

# Merseytravel

## Statement of Accounts

### 2017-18

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## NARRATIVE REPORT BY THE DIRECTOR OF CORPORATE SERVICES

Merseytravel is a body corporate under the Transport Act 1968. Merseytravel is the transport delivery body for the Liverpool City Region Combined Authority (LCRCA), providing transport services across Liverpool, Knowsley, St Helens, Sefton and the Wirral. Merseytravel also provides strategic transport advice to Halton. It also provides professional, strategic and operational advice on transport to LCRCA. Merseytravel receives its funding from LCRCA in the form of revenue and capital grants to fund its expenditure in order to carry out the functions as directed by the LCRCA.

The Statement of Accounts that follow demonstrates Merseytravel's financial performance for the financial year ending 31 March 2018. The purpose of this report is to provide a guide to Merseytravel's accounts and to summarise its financial and non-financial performance for the year. These accounts are completed in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

The following provides a brief overview of the various sections of the Annual Statement of Accounts.

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

This outlines the responsibilities of both Merseytravel and the Director of Corporate Services for the production and content of the Annual Statement of Accounts.

### **Annual Governance Statement**

This explains the effectiveness of the governance framework in operation during the financial year.

### **Movement in Reserves Statement**

This statement shows the movement in reserves held by Merseytravel during the financial year, splitting them into usable and unusable reserves. The Deficit/ (Surplus) on the Provision of Services shows the cost of providing Merseytravel's services under proper accounting practice which is different from the statutory amounts required to be charged to the General Fund Balance for levy setting purposes. The Net Increase/ (Decrease) before Transfer to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers (to)/ from earmarked reserves.

### **Comprehensive Income and Expenditure Statement (CIES)**

This statement shows the cost of providing services in accordance with generally accepted accounting practices as opposed to the amounts to be funded from the levy. Merseytravel raises a levy to cover expenditure in accordance with regulation which is not necessarily the same as the accounting cost. Whilst the position detailed in the CIES will differ from that shown in Merseytravel's management reporting, the levy position is detailed through the Movement in Reserves and Expenditure and Funding Analysis.

## Balance Sheet

This shows the value of Merseytravel's assets and liabilities at the Balance Sheet date. Net assets of Merseytravel are matched by the reserves (both usable and unusable) held by Merseytravel.

## Cash Flow Statement

This statement summarises the actual flows of cash arising from Merseytravel's transactions during the financial year. This shows the changes in cash and cash equivalents during the year.

## Notes to the Financial Statements

These include additional information on items included within the core financial statements and details on the organisation's main accounting policies.

## Group Accounts

These reflect the full extent of Merseytravel's economic activities by reflecting Merseytravel's involvement with its group companies and organisations.

## Financial Performance

### Revenue Expenditure 2017/18

Merseytravel's budget was approved in February 2017 and a levy of £95.4m was agreed for 2017/18. The grant to Merseytravel to support its provision of transport functions was set at £92m and a separate grant of £27.7m approved to support the operation of the Mersey Tunnels. The table below compares the actual spend against budget for 2017/18.

	<b>Allowed Budget 2017/18 £'000</b>	<b>Outturn 2017/18 £'000</b>	<b>Variance to Budget 2017/18 £'000</b>
Bus Services	19,074	15,734	3,340
Rail Services	1,611	12,051	(10,440)
Customer Delivery	7,565	7,044	521
Concessionary Travel	55,205	54,639	566
Corporate Management	2,747	2,606	141
Policy	2,147	2,063	84
People and Customer Development	3,529	3,465	64
Mersey Ferries Group	2,113	0	2,113
Corporate Costs	6,315	586	5,729
Net Spend	100,306	98,188	2,118
Funded by:			
Merseytravel Grant from CA	(92,020)	(92,020)	-
Application of Reserves	(8,286)	(6,168)	(2,118)

The position detailed in the table above is based on actual cost against budget not proper accounting practice and to this end will differ from those costs detailed in the Comprehensive Income and Expenditure Account. Within the main body of the Statement of Accounts, the

levy position is detailed in the Movement in Reserves and Expenditure and Funding Statement.

