be again in 2019/20 to support the quantitative modelling and economic appraisal work required to take this activity towards strategic outline business case submission.

This reserve strategy also supports us in managing a key financial risk around organisational financial solvency. Given the limitations on our ability to raise resource and access credit, the reserve strategy requires us to hold no less than £2m in reserve at any one point.

This policy secures a cash buffer to manage unexpected events and financial shock.

## Measuring our success in 2018-2019

### Qualitative Performance

In our 2018/2019 Business Plan we set 15 KPIs to ensure a culture of accountability and excellence for our organisation and our partners.

The KPIs were developed by:

- Reviewing our strategic, organisational and programme level objectives
- Understanding the actions needed to deliver those objectives
- Developing indicators to demonstrate the extent to which our actions are delivering changes
- Developing metrics to ensure that the changes can be measured

We have monitored our performance against these KPIs using a combination of qualitative and quantitative measures:

Area	KPI	Detail	Progress
Analytical Framework	1	Development of an evidence based analytical framework by spring 2019, linking transport priorities identified in the Strategic Transport Plan to achieving the transformational growth. The evaluation framework will support the development of robust business cases for investment in the North.	<b>Achieved</b> We have made good progress, delivering the first phase of the longer-term programme. The framework has been used to support the Strategic Transport Plan, Corridor studies and business cases (including Northern Powerhouse Rail).
Strategic Transport Plan	2	In-line with TfN's statutory responsibilities, publish the Strategic Transport Plan (STP) in Autumn 2018 (following extensive public consultation), which will enable and drive transformational growth.	<b>Achieved</b> Following the public consultation that was undertaken, the STP was updated extensively. Working collaboratively with Partners it was refined, agreed and published in February 2019

Strategic Development Corridors	3	A major development emerging from the STP is the concept of Strategic Development Corridors. TfN will complete Strategic Outline Plans for three SDCs in Autumn 2018, and commission further SDC development work by the end of 2018.	<b>In progress</b> We have made substantial progress on these important studies and published them following the Strategic Transport Plan. Further work will be carried out on the studies in 2019/20.
Freight & Logistics and International Connectivity	4	The STP will be followed by updates to the Freight & Logistics and International Connectivity Reports by the end of 2018.	<b>In Progress</b> This work has been deferred until 2019 as we prioritised resources to completing the SDCs and the STP. However, collaborative work with the port operators and the freight industry has provided valuable evidence and intelligence in relation to the SDCs.
Major Roads	5	In tandem with the STP, the Major Roads Report will be updated in Autumn 2018.	<b>Deferred</b> This work has been deferred until 2019 as we prioritised resources to completing the SDCs and the STP and awaited the outcome of the Government's consultation on its proposed Major Road Network
Road Studies	6	TfN is working in partnership with Highways England and the Department for Transport to ensure the three northern Strategic Road Studies are taken to Outline Business Case (OBC) by Spring 2019	<b>In Progress</b> We worked throughout 2018/19 with Highways England and Department for Transport to support the development of the Outline Business Cases and will continue do so throughout 2019/20, working toward target dates: - Transpennine Tunnel - SOBC by July 2019 - A66 - OBC by Autumn 2019 - NWQ - OBC by Autumn 2020
Northern Powerhouse Rail	7	TfN is working in partnership with the Department for Transport, and closely with Network Rail and HS2, to ensure the NPR programme is developed and the Strategic Outline Business Case (SOBC) is submitted by the end of 2018.	<b>Achieved</b> In Year We developed the programme for NPR, working closely with partners to ensure a deliverable and integrated network approach. The SOBC was submitted for consideration in February 2019.
Existing Rail Network	8	Secure key outcomes for TransPennine Route Upgrade (TRU), establishing 'one view from the north' of the preferred combination of options to achieve the TRU.	<b>In progress</b> We submitted our first statutory advice, outlining the North's preferences for TRU in September 2018. We will continue to articulate these and work to secure the best outcome for the North.

Rail Franchising	9	Following public consultation, publish the Long Term Rail Strategy (LTRS) alongside the STP in Autumn 2018.	<b>Deferred</b> Rail resources were re-prioritised following the timetable change in May 2018. This will now take place in 2019/20
Rail Fares	10	Delivery of a Long-Term Fares Strategy by the end of 2018, identifying short term opportunities to provide enhancement of the current franchises and providing a long-term plan for the next round of franchises to better inform the fares strategy.	<b>Deferred</b> Rail resources were re-prioritised following the timetable change in May 2018. This will now take place in 2019.
Integrated and Smart Travel	11	The delivery of SMART travel choices across the North's public transport network, including: Phase 1 of the integrated smart ticketing on rail across the Northern, Transpennine and Merseyrail train services by the end of 2018; The first stages of phase 2 bus and light rail fares, disruption, open data hub, knowledge network and innovation pilots by spring 2019; and for Phase 3 establish a Special Purpose Vehicle with transport operators that will commission, accept and run the ticketless travel systems when they are procured and delivered by the end of 2018.	<b>Phase 1 and 2 Achieved In Year</b> <b>Phase 3 In Progress</b> We have started and should successfully complete the rollout of Phase 1 of smart ticketing on rail across the North by September 2019. The Full Business Case and funding for Phase 2 of the programme has also been approved. Signed Heads of Terms have been achieved with Operators for the establishment of the Special Purpose Vehicle for Phase 3. The procurement of work for Phase 3 (smart back office) is in progress, following prolonged external approval process.
PMO	12	Implement the Portfolio, Programme and Project Management System (PPPMS) by the end of summer 2018, including a formal assurance framework.	<b>Deferred</b> It was agreed to defer this work until 2019/20 and to prioritise the delivery of business-critical finance and personnel systems.
Resourcing the Programme of Work	13	Following confirmation of Sub-national Transport Body (STB) status, TfN will be established as the first STB on 1st April 2018. Employees will be transferred via TUPE to TfN during summer 2018 and resourcing plans will be delivered to timescale and budget specified by the end of 2018.	<b>Achieved</b> We now employ our own members of staff and robust systems are in place to manage our budgets and deliver our programmes.
Health & Safety	14	Full H&S framework implemented including staff training complete by June 2018, including development of H&S Committee reporting to TfN's Boards.	<b>Achieved</b> Required health & safety framework and underlying policies, processes and systems developed and operational.
Funding & Finance	15	An agreed funding framework will be produced during 2018/19 and the new operating processes and procedures, including a new ERP system will be successfully implemented.	<b>Achieved</b> The TfN Board adopted the TfN Funding Framework in September 2018. This framework has then formed the

			basis of the Funding section of the Strategic Transport Plan.
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## Financial Performance 2018/19

### Summary

In delivering the activity outlined in our qualitative performance we incurred expenditure of £34.34m.

This value is lower than our opening budget estimate of £80.03m principally due to changes to the delivery profiles and delivery models of our major programmes, and limited requirements for budgeted contingency reserves.

Where planned activity has now fallen into future financial periods we have either reallocated in-year resource to other unfunded priorities, or held over resource to future financial periods to be matched to re-planned activity.

Where previously planned draw-down of grant resource has not been required we have kept the Department for Transport fully apprised of our requirements to ensure that resource earmarked to our programmes is safeguarded.

Our financial performance over the course of the year can be summarised as follows:

<b>Total Expenditure</b>	<b>Actual £m</b>	<b>Budget £m</b>	<b>Variance £m</b>
<b>Revenue Programmes:</b>			
Northern Powerhouse Rail	£14.12	£18.89	£4.77
Major Roads	£2.61	£2.65	£0.04
Integrated & Smart Ticketing	£1.06	£1.25	£0.19
	£17.79	£22.79	£5.00
<b>Capital Programmes:</b>			
Integrated & Smart Ticketing	£8.20	£47.36	£39.16
<b>Operations</b>	£8.46	£9.88	£1.41
	<b>£34.45</b>	<b>£80.03</b>	<b>£45.58</b>

Underspend against the base budget within the Northern Powerhouse Rail programme principally reflects the reallocation of planned Department for Transport resource from us to HS2. This reallocation reflects our close working relationship between the Department for Transport, HS2 and the interdependencies between the two programmes. This reallocation of resource has contributed to the programme meeting its in-year target of delivering the strategic outline business case.

The major variance to budget within the Integrated and Smart Ticketing capital programme principally reflects the delays to the Phase 3 Accounts Based Back Office (ABBOT) project within the programme.

In-year delays to the passage of the project through the Department for Transport's outline business case gateway have meant that major capital activity and expenditure was moved from quarter four of the year into 2019/20 and beyond.

Throughout the year there was also no requirement to draw on the budgeted contingency reserves held for the Integrated and Smart Ticketing programme (£20.67m). This represents both slippage to

some parts of the programme and the successful conclusion of procurement activity within the forecast cost profiles.

In meeting this expenditure, we applied grants and contributions received from the Department for Transport and partners, along with a small amount of income generated from cash balances held on deposit:

<b>Funding</b>	<b>£m</b>
<b>Revenue Resource</b>	
Core Grant	£10.57
Transport Development Fund - Rail	£13.38
Transport Development Fund - Road	£0.09
Rail North Grants and Contributions	£1.08
Integrated & Smart Ticketing Grant	£1.06
Deposit Income	£0.07
	<b>£26.25</b>
<b>Capital Resource</b>	
Integrated & Smart Ticketing Grant	£8.20
	<b>£34.45</b>

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

As at the year-end, unapplied grants held in this manner are as follows:

	<b>£m</b>
<b>Revenue Grants Received in Advance</b>	
- Transport Development Fund – Rail	£0.87
- Transport Development Fund – Road	£0.02
	<b>£0.89</b>
<b>Usable Reserves</b>	
<b>Capital Grants Unapplied</b>	
- Integrated & Smart Ticketing Phase 1 Grant	£1.41
- Integrated & Smart Ticketing General Grant	£0.70



	£2.11
<b>General Fund Revenue Reserves</b>	
- Core Grant	£5.58
- Integrated & Smart Ticketing Grant (Earmarked)	£1.94
	£7.52
<b>Total Usable Reserves</b>	<b>£9.63</b>
<b>Total Resource</b>	<b>£10.52</b>

These grants will be applied to expenditure in 2019/20 and future accounting periods where possible or be returned to the Department for Transport if the restrictions require us to do so.

The Core Grant allocations held in our General Fund Reserve provide the basis for our medium-term financial plan, enabling both a gradual draw on that resource to support key development aspirations and underpinning our risk mitigation around our sensitivity to financial-shock.

The balance sheet as at the 31/03/2019 recognises these reserves and unapplied grants, along with our other financial transactions.

The balance sheet can be summarised as follows:

<b>Balance Sheet 2018/19</b>		<b>£m</b>		<b>£m</b>
<b>Assets</b>			<b>Reserves</b>	
Cash & Equivalents	£14.37		<u>Unusable Reserves</u>	
Intangible Asset	£5.82		Absence Reserve	£0.14
Debtors	£0.18		Capital Adjustment Account	-£5.82
	<b>£20.37</b>		Pension Reserve	£3.63
<b>Liabilities</b>				<b>-£2.05</b>
Provisions	-£0.08		<u>Usable Reserves</u>	
Grants Received in Advance	-£0.89		Capital Grants Unapplied	-£2.11
Pension Liability	-£3.63		Earmarked Revenue Grants	-£1.94
Creditors	-£4.09		General Fund Reserve	-£5.58
	<b>-£8.69</b>			<b>-£9.63</b>
<b>Net Assets</b>	<b>£11.68</b>		<b>Reserves</b>	<b>-£11.68</b>

Two items of particular note shown on the balance sheet include the recognition of intangible asset development and the recognition of a pension liability.

The balance sheet shows investment in intangible assets of £5.82m. This value principally reflects the activity undertaken in Phases 2 and 3 of the Integrated and Smart Ticketing programme where work is underway to develop complex ICT based systems that will support both better access to travel information and enable smart payment for journeys.

The costs incurred in developing these systems will be of benefit to TfN and partners over multiple years, so the expenditure is recognised as creating an intangible asset. These assets will not be depreciated until they become fully operational.

Other intangible asset development relates to the expenditure incurred in developing our enterprise resource planning system (ERP). The ERP comprises the finance, HR, and planning systems that allow us to operate the necessary functions required to discharge our statutory obligations and deliver the business infrastructure expected of any public body.

Expenditure on the ERP has been incurred by TfN directly in 2018/19, whilst the balance sheet value also reflects the transfer of the asset rights from Sheffield City Region (SCR) following the novation of the ERP contract. The latter issue reflects that SCR undertook contracting on behalf of TfN in 2017/18 before TfN had achieved statutory status. The ERP is operational and will be depreciated over the life of the underlying contract for use.

The pension liability shown on the balance sheet recognises the estimated net deficit of the future pensions payable to past and current employees.

On the 1<sup>st</sup> July 2018 our officer cohort transferred into TfN employment from our host authorities: Transport for Greater Manchester, West Yorkshire Combined Authority, and Merseytravel. As part of that TUPE transfer, TfN took on responsibility for the net unfunded liabilities of the pension arrangements for those officers. That inherited liability stood at £2.22m.

This liability is measured in accounting terms and can vary dramatically from the actuarial forecasts and the pension fund's strategy for managing the future pension entitlements. This is due, in part, to the basis on which the accounting is made; notably valuing the net assets and future liabilities on the basis of market conditions at the date of valuation.

Market conditions, influenced by the ongoing uncertainty around the UK's exit from the European Union, impacted on this valuation again at the valuation point in quarter four 2019. At that valuation, the deficit had deteriorated by £0.99m.

TfN reflects that the accounting valuation of the pension deficit is only one way of valuing our pension obligations. During financial year 2018/19 we commissioned the Greater Manchester Pension Fund's actuary to re-calculate our pension contribution rate to ensure that we were making the appropriate provision to meet future liabilities. This exercise determined that we were in fact over-providing and recommended a lower-contribution rate be adopted.

We will continue to review this issue and report on it to members and stakeholders.

### **Reconciliation Between the Management Outturn Income and Expenditure and the Comprehensive Income and Expenditure Statement (CIES)**

The following table shows the differences between the management outturn position and those balances shown on the face of the CIES.

These variances arise due to differences between how we account for certain items under statute, and how we prepare the accounts under international accounting standards.

These differences principally arise around pensions accounting; capital accounting; the treatment of accumulated employee absence costs; and the treatment of grants received.

<b>Expenditure</b>	<b>£m</b>	
<b>Outturn Position</b>	<b>£34.45</b>	
<b>Adjustments for:</b>		
Depreciation	£0.30	In CIES not in outturn
Pensions	£2.72	In CIES not in outturn
Absence Provision	£0.14	In CIES not in outturn
IST Capital - Phase 2	-£0.90	In outturn not in CIES
IST Capital - Phase 3	-£4.32	In outturn not in CIES
Enterprise Resource Planning Capital	-£0.36	In outturn not in CIES
<b>CIES Balance</b>	<b>£32.03</b>	
<b>Income</b>	<b>£m</b>	
<b>Outturn Position</b>	<b>£34.45</b>	

**Adjustments for:**

Pensions	£0.08	In CIES not in outturn
IST Capital Grant - Taken to Capital Grants Unapplied	£2.11	In CIES not in outturn

**Amounts taken to General Fund Balance:**

IST Revenue Grant - Transferred to Earmarked Reserve	£1.94	In CIES not in outturn
Core Grant - Taken to General Fund Reserve	£5.58	In CIES not in outturn

<b>CIES Balance</b>	<b>£44.16</b>	
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**Capital Accounting**

- Capital expenditure is shown in our capital programme management accounts reporting but is not shown in the CIES as it results in the creation of a balance sheet asset. This results in a lower level of expenditure being shown in the CIES than in the overall management accounts.
- Depreciation costs are not shown in the management accounts as they do not require a draw upon resource (the resource use being reported on the initial expenditure). Depreciation costs are, however, shown in the CIES with the associated reduction in the value of assets. This results in a higher level of expenditure in the CIES than in the overall management accounts.
- It should be noted that where TfN grants money to third parties to fund their asset creation – as in the Phase 1 ITSO on Rail project – the costs are shown in both the management accounts and on the face of the CIES. This is because no asset is created for TfN, and the expenditure would ordinarily be treated as revenue were it not for statutory override. That override allows TfN to use capital resource to fund the expenditure, with the treatment referred to as Revenue Expenditure Funded from Capital under Statute (REFCUS). This treatment simply reflects that sometimes public bodies can achieve their objectives through third parties, rather than delivering and owning things directly.
- The differences between management accounts and accounting standards are reflected in the unusable Capital Adjustment Account Reserve.

**Pensions Accounting**

- A fundamental difference exists between the values TfN is required to expend via its Pension Fund under statute, and the expenditure TfN is required to recognise in the CIES under accounting standards.
- Principally, the management accounts reflect employers' pensions contributions which are calculated under statute and reviewed as part of the actuary's triennial valuation.
- Accounting standards, however, require these costs to be removed from the face of the CIES and replaced with charges calculated under those standards.
- These charges include gains and losses on the values of pension fund assets and liabilities as valued at the accounting date. This matter can lead to volatile pensions adjustments on the face of the CIES as underlying bond market prices fluctuate.
- The differences between management accounts and accounting standards are reflected in the unusable Pensions Reserve.

**Accumulated Absences**

- Accounting standards require the costs of untaken leave as at the year-end to be shown in the CIES with an associated balance sheet entry in creditors.
- These values are not shown in the management accounts as they do not give rise to a contractual cost.
- The differences between management accounts and accounting standards are reflected in the Accumulated Absence Reserve.

**Grant Treatments**

- The management accounts show those grants applied to expenditure in-year. This results in a balanced outturn position where income matches expenditure.
- Accounting standards require us to treat grants as income received through the CIES where the conditions of use have been met, even if the resource has not been applied to expenditure. This treatment effects Core Grant unapplied and IST Revenue grant unapplied, which have both

been recognised in the CIES and taken to the General Fund. Where the conditions of capital grants have been met but not applied to expenditure, the balance of grant is taken to Capital Grants Unapplied.

## **Looking Ahead to 2019/20**

As an employer in our own right following statutory status, we are now able to continue to attract and retain the best people, deliver against our plans and confirm our role as the strategic authority for transport in the North of England.

2019/20 will see us bringing the Strategic Transport Plan to life, as we identify the programmes and projects that will help deliver the transformational economic growth and quality of life for the people of the North.

There are key milestones across all our major programmes which we have put the foundations in place to deliver.

To achieve this overarching vision and ensure consistency of approach in all we do, all of our work and planning is underpinned by a central vision linking our short, medium and longer-term plans to our objectives at an organisational, departmental and individual level.

In addition, we will also carry out a Strategic Planning exercise. This will allow us to agree our future role with partners and provide the basis for our Medium-Term Financial Strategy. This exercise be undertaken during the first half of 2019/20 so as to be able to inform next year's business planning process, as well as the Spending Review that will take place later this year.

## **Financial Planning 2019/20**

Following TfN achieving statutory status, the 2018/19 financial year resulted in significant change to the financial operating environment in which we operate. We are now directly responsible for our own financial affairs and subject to the same statutory frameworks as partner local transport and combined authorities.

This, together with our relationship with the Department for Transport, sets the parameters within which we will manage our operations in relation to funding.

The 2019/20 business planning process identified our key strategic priorities and identified a common 'golden thread' from strategy to delivery. This 'golden thread' ensured that when detailed individual departmental plans were being designed and objectives set, there was a common and coordinated approach to delivery across the organisation. These common goals are what underpin the expenditure profile and budget for 2019/20.

These budgets are underpinned by a reserves strategy, which serves as our back-stop mitigation against financial risk.

## **Value for Money**

We recognise the absolute requirement to deliver our programme of works efficiently and effectively. The procurement of goods and services from external suppliers represents a major element of our expenditure. In order to ensure value for money, we have implemented a procurement framework that requires that the procurement of goods or services includes a competitive process that is appropriate to the value and complexity of the services/products and also minimises barriers for suppliers to participate in such exercises.

## **Expenditure**

In order to deliver the activity, set out in our Business Plan, we have a total budgeted expenditure for 2019/20 of £105.11m. This includes £68.61m of underlying programme expenditure, £27.38m of programme contingency and £9.11m of expenditure on core operations. As a Sub-national Transport Body, we are unable to recover VAT on our purchases of goods and services.

In 2019/20 it is expected that there will be three elements of the programme budget:

<b>Programme</b>	<b>£m</b>
Integrated & Smart Ticketing	36.28
Northern Powerhouse Rail	29.76
Major Roads (Strategic Development Corridors)	2.57
	<b>68.61</b>

In addition, the programme budgets include contingencies of £27.38m, in excess of 95% of which represents contingency and optimism bias in IST capital budgets.

The operational budget covers the functions of the back, middle, and front office of the organisation along with the business infrastructure. We are subject to the same regulatory environment as local and combined authorities and must discharge our responsibilities as an autonomous body. We must also act in accordance with the Memorandum of Understanding that TfN has with DfT.

Accordingly, the activity carried out within these areas represents the required enabling functions familiar to all public sector organisations, but also the teams that develop and deliver upon much of our aspirations. The total value of the operational budget is £9.11m, with the expenditure falling as follows:

<b>Core Operational Area</b>	<b>£m</b>
Leadership	£0.27
Finance & Business Systems	£1.23
Business Capabilities	£4.23
Programme Management Office	£0.39
Strategy & Policy	£3.68
Strategic Rail	£1.06
Rail North Partnership	£0.86
<b>Gross Total</b>	<b>£11.72</b>
Recharges to Programmes	-£2.61
<b>Net Total</b>	<b>£9.11</b>

Transport for the North will remain almost entirely funded by grants from the Department for Transport. Aside from a £10m Core grant funding allocation, this funding is ringfenced for the purpose for which it has been allocated and in the main can only be drawn down as and when it is required. The funding that we are able to draw on during the year to pay for our budgeted expenditure is as follows:

<b>Resource</b>	<b>£m</b>
Core Revenue Grant	£10.00
General Fund Core Grant Reserves	£1.46
Rail North Grant & Contributions	£1.18
Integrated and Smart Ticketing Grants	£62.46
Transport Development Fund	£30.00
	<b>£105.11</b>

The updated reserves strategy forecast a year-end General Fund Reserve of £4.96m, created from Core Grant underspends in prior years. It was agreed that £1.46m of this balance be drawn upon in 2019/20 to help meet the spike in the cost-base that will occur in year, including finalising the Strategic Corridor Studies and one-off costs of completing TfN's initial programme of work. This, along with specific earmarking, would reduce the reserve levels to £3.20m by the end of 2019/20, with a further draw of

circa £1m forecast in subsequent years. This will allow us to deliver the level of activity currently expected whilst still allowing us to maintain a reserve of at least £2.00m at the end of 2019/20.