### Reserves and Balances

Based on the outturn position detailed above the resultant position in respect of the Revenue Reserve Balances is detailed below.

	<b>2016/17</b>	<b>In Year Movement</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Capital Reserves	9,176	(3,427)	5,749
Working Balances	1,739	-	1,739
Earmarked Usable Reserves	58,647	(3,357)	55,290
<b>Total</b>	<b>69,562</b>	<b>(6,784)</b>	<b>62,778</b>

A detailed list of balances and reserves are detailed in the Notes to the Core Financial Statements.

### Capital Expenditure 2017/18

Merseytravel spent £80.4m on capital during 2017/18. This expenditure is summarised below.

	<b>2016/17</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Revenue Expenditure funded from Capital under Statute	4,661	14,232
Non-Current Assets (Property Plant and Equipment)	3,415	318
Assets under Construction	41,736	65,013
Intangible Assets	0	369
Non-Current Assets (Infrastructure)	983	509
<b>Total</b>	<b>50,795</b>	<b>80,441</b>

The table below details the funding of the capital programme.

	<b>2016/17</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Capital Grants	50,795	77,014
Application of Reserves	0	3,427
<b>Total</b>	<b>50,795</b>	<b>80,441</b>

As detailed above a significant proportion of the capital investment made by Merseytravel relates to Revenue Expenditure funded from Capital under Statute (REFCUS). REFCUS relates to capital expenditure incurred on assets that are not in the ownership of Merseytravel. The table below details the major schemes funded through the capital programme in 2017/18.

	2017/18 £m
Newton le Willows Train Station	9.245
Halton Curve	8.801
Maghull North	9.890
Rolling Stock Replacement	45.858

## 2017/18 Performance and Delivery of Objectives

### Principal Activities

Merseytravel is the executive body responsible for providing professional, strategic and operational advice on transport to the LCRCA. To support it in its discharge of these responsibilities, Merseytravel receives an annual revenue grant from the LCRCA. Merseytravel also receives Special Rail Grant to support the operation of the devolved local rail franchise.

Merseytravel has a significant role in the direct provision of transport services across the city region including:

- Funding additional bus services in areas and at times not served by the commercial network and where a social need has been identified;
- Resourcing, administering and advising on the Merseyside Concessionary Travel scheme and providing a pre-paid ticket scheme;
- Providing services to aid the operation of the local bus service, including maintaining bus infrastructure and operating travel centres across the city region;
- Letting and monitoring the Merseyrail concession;
- Operation of the Mersey Ferries;
- Operating the Mersey Tunnels on behalf of the LCRCA; and
- Fostering collaborative working through strategic and operational relationships with stakeholders and partners (such as safety across the network and planning for major events) and taking forward infrastructure developments.

Merseytravel's vision is for the city region to have a world class integrated and sustainable transport system which enables the region to foster growth and inclusiveness and improve prosperity. To support the city region's plans for economic growth, Merseytravel identified five key priorities for 2017/18 that it sought to deliver to meet this objective.

- Provide high quality, professional advice to the Liverpool City Region Combined Authority;
- Improving connectivity through developing and leading strategic transport initiatives;
- Manage and develop a range of transport assets and services to support the efficient movement of people and goods;
- Develop innovative, inclusive, contemporary and affordable transport initiatives that improve connectivity, integration and the overall customer experience; and
- Deliver a comprehensive Bus Strategy for the City Region as part of the multi-modal approach.

Merseytravel has developed a performance management framework which is driven by its key objectives for 2017/18. A focused set of performance indicators have been developed to measure progress against key priorities and objectives. Targets are set for the year which are challenging and aimed at stretching the organisation to drive improvement.

Performance and financial reporting is conducted on a quarterly basis with quarter end data being reported to Merseytravel for consideration by its directors before being reported on to Transport Committee. Consideration of performance against KPI's and priorities by Transport Committee allows for scrutiny by the Elected Members of the Committee of Merseytravel performance and provides a forum through which the organisation can be held to account for any under-performance.










## 2017/18 Outturn Performance

### KPIs

Outturn performance against Merseytravel's KPIs is detailed in the section below, together with comparative data against the previous financial year, or against the same quarter from the previous financial year.