Operations thereafter will be managed within the core funding available year on-year.

## **Financial Outlook**

Transport for the North is almost entirely funded by the Department for Transport. This inevitably means that we are particularly sensitive to Government funding cycles and decisions.

Our current funding packages are largely driven by historic budgetary decisions. Re-commitment of this funding is required periodically to ensure we retain sufficient resource to both deliver our programmes and retain the necessary business infrastructure to deliver our statutory obligations.

Over the coming financial year, Government will conclude a Comprehensive Spending Review (CSR). The CSR will determine the funding to be made available to us over the review period. At this stage it is not clear how long that period will be, nor the funding level that will be made available to us.

As we do not have the same levers to raise revenue as other partner bodies, the uncertainty surrounding the CSR process does leave the organisation vulnerable to funding fluctuations.

To enable us to continue to deliver our functions as a 'going-concern' we are party to a Memorandum of Understanding (MoU) with the Department for Transport which, amongst other things, provides us with sufficient comfort that we are able to plan on a going-concern basis.

Furthermore, the MoU commits the Department to an orderly winddown of our financial affairs should Government make a future decision to either withdraw or reduce our funding allocations.

Reflecting this, we have undertaken our medium-term financial planning on a number of prudent assumptions, notably that our Core Grant funding allocations will continue at their current levels. We have also sought to limit our exposure to potential changes in our discrete programme funding by ensuring that we do not make financial commitments in excess of the funding commitments made to us by government.

We will engage with Department for Transport colleagues and our delivery partners to ensure that our aspirations are represented within the CSR process, and continue to review the suitability of our financial planning assumptions.



# **Independent Auditor's Report to the Members of Transport for the North**

<<To be updated>>

## **Statement of Responsibility for the Accounts**

### **Transport for the North's responsibilities**

Transport for the North is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. In Transport for the North that officer is the Finance Director
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

### **The Finance Director's responsibilities**

The Finance Director is responsible for the preparation of the Statement of Accounts for Transport for the North 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 Finance Director has:

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

The Finance Director has also:

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

### **Certificate of the Finance Director**

I certify that the Statement of Accounts gives a true and fair view of the financial position of the organisation at the accounting date and of the income and expenditure for the year ended 31 March 2019.

*Iain Craven*

.....

Iain Craven  
Finance Director  
31 May 2019

### **Chairman's certificate**

I certify that the Statement of Accounts for the year ended 31 March 2019 was approved at the meeting of the Board on 31 July 2019.

Signed on behalf of Transport for the North

.....

John Cridland  
Chairman of Board  
31 July 2019



## Financial Statements and Disclosure Notes

### Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from grants and other income. Authorities generate income to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost.

		2018/19		
		Gross Expenditure	Gross Income	
		£000	£000	
Notes			Net	
			£000	
	Major Roads Programme (Strategic Development Corridors)	2,638	(99)	2,539
	Northern Powerhouse Rail	14,173	(13,379)	794
	Integrated and Smart Ticketing	4,129	(5,974)	(1,845)
	Operational Areas	10,956	(1,081)	9,876
	<b>Cost of Services</b>	<b>31,896</b>	<b>(20,532)</b>	<b>11,364</b>
11	Financing and Investment Income and Expenditure	134	(154)	(20)
12	Taxation and Non-Specific Grant Income	0	(23,470)	(23,470)
	<b>Surplus or Deficit on Provision of Services</b>	<b>32,030</b>	<b>(44,156)</b>	<b>(12,126)</b>
29	Remeasurement of the net defined benefit liability / asset			989
	<b>Other Comprehensive Income and Expenditure</b>			<b>989</b>
	<b>Total Comprehensive Income and Expenditure</b>			<b>(11,137)</b>

## Movement in Reserves Statement

The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by TfN, analysed into 'usable reserves' that can be used to resource expenditure alongside income received in year and other 'unusable reserves'. The Statement shows how the movements in year of TfN's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to income for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Capital Grants Un- applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Opening balances pre transfer</b>	0	0	0	0	0	0	0
Opening Asset Balance Transferred	0	0	0	0	0	(547)	(547)
<b>Movement in reserves during 2018/19</b>							
Surplus or deficit on the provision of services	(12,126)		(12,126)		(12,126)		(12,126)
Other Comprehensive Income / Expenditure						989	989
<b>Total Comprehensive Income and Expenditure</b>	<b>(12,126)</b>	<b>0</b>	<b>(12,126)</b>		<b>(12,126)</b>	<b>989</b>	<b>(11,137)</b>
Adjustments between accounting basis and funding basis under regulations - Note 09	4,605		4,605	(2,106)	2,499	(2,499)	0
<b>Net Increase or Decrease before Transfers to Earmarked Reserves</b>	<b>(7,521)</b>	<b>0</b>	<b>(7,521)</b>	<b>(2,106)</b>	<b>(9,627)</b>	<b>(1,510)</b>	<b>(11,137)</b>
Transfers to / from Earmarked Reserves - Note 10	1,944	(1,944)	0		0	0	0
<b>Increase or Decrease in 2018/19</b>	<b>(5,577)</b>	<b>(1,944)</b>	<b>(7,521)</b>	<b>(2,106)</b>	<b>(9,627)</b>	<b>(1,510)</b>	<b>(11,137)</b>
<b>Balance at 31 March 2019</b>	<b>(5,577)</b>	<b>(1,944)</b>	<b>(7,521)</b>	<b>(2,106)</b>	<b>(9,627)</b>	<b>(2,057)</b>	<b>(11,684)</b>

## Balance Sheet

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

Reserves are reported in two categories. The first category of reserves are usable reserves: those reserves that TfN may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that TfN is not able to use to provide services. This category of reserves includes reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

		31 March 2019
Notes		£000
14	Intangible Assets	5,824
	<b>Long Term Assets</b>	<b>5,824</b>
15	Short Term Debtors	178
16	Cash and Cash Equivalents	14,371
	<b>Current Assets</b>	<b>14,549</b>
17	Short-Term Creditors	(4,087)
18	Provisions	(77)
26	Grants Receipts in Advance - Revenue	(893)
	<b>Current Liabilities</b>	<b>(5,058)</b>
29	Pension Liability	(3,631)
	<b>Long Term Liabilities</b>	<b>(3,631)</b>
	<b>Net Assets</b>	<b>11,684</b>
19	Usable Reserves	(9,627)
20	Unusable Reserves	(2,057)
	<b>Total Reserves</b>	<b>(11,684)</b>



## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of TfN during the reporting period. The statement shows how TfN generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. Cash flows from operating activities cover the inflows and outflows from TfN's regular business activities, and do not include investing activities (such as the purchase of activities) or financing activity (such as borrowing and cash management activities). . Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery, such as the intangible assets under development. As TfN does not have powers to access credit – such as loans and overdrafts – it does not have cash flows relating to financing activities.

		2018/19
Note		£000
	Net (surplus) or deficit on the provision of services	(12,126)
	Adjustment to surplus or deficit on the provision of services for noncash movements	(7,279)
	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	7,328
21	<b>Net cash flows from operating activities</b>	<b>(12,076)</b>
22	Net cash flows from investing activities	(2,295)
	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>(14,371)</b>
	Cash and cash equivalents at the beginning of the reporting period	0
	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>14,371</b>

## Note 1 -Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) Statement shows how annual expenditure is used and funded from resources (principally grant) by TfN in comparison with those resources consumed or earned by the organisation in accordance with generally accepted accounting practices.

It also shows how this expenditure is allocated for decision making purposes between the TfN's management and reporting areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

	<b>Net Expenditure Chargeable to the General Fund Balance</b>	<b>2018/19 Adjustments</b>	<b>Net Expenditure in the Comprehensive Income and Expenditure Statement</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Major Roads Programme (Strategic Development Corridors)	2,513	26	2,539
Northern Powerhouse Rail	743	52	795
Integrated and Smart Ticketing	(1,944)	99	(1,845)
Operational Areas	7,026	2,850	9,875
<b>Net Cost of Services</b>	<b>8,337</b>	<b>3,026</b>	<b>11,364</b>
Other Income and Expenditure	(15,858)	(7,631)	(23,489)
<b>Surplus or Deficit on Provision of Services</b>	<b>(7,521)</b>	<b>(4,605)</b>	<b>(12,126)</b>
Opening Combined General Fund Balance	0		
	(7,521)		
Plus / less Surplus or Deficit on the General Fund Balance for the Year (Statutory basis)			
<b>Closing Combined General Fund Balance</b>	<b>(7,521)</b>		

## Note 2 - Note to the Expenditure and Funding Analysis

	<b>Net Capital Statutory Adjustments</b>	<b>Net Pensions Statutory Adjustments</b>	<b>2018/19 Other Statutory Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Major Roads Programme (Strategic Development Corridors)	0	22	4	0	26
Northern Powerhouse Rail	0	38	14	0	52

Integrated and Smart Ticketing	0	74	24	0	99
Operational Areas	301	2,456	94	0	2,850
<b>Net Cost of Services</b>	<b>301</b>	<b>2,590</b>	<b>136</b>	<b>0</b>	<b>3,026</b>
Other Income and Expenditure	(7,683)	52	0	0	(7,631)
	<b>(7,382)</b>	<b>2,642</b>	<b>136</b>	<b>0</b>	<b>(4,605)</b>
<b>Difference between the Statutory Charge and the Surplus or Deficit in the Comprehensive Income and Expenditure Statement</b>					

Adjustments for capital purposes – this column adds in depreciation in the services line.

Other Income and Expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices.

Net Change for the Pensions Adjustments - Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income.

- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

- For Other Income and Expenditure – the net interest on the defined benefit liability is charged to the CIES.

### Note 3 - Accounting Policies

#### Going Concern Basis

TfN accounts for its operations on a going concern basis. This assumes that TfN will continue in operation for the foreseeable future.

TfN is party to a Memorandum of Understanding (MoU) with the Department for Transport that gives it the required comfort that it will continue to receive the necessary funding to discharge its statutory obligations into the future. Furthermore, the MoU commits the Department to an orderly winddown of TfN's affairs should future decisions be made by Government that either end or reduce TfN's funding.

#### Qualitative Characteristics

The usefulness of financial statements is enhanced if they are comparable between similar organisations and between financial years. The Code of Practice promotes comparability by designating the form and content of the financial statements.

The Code of Practice outlines the requirements of transfers by absorption accounting. From the 1<sup>st</sup> April 2018, TfN will account for the transfer in by absorption accounting of the activity undertaken by Transport for the North in its non-statutory shadow function. Prior year comparator information for this activity is not required to be included by section 2.5 of the Code of Practice, therefore full comparison between financial periods cannot be made in these statements.

#### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership transfers to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to TfN.

Revenue from contracts with service recipients is recognised when the percentage of completion of the transaction can be reliably measured and it is probable that economic benefits or service potential associated with the transaction will flow to TfN.

Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.

Expenses in relation to services received are recorded as expenditure when the services are received, rather than when payments are made.

Interest receivables (deposit income) on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

All deposits placed within instant access call accounts, money market funds should be classified in the accounts as cash equivalents due to these being highly liquid investments which offer instant access to the funds and are therefore deposited to meet short term cash requirements.

All fixed term investments are not classified as cash equivalents as at the point of making the deposit TfN is unable to convert these to cash until the maturity date of the investment.

### **Exceptional Items/Material Items of Income and Expenditure**

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts. Where they are disclosed is dependent on how significant the items are to the understanding of TfN's financial performance.

### **Events After the Reporting Period**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period, and the date the Statement of Accounts is authorised for issue.

Three types of event can be identified:

1. Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts are adjusted to reflect such events.
2. Those that are indicative of conditions that arose after the reporting period – the financial statements are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.
3. Events taking place after the date of authorisation for issue are not reflected in the financial statements.

## **Financial Instruments**

### Financial assets

Financial assets are classified into two types:

1. loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and,
2. available for sale assets – assets that have a quoted market price and / or do not have fixed or determinable payments.

### Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when TfN becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument. This results in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable, with the difference serving to increase the amortised cost of the loan on the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year. The reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

### **Government Grants & Contributions**

Whether paid on account, by instalments, or in arrears, government grants and third party contributions and donations are recognised as due to TfN when there is reasonable assurance that:

- TfN will comply with the conditions attached to the payments; and,
- The grants or contributions will be received.

Amounts recognised as due to TfN are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are

stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution, are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. When it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Applying the principles of symmetry, where TfN awards a grant to a third party, the grant expenditure is recognised as payable when TfN has reasonable assurance that:

1. The grant recipient will comply with the conditions attached to the payments; and,
2. The grants or contributions will be paid.

Capital grants are recognised in the Comprehensive Income and Expenditure Statement as Revenue Expenditure Funded by capital under statute (REFCUS) under the relevant service line. This expenditure is reversed out of the General Fund Balance in the Movement in Reserves Statement to the Capital Adjustment Account.

### **Overheads and Support Services**

Costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

Principally, programme areas in receipt of permissive discrete grant will be recharged for the incremental costs of support teams on a calculated basis as agreed by the Finance Director.

## **Provisions, Contingent Liabilities and Contingent Assets**

### **Provisions**

Provisions are made where an event has taken place that gives TfN a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Group becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.



Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

## **Reserves**

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund. When the expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits, and do not represent usable resources for TfN.

## **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset that has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where TfN has determined to meet the cost of this expenditure from existing capital resources a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the revenue finances of TfN.

## **Value Added Tax (VAT)**

TfN neither provides services for consideration nor is able to recover the VAT incurred on expenditure.

Costs are shown gross of VAT within the relevant service lines on the face of the CIES.

## **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by TfN as a result of past events (e.g. software development) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to TfN.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and TfN will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

TfN determines a project to be technically feasible when it has passed an outline business case government approval gateway, or another appropriate review point undertaken by suitably qualified professionals.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise TfN's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by TfN can be determined by reference to an active market.

The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an intangible asset has an indefinite useful life it shall not be amortised. Instead, it will be reviewed annually for impairment.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## **Employee Benefits**

### **Benefits Payable During Employment**

Short term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to TfN.

### **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by TfN to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when TfN can no longer withdraw the offer of those benefits or when TfN recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by TfN to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### **Post-Employment Benefits**

Employees of TfN are enrolled in the Local Government Pension Scheme. TfN pays an employer's contribution into the Greater Manchester Pension Fund, which is a fully funded defined benefit scheme administered by Tameside Metropolitan Borough Council.

The liabilities of the Greater Manchester Pension Fund attributable to TfN are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees,

based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

#### **Note 4 - Accounting Standards Issued, Not Adopted**

The 2019/20 Code of Practice on Local Authority Accounting includes the following standards that have been issued but not yet adopted:

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 - 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

These will not have an impact on Transport for the North's financial statements.

#### **Note 5 - Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in the Accounting Policies, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are as follows:

- As the majority of TfN funding comes from grants awarded by the Department for Transport, a key judgement is whether the grants include conditions or restrictions which impact on the recognition of these grants through the Comprehensive Income and Expenditure Statement. At the year-end TfN has both Capital Grants Unapplied and Grant Receipts in Advance (Revenue)
- Costs in respect of the development of the complex information systems for Phases 2 and 3 of the Integrated and Smart Ticketing programme are identified as Assets under Construction within Intangible Assets

#### **Note 6 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority 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.

##### *Pension Liability*

Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are expected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. TfN engaged Hymans Robertson LLP as consulting actuaries to provide expert advice as to the assumptions to apply.

The effect on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the Real Discount Rate would increase the defined benefit obligation by almost £1.2m. However, the assumptions interact in complex ways; details of the sensitivities are set out in Note 29.

## **Note 7 - Material Items of Income and Expense**

Within the *Operational Areas* heading in the CIES is included the net pension liability transfer of staff that moved to TfN on 1 July 2018 as a past service cost. The net pension liability was £2.22m, with the gross analysis of liability of £5.54m and assets of £3.31m being shown in Note 29.

## **Note 8 - Events After the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Director of Finance on 31 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

## **Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations**

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

### **- General Fund Balance -**

The General Fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that TfN is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that TfN is required to recover) at the end of the financial year.

### **- Capital Grants Unapplied -**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which TfN has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

<b>2018/2019</b>	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Unapplied</b>	<b>Movement in Unusable Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Adjustments to the Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Pension cost (transferred to (or from) the Pensions Reserve)	(2,642)			2,642
Holiday pay (transferred to the Accumulated Absences reserve)	(136)			136
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	7,028		(2,106)	(4,922)
Total Adjustments to Revenue Resources	4,250	0	(2,106)	(2,144)
Adjustments between Revenue and Capital Resources				
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	355			(355)
Total Adjustments between Revenue and Capital Resources	355	0	0	(355)
<b>Total Adjustments</b>	<b>4,605</b>	<b>0</b>	<b>(2,106)</b>	<b>(2,499)</b>

## Note 10 - Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure.

	<b>Balance at 31 March 2018</b>	<b>Transfers In 2018/19</b>	<b>Transfers Out 2018/19</b>	<b>Balance at 31 March 2019</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>General Fund Reserves:</b>				
Integrated and Smart Ticketing Revenue Funding Reserve	0	(1,944)	0	(1,944)
<b>Total General Fund</b>	<b>0</b>	<b>(1,944)</b>	<b>0</b>	<b>(1,944)</b>

## Note 11 - Financing and Investment Income and Expenditure

This note shows the incidental income generated by holding cash on deposit until it is required to resource expenditure, and also the interest costs associated with pension liabilities.

	<b>2018/19</b>
	<b>£000</b>
Interest payable and similar charges	0
Net interest on the net defined benefit liability (asset)	52
Interest receivable and similar income	(72)
<b>Total</b>	<b>(20)</b>

## Note 12 - Taxation and Non-Specific Grant Income

TfN does not have legal powers to raise precepts on the northern tax base and is almost entirely funded from grant resource. Some of this grant resource is discrete to programmes of activity and comes with restrictions on its use. Other grant, such as TfN's Core grant, is awarded without restrictions and is accounted for as 'non-specific' grant.

This note shows the value of non-specific grants and those capital grants not shown on the service lines of the Comprehensive Income and Expenditure Statement that have been recognised in year.

	<b>2018/19</b>
	<b>£000</b>
Non-ringfenced government grants	(16,141)
Capital grants and contributions	(7,328)
<b>Total</b>	<b>(23,470)</b>

## Note 13 - Expenditure and Income Analysed by Nature

This note analyses TfN's income and expenditure by standardised descriptors. The note highlights that TfN is almost entirely funded from governmental grant and contributions, whilst the costs associated with professional service contracts and programme delivery is shown in 'other service expense.'

	2018/19
<b>Nature of Expenditure or Income</b>	<b>£000</b>
Fees, charges and other service income	0
Support Service recharge income	0
Interest and investment income	(154)
Income from local taxation	0
Government grants and contributions	(44,002)
Other income	0
Employee benefits expenses	8,517
Support service recharge expenditure	0
Other service expenses	23,078
Depreciation, amortisation and impairment	301
Interest payments	134
Precepts and levies	0
Gain or loss on disposal of non-current assets	0
Other expenditure	0
<b>Surplus or Deficit for Year</b>	<b>(12,126)</b>

## Note 14 - Intangible Assets

TfN accounts for its software and software development as intangible assets.

This note recognises the development of complex information systems for Phases 2 and 3 of the Integrated and Smart Ticketing programme which is aiming to deliver improvements to the way in which passengers access journey time and disruption information and enable the implementation of smart payment systems across the northern passenger transport network. This activity is shown as under construction as the assets are not yet operational.

The note also recognises the development and implementation of TfN's enterprise resource planning (ERP) system. The ERP system is in use and is shown under the 'operational assets' column.

The intangible assets include both purchased licenses and the costs of internally generated software development. Where assets are operational they are amortised in line with TfN's accounting policies.

	<b>Assets Under Construction</b>	<b>2018/19 Operational Assets</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at start of year:			
Opening balance transfer	0	547	547
Accumulated amortisation	0	0	0
Purchases	5,223	355	5,577
Amortisation for the period	0	(301)	(301)
<b>Net carrying amount at end of year</b>	<b>5,223</b>	<b>601</b>	<b>5,824</b>
Comprising:			
Gross carrying amounts	5,223	902	6,125
Accumulated amortisation	0	(301)	(301)
<b>Total</b>	<b>5,223</b>	<b>601</b>	<b>5,824</b>

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the authority. The useful lives assigned to the major software suites used by the authority are:

<b>Useful Life (Years)</b>	<b>Internally Generated Assets</b>	<b>Other Assets</b>
ERP	3	0
Integrated Smart Ticketing	5	0



## Note 15 - Debtors

This note shows the value of money owed to TfN and the value of prepayments recognised.

Sums due from TfN Partners reflects contributions due from Rail North authorities.

	<b>31 March 2019</b>
	<b>£000</b>
Employees	16
Prepayments	90
TfN Partners	68
Other	4
<b>Total Debtors</b>	<b>178</b>

## Note 16 – Cash & Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	<b>31 March 2019</b>
	<b>£000</b>
Cash and Bank balances	4,371
Short Term Investments	10,000
<b>Total Cash and Cash Equivalents</b>	<b>14,371</b>

## Note 17 - Creditors

This note shows the value of obligations to employees and suppliers.

Obligations to employees include the accounting value associated with the accumulated absence provision – the financial cost of untaken leave as at the financial year-end.

Amounts owed to train operating companies are principally reflective of the grant arrangements in place to support the implementation of the ITSO on Rail smart ticketing project.

Amounts owed to TfN partners include the costs of staffing secondment arrangements, contractual costs for operational support, and the rail studies undertaken by Network Rail acting as the system operator for the northern rail network in support of the Northern Powerhouse Rail programme.

	<b>31 March 2019</b>
	<b>£000</b>
Employees	(161)
<b>Train Operating Companies:</b>	
Arriva Rail North	(244)
Transpennine Express	(351)
Merseytravel	(51)
<b>TfN Partners:</b>	
Liverpool City Region	(1)
Nexus	(98)

Transport for Greater Manchester	(134)
Network Rail	(1,613)
<b>Trade Suppliers</b>	<b>(1,434)</b>
<b>Total Creditors</b>	<b>(4,087)</b>

## Note 18 - Provisions

Provisions reflect the amount set aside for probable, but uncertain, economic obligations. These include forecast amounts due to HMRC for TfN's PAYE Settlement Agreement and forecast amounts due to settle contractual issues with suppliers.

<b>Total Provisions</b>	<b>2018/19</b>
	<b>£000</b>
Opening Balance	0
Increase in provision during year	(77)
<b>Closing Balance</b>	<b>(77)</b>

## Note 19 - Usable Reserves

Movements in the authority's usable reserves are detailed in the Movement in Reserves Statement.

The following table shows the receipt of capital grants for which conditions of use have been met yet not applied to expenditure. This reflects receipts of capital grant for Integrated and Smart Ticketing expenditure which will be applied to expenditure in future accounting periods.

### Usable Reserves

	<b>31 March 2019</b>
	<b>£000</b>
Balance 1 April	0
Capital grants recognised in year	(2,106)
Earmarked revenue grants	(1,944)
General Fund	(5,577)
<b>Balance 31 March</b>	<b>(9,627)</b>

## Note 20 - Unusable Reserves

This note recognises those reserves that do not contain resource that could be applied to meet TfN's funding requirements. These are largely accounting reserves where the effects of timing differences and statutory overrides of accounting rules are recognised:

	<b>31 March 2019 £000</b>
Capital Adjustment Account	(5,824)
Pension Reserve	3,631
Accumulated Absences Account	136
<b>Total</b>	<b>(2,057)</b>

The Capital Adjustment Account reflects the funding of capital expenditure over the course of the year, the depreciation of those assets, and the treatment of capital expenditure that does not result in the creation of an asset for TfN.

This latter issue, known as revenue expenditure funded from capital under statute (REFUCS), reflects the transactions undertaken in Phase 1 of the Integrated and Smart Ticketing programme where TfN has granted capital resource to train operating companies to enable them to deliver TfN's ITSO on Rail aspirations.

The Capital Adjustment Account allows TfN to adjust for transactions that would otherwise impact upon the General Fund Balance:

### Capital Adjustment Account

	<b>31 March 2019 £000</b>
<b>Balance 1 April</b>	0
Opening Asset Balance Transferred	(547)
<b>Revised Opening Balance</b>	<b>(547)</b>
Charges for depreciation and impairment of non-current assets	0
Revaluation losses on non-current assets	0
Amortisation of intangible assets	301
Revenue expenditure funded from capital under statute	2,974
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0
Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	3,275
Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(8,197)

Capital expenditure charged against the General Fund balance	(355)
<b>Capital financing applied in year:</b>	<b>(8,551)</b>
<b>Balance 31 March</b>	<b>(5,824)</b>

The pension reserve is the means by which the differences between the accounting treatment of pension liabilities and statutory treatment of those liabilities is adjusted.

Under statute TfN must make annual provisions for its pension liabilities. These are the costs represented in the management outturn position and the value of cash transfers to the Greater Manchester Pension Fund.

Accounting rules require these transactions to be removed from the CIES and replaced by transactions that reflect the accounting requirements. To ensure those accounting rules do not impact upon the General Fund balance, those transactions are then reversed into the Pension Reserve.

In year, these reversals ensure that the General Fund Balance does not bear the cost of the increased deficit shown from the absorption of the pension deficit recognised post TUPE transfer, and the increase in the deficit at the valuation point due to adjustments to economic assumptions.

#### **Pension Reserve**

	<b>31 March 2019</b>
	<b>£000</b>
Balance 1 April	0
Remeasurements of the net defined benefit (liability)/asset	989
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	3,318
Employer's pensions contributions and direct payments to pensioners payable in the year	(676)
Other movements	0
<b>Balance 31 March</b>	<b>3,631</b>

Under accounting standards TfN is required to show the financial cost (inclusive of on-costs) of untaken leave at the financial year-end, regardless of whether contracts of employment allow that untaken leave to be converted in remuneration.

This cost is then recognised in the CIES and as a creditor on the balance sheet. To ensure that this cost does not impact upon the General Fund Balance, the cost is then reversed into the Accumulated Absence Account.

**Accumulated Absences Account**

	<b>31 March 2019</b>
	<b>£000</b>
<b>Balance 1 April</b>	0
Settlement or cancellation of accrual made at the end of the preceding year	0
Amounts accrued at the end of the current year	136
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	136
<b>Balance 31 March</b>	<b>136</b>

## Note 21 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

	<b>31 March 2019</b>
	<b>£000</b>
Interest received	(72)
Interest paid	0
Dividends received	0
<b>Total</b>	<b>(72)</b>

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	<b>31 March 2019</b>
	<b>£000</b>
Depreciation	0
Impairment and downward valuations	0
Amortisation	(301)
(Increase)/decrease in impairment for bad debts	0
(Increase)/decrease in creditors	(4,436)
Increase/(decrease) in debtors	178
Increase/(decrease) in inventories	0
Movement in pension liability	(2,642)
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	0
Other non-cash movements charged to the surplus or deficit on provision of services	(77)
<b>Total</b>	<b>(7,279)</b>

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

	<b>31 March 2019</b>
	<b>£000</b>
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0
Any other items for which the cash effects are investing or financing cash flows	7,328
<b>Total</b>	<b>7,328</b>

## Note 22 - Cash Flow from Investing Activities

	<b>31 March 2019</b>
	<b>£000</b>
Purchase of property, plant and equipment, investment property and intangible assets	5,033
Purchase of short-term and long-term investments	0
Other payments for investing activities	0
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0
Proceeds from short-term and long-term investments	0
Other receipts from investing activities	(7,328)
<b>Net cash flows from investing activities</b>	<b>(2,295)</b>

## Note 23 - Members' Allowances

The authority paid the following amounts to the Independent Members of its Audit and Governance Committee during the year.

	<b>31 March 2019</b>
	<b>£</b>
Independent Committee Members	800

## Note 24 - Officers' Remuneration

Under statutory provisions TfN is required to disclose the remuneration of senior officers. Senior officers include the Head of Paid Service – TfN's principal paid officer – and those officers who report to that post or hold statutory office. TfN also discloses the pay of its Chairman as an individual in a position of significant influence.

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

Role	Name	Salaries £	Super- annuation £	Taxable Allowances £	Professional Memberships £
Chief Executive (Head of Paid Service)	Barry White	153,750	26,661	18,331	415
Chairman (pro-rata)		45,000			
- <i>Chairman full-time equivalent</i>		220,000			
IST Programme Director		137,765	25,181		
NPR Programme Director		137,434	25,119	1,060	335
Major Roads Programme Director		114,828	20,989	820	304
Strategic Rail Director		104,980	20,773	1,067	
Rail North Partnership Director		104,980	20,773		
Chief Financial Officer (Section 151)		138,280	25,278	1,002	375
Business Capabilities Director		113,397	20,720		
Head of Legal Services (Monitoring Officer)		76,669	14,013	1,222	368

TfN is also required to disclose the number of officers whose remuneration is in excess of £50,000. Remuneration is inclusive of salaries and other taxable benefits, but not employer pension contributions. This disclosure is made in bands of £5k and does not include those senior-officers detailed above:

Number of Employees	
£50,000 - £54,999	9
£55,000 - £59,999	4
£60,000 - £64,999	2
£65,000 - £69,999	6
£70,000 - £74,999	2
£75,000 - £79,999	5
£80,000 - £84,999	1

## Note 25 - External Audit Costs

This note reflects the cost of TfN's external audit for the financial year.

2018/19	
	£000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	33
<b>Total</b>	<b>33</b>



## Note 26 - Grant Income

TfN is almost entirely funded from grants and contributions. Those values can be recognised in the CIES either on the non-specific income line, or on the services lines.

The distinction between the two treatments principally reflects conditions or restrictions on those grants, and whether the grants are for capital or revenue expenditure.

Grants that are restricted to discrete activity are shown on the service lines. Capital grants supporting revenue expenditure funded from capital under statute (REFCUS), such as those that support the Phase 1 capital expenditure in support of the ITSO on Rail project, are also shown on the service line to reflect that that expenditure is shown in the CIES.

Grants without restrictions, and capital grants that have either been applied to expenditure or are yet to be applied to expenditure are recognised on the non-specific grant income line.

The following note details all grants recognised in this manner:

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

31 March 2019

£000

Core Grant	(16,141)
Integrated & Smart Ticketing Phase 1	(1,408)
Integrated & Smart Ticketing OBC Development	(920)
Integrated & Smart Ticketing Capital	(5,000)
<b>Total</b>	<b>(23,470)</b>

### Credited to Services

31 March 2019

£000

NPR Transport Development Fund	(13,379)
Integrated & Smart Ticketing Phase 1	(2,974)
Integrated & Smart Ticketing Revenue	(3,000)
Rail North Partnership Grant	(500)
Trans-Pennine Tunnel Traffic Modelling	(99)
Rail North Local Contributions	(56)
Rail North Rail Grant (via Local Contributions)	(524)
<b>Total</b>	<b>(20,532)</b>

### Grants Receipts in Advance (Revenue Grants) - Current Liabilities

Grants with restrictions that may require unused allocations to be returned are shown as grants received in advance as a current liability.

Grant received via Transport Development Fund governance must be returned to the Department for Transport if not required.

31 March 2019

£000

NPR Transport Development Fund	(873)
Trans-Pennine Tunnel Traffic Modelling	(21)
<b>Total</b>	<b>(893)</b>

## Note 27 - Related Parties

Transport for the North's Board is made up of elected and Local Enterprise Partnership (LEP) representatives from all areas of the North, along with Secretary of State for Transport and representatives from Highways England, Network Rail and HS2 Ltd.

As a result of this governance structure TfN inevitably enters into a variety of financial transactions with partner organisations with whom we share common control.

This note seeks to highlight areas where transactions could have potentially been entered into other than at arms-length.

### Members

TfN's elected members have direct control over TfN's financial and operating policies. Members' interests outside of TfN are recorded in the register of gifts and hospitality maintained by the Monitoring Officer. These interests include positions held by members in other public bodies and also private interests.

Material financial relationships between TfN and those bodies are detailed below.

### Officers

Officers may be in a position to influence financial or operational practices. There were no transactions in 2018/19 with bodies in which officers had a pecuniary interest and were able to exercise such an influence.

### Funding

TfN is almost entirely funded from the Department for Transport. The Secretary of State for Transport is represented on the TfN Board leading to common control. Over the course of the financial year, grant to a value of £35.13m was received from the Department.

TfN is the recipient of local funding contributions for its Rail North activities. These contributions are made by the Rail North authorities (detailed in the narrative statement) and amounted to £0.58m in the year. The northern Rail North authorities are represented on the TfN Board, whilst all authorities sit on the Rail North Committee.

In quarter one of 2018/19 Transport for the North received cash transfers from Greater Manchester Combined Authority (GMCA) totaling £9.79m. These transfers represented the unapplied Department for Transport grants received by GMCA during its role as financial accountable body for TfN activity prior to the 1<sup>st</sup> April 2018. GMCA is represented on the TfN Board.

### Expenditure

Over the course of the year TfN was party to a number of arrangements where partner bodies supplied goods or services to the organisation.

Transport for Greater Manchester (TfGM) is the regional transport executive for Greater Manchester and controlled via GMCA, a TfN Board member. Throughout the year TfGM have provided elements of ICT and facilities management support to the organisation on a contractual basis, whilst over quarter one TfGM also acted as the employing body for the majority of the organisation's officers via a hosting agreement. TfGM were also reimbursed for the costs of a number of supply contracts entered into on behalf of TfN before 1<sup>st</sup> April 2018. In total, TfN incurred expenditure of £4.24m with Transport for Greater Manchester.

West Yorkshire Combined Authority (WYCA) are a TfN Board member. During quarter one of 2018/19 WYCA acted as the employing body for a number of officers via a hosting agreement. The costs of this arrangement and other supplies of services totaled £0.27m.

Contracts were entered into with Merseytravel for employee hosting arrangements in quarter one, whilst grant support was also awarded with relation to Phase 1 of the Integrated and Smart Ticketing

programme. These transactions totaled £0.23m. Merseytravel is the passenger transport executive for the Liverpool City Region area.

Nexus are the passenger transport executive for the North East Combined Authority and the North of Tyne Combined Authority. During the year Nexus supplied staff to the Integrated and Smart Ticketing programme at a cost of £0.1m.

Network Rail are the system operator for the northern rail network and are also represented on the TfN board. During the year, TfN engaged Network Rail in a number of rail studies in support of the Northern Powerhouse Rail programme. The cost of this activity in year was £11.07m.

## Note 28 - Capital Expenditure and Capital Financing

During the year TfN incurred capital expenditure totalling £8.55m. This expenditure was principally incurred in delivering the Integrated and Smart Ticketing programme, but also includes the costs of developing and implementing TfN's ERP system.

The following note reflects that expenditure and sources of finance. Reflecting that TfN is almost entirely grant funded, the majority of this expenditure was funded from capital grant discrete to the Integrated and Smart Ticketing programme.

TfN's ERP system was funded from the Core revenue grant.

### Capital Expenditure and Capital Financing

	<b>31 March 2019</b>
	<b>£000</b>
Opening Capital Financing Requirement	0
Capital Investment:	
Intangible Assets	5,577
Revenue Expenditure Funded from Capital Under Statute	2,974
<b>Total Capital Spending</b>	<b>8,551</b>
Sources of Finance:	
Government Grants and other contributions	(8,197)
Sums set aside from revenue:	
- Direct revenue contributions	(355)
<b>Total Sources of Finance</b>	<b>(8,551)</b>
<b>Closing Capital Financing Requirement</b>	<b>0</b>

## **Note 29 - Defined Benefit Pension Scheme**

As part of the terms and conditions of employment of its officers, TfN makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, TfN has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement.

The Greater Manchester pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of Tameside Metropolitan Borough Council as the administering body. Policy is determined in accordance with the Pensions Fund Regulations. The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (ie largescale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note. We recognise the cost of retirement benefits 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 we are required to make is based on the cash payable in the year, so the real cost of postemployment/retirement 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.

Discretionary Post-retirement Benefits - Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

## General Fund Transactions

2018/19

LGPS

£000

### Comprehensive Income and Expenditure Statement

#### Cost of Services

Current service cost	1,043
Past service cost	2,223
Net interest expense	52
<b>Total charged to Surplus and Deficit on Provision of Services</b>	<b>3,318</b>

#### Other post-employment benefits charged to the Comprehensive Income and Expenditure Statement

£000

Re-measurement of the net defined benefit liability comprising:	
Return on plan assets (excluding the amount included in the net interest expense)	(29)
Actuarial gains and losses arising on changes in demographic assumptions	1,018
<b>Total charged to Other Comprehensive Income and Expenditure Statement</b>	<b>989</b>

<b>Total charged to the Comprehensive Income and Expenditure Statement</b>	<b>4,307</b>
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2018/19

LGPS

### Movement in Reserves Statement

£000

Reversal of net charges made to the Surplus or Deficit on the Provision of Services	(3,318)
Actual amount charged against the general fund balance for pensions in the year:	

Employers' contributions payable to scheme	676
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**Pensions Assets and Liabilities Recognised in the Balance Sheet**

**2018/19**

**LGPS**

**£000**

Present value of the defined obligation	(8,061)
Fair value of plan assets	4,430
<b>Net (liability) / asset arising from the defined benefit obligation</b>	<b>(3,631)</b>

**Movement in the Value of Scheme Assets**

**2018/19**

**LGPS**

Opening fair value of scheme assets	<b>£000</b>
	0

Interest income	82
Re-measurement gain / (loss):	
- The return on plan assets, excluding the amount included in the net interest expense	29
Contributions from employer	676
Contributions from employees into the scheme	330
Transfers in	3,313
<b>Closing value of scheme assets</b>	<b>4,430</b>

**Movements in the Fair Value of Scheme Liabilities**

**2018/19**

**LGPS**

**£000**

Opening balance at 1 April	0
Current service cost	(1,043)
Interest cost	(134)
Contributions from scheme participants	(330)
Re-measurement gains and losses:	
- Actuarial gains / (losses) from changes in demographic assumptions	(1,018)
Past service cost	0

Transfers in	(5,536)
<b>Balance as at 31 March</b>	<b>(8,061)</b>

**LGPS - Pension Scheme - Assets comprised of:**

**Fair value of scheme assets**

	<b>2018/19</b>		
	<b>Quoted</b>	<b>Unquoted</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cash and cash equivalents</b>	<b>111</b>	<b>0</b>	<b>111</b>
<b>Equity Securities</b>			
Consumer	245	0	245
Manufacturing	256	0	256
Energy and Utilities	249	0	249
Financial Institutions	351	0	351
Health and Care	131	0	131
Information Technology	79	0	79
Other	49	0	49
<b>Subtotal Equity Securities</b>	<b>1,359</b>	<b>0</b>	<b>1,359</b>
<b>Debt Securities</b>			
Corporate Bonds (investment grade)	166	0	166
Corporate Bonds (non-investment grade)	29	0	29
UK Government	112	0	112
Other	0	0	0
<b>Subtotal Debt Securities</b>	<b>307</b>	<b>0</b>	<b>307</b>
<b>Private Equity</b>			
All	0	208	208
<b>Subtotal Private Equity</b>	<b>0</b>	<b>208</b>	<b>208</b>
<b>Real Estate</b>			
UK Property	0	210	210
Overseas Property	0	0	0
<b>Subtotal Real Estate</b>	<b>0</b>	<b>210</b>	<b>210</b>
<b>Investment Funds and Unit Trusts</b>			
Equities	1,001	0	1,001
Bonds	551	0	551
Hedge Funds	0	212	212



Commodities	86	382	468
Infrastructure	0	0	0
Other	0	0	0
<b>Subtotal Investment Funds and Unit Trusts</b>	<b>1,639</b>	<b>595</b>	<b>2,233</b>

<b>Derivatives</b>			
Inflation	2	0	2
Interest Rate	0	0	0
Foreign Exchange	0	0	0
Other	0	0	0
<b>Subtotal Derivatives</b>	<b>2</b>	<b>0</b>	<b>2</b>

<b>Total Assets</b>	<b>3,418</b>	<b>1,012</b>	<b>4,430</b>
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We recognise the cost of retirement benefits 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 we are required to make is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The transactions in the preceding table have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

The table above shows the amount included in the Balance Sheet arising from TfN's obligation in respect of its defined benefit plans.

## Assumptions

### Financial

Period Ended	31 March 2019	31 March 2018
	%p.a.	%p.a.
Pension Increase Rate (CPI)	2.4%	2.3%
Salary Increase Rate	3.2%	3.1%
Discount Rate	2.5%	2.9%

### Mortality

Average future life expectancies at age 65 are summarised below:

	Male	Female
Current Pensioners	21.5 years	24.1 years
Future Pensioners#	23.7 years	26.2 years

# Figures assume members aged 45 as at the last formal valuation date.

### Historic mortality

Life expectancies for the prior period end are based on the Fund's VitaCurves. The allowance for future improvements is shown below:

Period ended	Prospective Pensioners	Pensioners
1 July 2018	CMI2013 model assuming the current rate of improvements has peaked and will converge to a long-term rate of 1.25% p.a.	CMI2013 model assuming the current rate of improvements has peaked and will converge to a long-term rate of 1.25% p.a.

Please note that the mortality assumptions used to value the Obligations in the Employer's Closing Position are identical to those used to value the Obligations in the Employer's Opening Position.

### Commutation

An allowance is included for future retirements to elect to take 55% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 80% of the maximum tax-free cash for post-April 2008 service.

## Sensitivity analysis

The sensitivities regarding the principal assumptions used to measure the scheme are set out below:

Change in assumptions at 31 March 2019	Approximate % increase to Defined Benefit Obligation	Approximate monetary amount (£000)
0.5% decrease in Real Discount Rate	15%	1,177
0.5% increase in the Salary Increase Rate	2%	191
0.5% increase in the Pension Increase Rate (CPI)	12%	967

## Note 30 - Leases

### Lessee Operating Leases

TfN have 2 properties held under operating leases. The minimum lease payments due under non-cancellable leases in future years are:

	March 2019
	£000
Not later than one year	338
Later than one year and not later than 5 years	603
More than 5 years	0
<b>Total</b>	<b>941</b>

The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases reflects a rent-free period on one of the leases which has been spread over the life of the lease in accordance with the Code. The charge was therefore £310k.

## Annual Governance Statement 2018/19

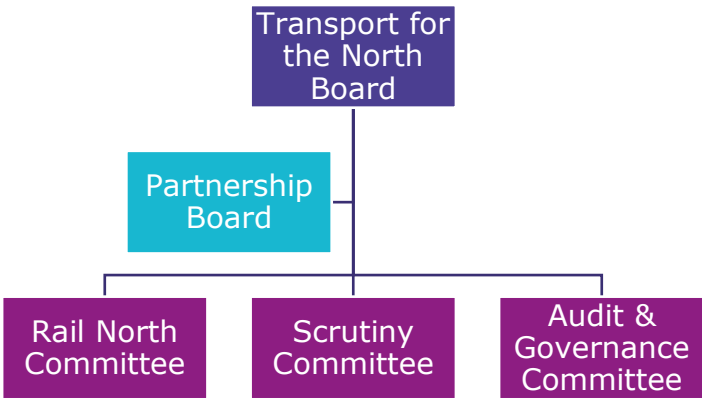
### Introduction

This statement provides an overview of how Transport for the North’s governance arrangements operate and reports on how they have been reviewed to ensure that they provide an effective system of internal control. A summary of the governance challenges that the organisation faces is also given together with an explanation of what actions will be taken to bring about improvements.

Transport for the North was established by the Sub-National Transport Bodies (Transport for the North) Regulations 2018 and came into being on the 1<sup>st</sup> April 2018, holding its inaugural meeting on 5th April 2018. This is therefore its first Annual Governance Statement and the organisation’s Constitution, policies, procedures and systems were all in their first year of operation during 2018/19. As a Sub-National Transport Body, Transport for the North’s core functions are to prepare a transport strategy for the area and to provide advice to the Secretary of State about the exercise of transport functions in the area.

Transport for the North is fully funded in these activities by the Department of Transport. The Transport for the North Board is made up of the representatives of the twenty Constituent Authorities in the North who are the voting Members of the Board, together with representatives of the six Rail North Authorities who are co-opted Members on the Board. At its inaugural meeting the Transport for the North Board also appointed, as co-opted members, the representatives of the eleven Local Enterprise Partnerships in the Transport for the North Area and representatives of Highways England, Network Rail and HS2.

Transport for the North’s governance arrangements are set out in its Constitution. All decisions relating to the Constitution, approval of the Budget and Business Plan and adoption of the Strategic Transport Plan are reserved to the Transport for the North Board. Other decisions are delegated to Committees and the Chief Executive under the arrangements set out in the Constitution. The Rail North Committee oversees the management of the performance of the Northern and TransPennine Express rail franchises under a Partnership Agreement with the Secretary of State for Transport.



### 1.0 Scope of Responsibility

1.1 Transport for the North is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Transport for the North 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.

1.2 In discharging this overall responsibility, Transport for the North is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

1.3 Transport for the North has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code of Governance is included in Transport for the North's Constitution and is on Transport for the North's website at <http://www.transportforthenorth.com>. Alternatively it can be obtained via a written request from the Head of Legal, Transport for the North, 4, Piccadilly Place Manchester M1 3BN. This Annual Governance Statement demonstrates how Transport for the North has reviewed the effectiveness of its internal systems of control and how it has complied with its adopted Code of Governance in carrying out its functions. It is published in accordance with the requirements of regulation 6(1) of the Accounts and Audit Regulations 2015.

## **2.0 Delivering Good Governance in Local Government**

2.1 The governance framework comprises the systems, processes, culture and values, by which Transport for the North is directed and controlled and the processes through which it accounts to and engages with the community. It enables Transport for the North to monitor the achievement of its strategic objectives and to consider whether those objectives will lead to the delivery of its goal of transformational economic growth in the North of England facilitated by improved transport infrastructure.

2.2 The system of internal control is a significant part of the governance 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.

2.3 The system of internal control consists of a number of processes, policies and procedures that have been put in place in order to identify and prioritise the risks to the achievement of Transport for the North's aims and objectives, to evaluate the likelihood and resultant impact of those risks materialising and to manage them efficiently, effectively and economically.

2.4 The governance framework has been in place at Transport for the North from the 5<sup>th</sup> April 2018 until 31<sup>st</sup> March 2019 and up to the date of approval of the Statement of Accounts.

## **3.0 The Corporate Governance Framework**

TfN has adopted a Corporate Governance Framework that incorporates the following Core Principles:

1. Focusing on the purpose of TfN and the outcomes for the community and creating and implementing a vision for the area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for TfN and demonstrating the value of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective;
6. Engaging with local people and stakeholders to ensure robust public accountability;
7. Section 102I of the Local Transport Act 2008 imposes a requirement on Transport for the North, in the preparation of its Strategic Transport Plan to have regard to the promotion of economic

growth and the social and environmental impacts of the implementation of its proposals. This includes having regard for the impact of decisions on future generations.

The table below sets out examples of how Transport for the North has met the principles set out in the CIPFA Framework and also adhered to its governance commitments set out in the Code of Governance and includes hyperlinks to sources of further information.

<b>A Behaving with Integrity, demonstrating strong commitment to ethical values and respect for the rule of law</b>	
<b>Core Principle</b> <b>Promoting values for TfN and demonstrating the value of good governance through upholding high standards of conduct and behaviour.</b>	
<i>How we met the principle</i>	<i>Evidence</i>
Those Members of Transport for the North who are elected Members of a Local Authority are expected to adhere to the adopted Code of Conduct of their Local Authority while carrying out their duties in respect of Transport for the North. Other co-opted Members are expected to adhere to the Cabinet Office's Code of Conduct for Board Members of Public Bodies.	Constitution
Transport for the North has adopted a Code of Conduct for Officers and a Protocol on Member /Officer Relations to which all officers are expected to adhere. Serious breaches of these Codes by officers would be investigated under the organisation's disciplinary code.	Code of Conduct for Officers Member/Officer Relations Protocol
Transport for the North's induction process for new recruits outlines the behaviours that are expected from officers.	Anti-Fraud and Corruption Policy Whistleblowing Policy
Transport for the North has a zero tolerance approach to fraud and corruption and has adopted strong Anti-Fraud & Corruption and Whistleblowing Policies.	Constitution
Members are required to make a declaration of their disclosable pecuniary interests and also to declare any disclosable pecuniary interests in the business of the meeting at the start of all meetings of the Transport for the North Board or its Committees, and to take no part in such business but to leave the meeting.	Contract Procurement Rules
Employees are required to notify their Executive Director or the Monitoring Officer about any potential conflict of interests. The SRR Form which must be signed off at the start of any procurement process specifically requires officers to state that they have no conflict of interest in the procurement.	Code of Practice on Gifts and Hospitality Register of Gifts and Hospitality
Transport for the North has adopted a Code of Practice in relation to Gifts and Hospitality. A register of Gifts and Hospitality is maintained by the Monitoring Officer, in which officers are required to declare any gifts or hospitality of more than nominal value which they have been offered, whether or not it has been accepted. An annual reminder is issued to all Employees.	Constitution  Board Reports

<p>Transport for the North has appointed a Monitoring Officer who works with Members and Officers to ensure that Transport for the North complies with its legal duties and all legal requirements. The legal implications of any report are considered and, where appropriate, legal advice is given in reports for decisions to be taken by Members. Legal advice is available to Members at all meetings of the Transport for the North Board and its Committees.</p> <p>The Monitoring Officer has statutory reporting responsibilities in relation to any unlawful decisions or maladministration.</p> <p>The Finance Director has statutory reporting duties in respect of unlawful expenditure and financially imprudent decision making.</p>	<p>Constitution</p>
<p><b>B Ensuring openness and comprehensive stakeholder Engagement</b></p>	
<p><b>Core Principle</b>  <b>Engaging with local people and stakeholders to ensure robust public accountability</b></p>	
<p><i>How we met the principle</i></p>	<p><i>Evidence</i></p>
<p>Transport for the North's website is set out in a clear and accessible way, providing clear access to reports and minutes from Board meetings, along with updates on our core programmes and links to relevant documents. Transport for the North is also very active on social media, which regularly tweets links to the website where more information can be found</p> <p>All meetings of the Transport for the North Board and its formal Committees are held in public, unless information which is either confidential under section 100A or exempt under Part 1 of Schedule 12A of the Local Government Act 1972 is to be disclosed. Copies of all minutes and agendas of the Board and formal Committees are available on Transport for the North's website. All reports contain details of options considered and the advice provided by officers regarding legal and financial implications. The minutes include the reasons behind the decisions made. Transport for the North has a Freedom of Information Publication Scheme in place and seeks to publish information openly on its website wherever possible and practicable to do so.</p> <p>Under its Regulations, Transport for the North is required to establish a Partnership Board to advise it on all matters relating to transport to, from and within its area. The Partnership Board is a forum in which the elected Members of Transport for the North engage and consult with the business leaders of the area through representatives of the eleven northern Local Enterprise Partnerships and with the national transport delivery agencies Network Rail Highways England and HS2.</p>	<p>Transportforthenorth.com website</p> <p>Board and Committee Agenda and Minutes</p> <p>TfN Regulations</p> <p>Constitution</p>

<p>Transport for the North carries out extensive stakeholder engagement through its Engagement team and the wider organisation which meets regularly with Parliamentarians, Members and officers of other Authorities and representatives of the Welsh and Scottish devolved governments as well as representatives of business organisations and other stakeholders, such as community groups. The types of events vary from attending APPG meetings in parliament, to roundtable events, and speaking engagements across the North and the rest of the UK. This has been done before, during and after the consultation on the Strategic Transport Plan.</p> <p>As part of the preparation of its Strategic Plan, Transport for the North carried out an extensive public consultation exercise over a 13 week period. This process included a questionnaire on its website and holding 33 public meetings at venues around the area. In total 563 responses were received as a result of the consultation exercise. The responses to the consultation exercise were taken into account and influenced the drafting of the Final Plan before its adoption.</p> <p>Following the adoption of the Strategic Transport Plan there was a public launch of the Plan in Sheffield and 12 public events were held across the North attended by over 1,000 stakeholders and members of the public.</p> <p>Transport for the North is committed to full public engagement. Extensive public consultation will be carried out in relation to all TfN's other programmes when those programmes have been developed to an appropriate stage. In the meantime, Transport for the North will continue with its broader engagement to raise its public profile and awareness of TfN programmes.</p>	<p>Memoranda of Understanding signed with the Welsh Government and Midlands Connect</p> <p>Ipsos Mori Consultation Report</p> <p>STP Launch programme of events</p>
<b>C Defining outcomes in terms of sustainable economic, social and environmental benefits</b>	
<p><b>Core Principle</b></p> <p><b>Having regard to the promotion of sustainable economic growth, and the social and environmental impacts of its proposals and having regard for the impact of current decisions and actions on future generations.</b></p>	
<p><i>How we met the principle</i></p> <p>The creation of sustainable economic growth is a key driver behind the Strategic Transport Plan.</p> <p>In developing the Strategic Transport Plan we undertook a thorough evaluation of the environmental and</p>	<p><i>Evidence</i></p> <p>Northern Powerhouse Independent Economic Review</p> <p>STP Evidence base Integrated Sustainability Appraisal</p>

<p>sustainability impacts of the proposals contained in the Plan.</p> <p>Proportionate environmental and sustainability assessments will be undertaken in relation to all proposals for infrastructure developments as part of the development of options and will be taken into account in any appraisal of options.</p> <p>All reports presented the Transport for the North Board and its formal Committees contain an assessment of the implications of the report in terms of sustainability, environmental impact and equality impacts.</p> <p>The Strategic Plan and Investment Programme set out transport interventions which will benefit future generations beyond 2050</p>	<p>Board Reports</p> <p>Strategic Transport Plan Investment Programme</p>
<b>D Determining the interventions necessary to optimise the achievement of the intended outcomes</b>	
<b>Core Principle</b> <b>Focusing on the purpose of TfN and the outcomes for the community and creating and implementing a vision for the area.</b>	
<i>How we met the principle</i>	<i>Evidence</i>
<p>The Strategic Transport Plan for the area is based on a robust evidence base and sets out our vision for transformational change in relation to transport infrastructure in the North.</p> <p>The Investment Programme sets out an ambitious programme of infrastructure projects to be delivered over the period 2019 to 2050 that will implement Transport for the North's Strategic Transport Plan. Proposals have been developed in collaboration with local partners and represent the best options for securing transformational change.</p>	<p>Strategic Transport Plan Evidence Base</p> <p>Investment Programme</p>
<b>E Developing the organisation's capacity including the capacity of its leaders and the individuals within it</b>	
<b>Core Principle</b> <b>Developing the capacity and capability of members and officers to be effective</b>	
<i>How we met the principle</i>	<i>Evidence</i>
<p>Transport for the North has adopted officer development programmes with a thorough initial Corporate induction programme for all new officers and line managers. Annual staff appraisals appraisals and half yearly reviews enable the management team to review both capacity and capability within their teams and at an individual level identify any training and development needs. Key Performance objectives are captured in the online appraisal tool 'PERFORM' and training is delivered via the core curriculum of training.</p> <p>Role specific training needs are met through work based learning and investment in software to drive effective outputs. Further career development is supported via the</p>	<p>Staff Appraisal Guide</p> <p>Learning and Development Policy</p>



<p>procurement of appropriate interventions to best meet individual and organisation needs</p> <p>Where appropriate the organisation funds specialist training courses for officers and supports continuous professional development. Senior managers have undertaken leadership training.</p> <p>Transport for the North has incorporated Apprentices in to the workforce plan at key points of entry. This is underpinned by strong relationships with Training Providers and internal support via Mentors and Line Managers. Mentors are provided with full Training.</p> <p>As Transport for the North introduces new policies and procedures, training sessions are held to make officers aware of these new policies and procedures and information on all policies and procedures is available on the Intranet. and Learning Management system via e-learning modules.</p> <p>TfN has invested in an e- learning and development tool and all officers are encouraged to take advantage of this</p> <p>The Scrutiny Committee Members have received advice on effective scrutiny from an external consultant and further training and development is planned for later in 2019</p>	
<b>F Managing risks and performance through robust internal control and strong public financial management</b>	
<b>Core Principle</b> <b>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>	
<i>How we met the principle</i>	<i>Evidence</i>
<p>Transport for the North has adopted robust procedures for identifying, analysing and managing risk.</p> <p>It has appointed an Audit and Governance Committee which is responsible for independently monitoring and assessing the adequacy and effectiveness of the risk management framework with particular focus on</p> <ul style="list-style-type: none"> <li>(i) the risk management strategy for managing key risks;</li> <li>(ii) risk ownership, accountability and the development of mitigating actions;</li> <li>(iii) the alignment of internal audit and other assurance planning through a risk-based approach to auditing; and</li> <li>(iv) receiving reports from management on the adequacy and effectiveness of the internal control and risk management framework.</li> </ul> <p>Transport for the North has appointed a Risk Manager who is responsible for reporting on risk to the Finance</p>	<p>Risk Management Strategy</p> <p>Constitution Governance Framework</p>

<p>Director and to the Audit and Governance Committee. The organisation has adopted a robust process for identifying, assessing and mitigating risks and the Risk Manager reports regularly on all high rated risks to the Operations Board of Directors to the Executive Board and to the Audit and Governance Committee. The Finance Director reports regularly on all high rated risks to the Transport for the North Board.</p> <p>Project management systems are in place for all programmes and programme Directors report regularly on performance to Programme Boards and to the Transport for the North Board</p> <p>Transport for the North has put in place a strong system of financial governance to manage and control its financial affairs. It has appointed a Finance Director who has overall responsibility for ensuring the effectiveness of internal controls. The Finance Director is supported by the Finance Controller who has day to day responsibility for ensuring that the adopted processes and procedures are adhered to. Transport for the North has adopted rigorous procurement approval procedures which ensure that all procurements comply with its contract procurement rules.</p>	<p>Reports to Audit and Governance Committee and Transport for the North Board</p> <p>Contract Procedure Rules</p>
<b>G Implementing good practices in transparency, reporting and audit to deliver effective accountability</b>	
<b>Core Principle</b> <b>Taking informed and transparent decisions which are subject to effective scrutiny and managing risk</b>	
<i>How we met the principle</i>	<i>Evidence</i>
<p>Transport for the North considers the available evidence when making decisions. Transport for the North commissions extensive research for all its programmes and explores different options before prioritising proposals.</p> <p>The Strategic Transport Plan is based on a robust evidence base and was subject to a 13 week statutory consultation exercise during which officers and Members considered in detail the representations made by members of the public and stakeholders.</p> <p>Transport for the North has established a Scrutiny Committee made up of elected representatives from the 20 Constituent Authorities. The Board made a decision at its inaugural meeting to adopt a "Scrutiny First" model and so all major decisions are subject to scrutiny before they are presented to the Board. The Scrutiny Committee therefore has an opportunity to influence the Board's decisions before they are made, rather than reviewing decisions after they have been taken.</p> <p>The Committee meets regularly and is supported by TfN officers. It subjects proposals to scrutiny before they are presented the Transport for the North Board, its</p>	<p>STP and Evidence base TfN Work Programmes</p> <p>Strategic Transport Plan</p> <p>Constitution</p> <p>Corporate Risk Register</p>



North Board. Significant risks and performance in relation to key programmes is also reported to the Executive Board of Senior Officers of the Constituent Authorities at a monthly meeting.

Over the course of the year a number of operational difficulties arose in relation to one of Transport for the North's Major Programmes. These issues were identified through Transport for the North's processes and controls, allowing action to be taken to mitigate the impacts on its operations. The Audit and Governance Committee was informed of these issues as they arose and the action that had been taken to address them.

### **Governance Challenges for 2019/20 onwards – Action Plan**

Subject	Action	Responsible Officer	Target Completion Date
Review of the Constitution	Undertake a full review of the Constitution to clarify decision making procedures	Head of Legal	31/07/19
Review of the Rail North Partnership with the Secretary of State	Implement the recommendations of the Blake/Jones Review into the Rail North Partnership	Strategic Rail Director	30/06/2020
Developing the Scrutiny Function	Providing training and development for the Scrutiny Committee to enable it to fully develop its role of Scrutiny First	Head of Legal	30/06/2020

### **Conclusion**

The governance arrangements as described above have been applied throughout this year and upto the date of the Annual Accounts providing an effective framework for identifying governance issues and taking mitigating action. Over the coming year Transport for the North will continue the operation of the governance framework and take steps to carry out the actions for improvement identified in the review of effectiveness to further strengthen its governance arrangements.

Signed .....  
Chair of the Transport for the North Board

Signed.....  
Chief Executive

## **Glossary**

### **ACCOUNTING PERIOD**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **ACCRUALS**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### **ACTUARIAL GAINS AND LOSSES**

For a defined benefit pension scheme, the changes in actuarial surpluses or deficits that arise because;

- Events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- The actuarial assumptions have changed

### **ASSET**

An item having value to the authority in monetary terms. Assets are categorised as either current or non-current

- A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock);
- A non-current asset provides benefits to the Authority and to the services it provides for a period of more than one year and may be tangible e.g. a community centre, or intangible, e.g. computer software licences.

### **AUDIT OF ACCOUNTS**

An independent examination of the Authority's financial affairs.

### **BALANCE SHEET**

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

#### BORROWING

Using cash provided by another party to pay for expenditure, on the basis of an agreement to repay the cash at a future point, usually incurring additional interest charges over and above the original amount.

#### BUDGET

The forecast of net revenue and capital expenditure over the accounting period.

#### CAPITAL EXPENDITURE

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

#### CAPITAL FINANCING

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

#### CAPITAL PROGRAMME

The capital schemes the Authority intends to carry out over a specific period of time.

#### CIPFA

The Chartered Institute of Public Finance and Accountancy

#### COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The account of the Authority that reports the net cost for the year of the functions for which it is responsible and demonstrates how that cost has been financed from precepts, grants and other income.

#### CONSISTENCY

The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.

#### CONTINGENT ASSET

A contingent asset is a possible asset arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's accounts.

#### CONTINGENT LIABILITY

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

#### CREDITOR

Amount owed by the Authority for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

## CURRENT SERVICE COST (PENSIONS)

The increase in the present value of a defined benefits pension scheme's liabilities, expected to arise from employee service in the current period.

## DEBTOR

Amount owed to the Authority for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

## DEFINED BENEFIT PENSION SCHEME

Pension schemes in which the benefits received by the participants are independent of the contributions paid and are not directly related to the investments of the scheme.

## DEPRECIATION

The measure of the cost of wearing out, consumption or other reduction in the useful economic life of the Authority's fixed assets during the accounting period, whether from use, the passage of time or obsolescence through technical or other changes.

## DISCRETIONARY BENEFITS (PENSIONS)

Retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Authority's discretionary powers such as the Local Government (Discretionary Payments) Regulations 1996.

## EQUITY

The Authority's value of total assets less total liabilities.

## EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable or unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

## EXPECTED RETURN ON PENSION ASSETS

For a funded defined benefit scheme, this is the average rate of return, including both income and changes in fair value but net of scheme expenses, which is expected over the remaining life of the related obligation on the actual assets held by the scheme.

## FAIR VALUE

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

## FINANCE LEASE

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee.

## GOING CONCERN

The concept that the Statement of Accounts is prepared on the assumption that the Authority will continue in operational existence for the foreseeable future.

## GOVERNMENT GRANTS

Grants made by the government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the Authority. These grants may be specific to a particular scheme or may support the revenue spend of the Authority in general.

## IMPAIRMENT

A reduction in the value of a fixed asset to below its recoverable amount, the higher of the asset's fair value less costs to sell and its value in use.

#### INFRASTRUCTURE ASSETS

Fixed assets belonging to the Authority that cannot be transferred or sold, on which expenditure is only recoverable by the continued use of the asset created. Examples are highways, footpaths and bridges.

#### INTANGIBLE ASSETS

An intangible (non-physical) item may be defined as an asset when access to the future economic benefits it represents is controlled by the reporting entity. This Authority's intangible assets comprise computer software licences.

#### INTEREST COST (PENSIONS)

For a defined benefit scheme, the expected increase during the period of the present value of the scheme liabilities because the benefits are one period closer to settlement.

#### INVESTMENTS (PENSION FUND)

The investments of the Pension Fund will be accounted for in the statements of that fund. However, authorities are also required to disclose, as part of the disclosure requirements relating to retirement benefits, the attributable share of the pension scheme assets associated with their underlying obligations.

#### LIABILITY

A liability is where the Authority owes payment to an individual or another organisation.

- A current liability is an amount which will become payable or could be called in within the next accounting period, e.g. creditors or cash overdrawn.
- A deferred liability is an amount which by arrangement is payable beyond the next year at some point in the future or to be paid off by an annual sum over a period of time.

#### LIQUID RESOURCES

Current asset investments that are readily disposable by the Authority without disrupting its business and are either:

- Readily convertible to known amounts of cash at or close to the carrying amount; or
- Traded in an active market.

#### LONG-TERM CONTRACT

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken to substantially complete the contract is such that the contract activity falls into more than one accounting period.

#### MATERIALITY

The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

#### NET BOOK VALUE

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

#### NET DEBT



The Authority's borrowings less cash and liquid resources.

#### NON-DISTRIBUTED COSTS

These are overheads for which no user now benefits and as such are not apportioned to services.

#### NON-OPERATIONAL ASSETS

Fixed assets held by the Authority but not directly occupied, used or consumed in the delivery of services. Examples are investment properties, assets under construction or assets surplus to requirements pending sale or redevelopment.

#### OPERATING LEASE

A lease where the ownership of the fixed asset remains with the lessor.

#### OPERATIONAL ASSETS

Fixed assets held and occupied, used or consumed by the Authority in the pursuit of its strategy and in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

#### PAST SERVICE COST (PENSIONS)

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to retirement benefits.

#### PENSION SCHEME LIABILITIES

The liabilities of a defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities measured during the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

#### PROVISION

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

#### RELATED PARTIES

There is a detailed definition of related parties in FRS 8. For the TfN's purposes related parties are deemed to include the Authority's members, the Chief Executive, its Directors and their close family and household members.

#### RELATED PARTY TRANSACTIONS

The Statement Of Recommended Practice requires the disclosure of any material transactions between the Authority and related parties to ensure that stakeholders are aware when these transactions occur and the amount and implications of such.

#### REMUNERATION

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits. Received other than in cash. Pension contributions payable by the employer are excluded.

#### RESERVES

The accumulation of surpluses, deficits and appropriations over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the Authority. Some capital reserves such as the fixed asset restatement account cannot be used to meet current expenditure.

#### RESIDUAL VALUE

The net realisable value of an asset at the end of its useful life.

## RETIREMENT BENEFITS

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

## REVENUE EXPENDITURE

The day-to-day expenses of providing services.

## REVENUE EXPENDITURE CAPITALISED UNDER STATUTE (REFCUS)

Expenditure which ordinarily would be revenue, but is statutorily defined as capital. Examples of REFCUS include grants of a capital nature to voluntary organisations and back pay expenditure capitalised under Secretary of State Direction.

## USEFUL ECONOMIC LIFE (UEL)

The period over which the Authority will derive benefits from the use of a fixed asset.



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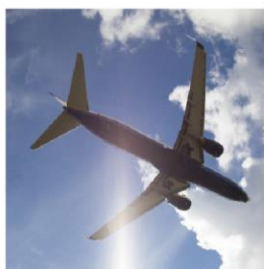
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