### KPI 1 – Affordability

The cost of motoring continues to see the lowest real term increase within the affordability KPI. Tunnel tolls have not changed since the previous financial year, with the 'Tolls / Fast Tag Average' below the RPI benchmark. Commercial bus cost is now below RPI with a reduction of -0.9%, this is due to the Bus Alliance creating uniformed fares between Arriva and Stagecoach. The ferries commuter service has seen the highest increase again this financial year.

KPI 1: Affordability					
Mode	2015/16	2016/17	Annual variance	Benchmark /Target/	Comments
 Commercial Bus	108	107	▼ -0.9%	Benchmark - RPI +1%  2017 Target: 112	
 Merseyrail	114	116	▲ 1.8%		
 Northern (City Line)	116	118	▲ 1.9%		
 Tunnel Tolls	121	121	► No Change		
 Fast Tag	92	92	► No Change		
 Tolls / Fast Tag Average	107	107	► No Change		
 Ferries, Commuter	163	169	▲ 3.8%		
 Motoring Costs	91	92	▲ 0.7%		
 RPI	108	111	▲ 2.6%		
<b>Notes</b> All figures indexed to 2012/13 Baseline Data for 2017/18 still being collected at this time					
Last Updated: 11 May 2018					






## KPI 2 – Patronage

Not all Patronage datasets are available at the time of publishing. Where datasets are available we can see there is a 1.7% increase for cruise patronage against the previous financial year, which includes loss of service for 6 weeks. The ferries commuter service has seen a 16% increase on the previous financial year, which is a 26% increase on the target. Throughput in the Kingsway Tunnel increased by 1.3% and Queensway remained at 10.7million trips showing a slight increase of 0.6%. Supported bus service patronage is declining due to managed reductions in service due to reduced budgets.

 <b>KPI 2: Patronage</b>				
Mode	2016/17	2017/18	Variance	Benchmark /Target/ Comments
	Supported Bus	6.1 m	5.1 m	-17.5%
	Commercial Bus	136.1 m		+100.0%
	Merseyrail <sup>1</sup>	35.4 m		+100.0%
	City Line <sup>1</sup>	8.8 m		+100.0%
	Queensway Tunnel <sup>2</sup>	10.7 m	10.7 m	0.6%
	Kingsway Tunnel <sup>2</sup>	16.8 m	17.0 m	1.3%
	Mersey Ferries, Cruises	424 k	431 k	1.7%
	Mersey Ferries, Commuter	144 k	167 k	16.0%
<b>Notes</b> 1: Rail Figures are annual cumulative passenger counts 2: Tunnels Figures are total vehicle throughput  Last Updated: 22 May 2018				



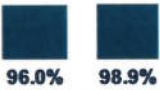


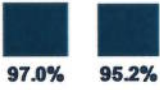






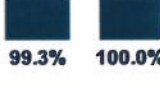
### KPI 3 – Reliability

Looking at the last quarter of this financial year, we can see all modes of transport are achieving their reliability targets, with Merseyrail surpassing the PPM benchmark of 94%. The only exceptions are Northern (City Line) and Commercial Bus. Northern (City Line) experienced infrastructure difficulties, along with RMT strikes in January and March 2018, and poor weather conditions which resulted in an unsatisfactory Q4 performance for 2017/18. Commercial Bus is slightly below target but has increased in Q4. Reliability of Supported Bus Services is not yet available.

 <b>KPI 3: Reliability</b>				
Mode	Q4 2015/16	Q4 2016/17	Variance	Benchmark /Target/ Comments
	Commercial Bus	96.0%	98.9% ▲ 3.0%	Target - 99.5%
	Supported Bus	98.0%	99.0% ▲ 1.0%	Target - 99.5% Due to technological issues the data will be provided in Q1 2018/19.
	Merseyrail	97.0%	95.2% ▼ -1.8%	PPM 94%
	Northern (City Line)	89.0%	76.8% ▼ -13.7%	PPM 91% Average of Periods 10 - 13 2017/18. Unsatisfactory Q4, due to infrastructure difficulties ( Lime Street - 07/01/18). A points failure (Edge Hill - 13/01/18) as well as poor weather conditions throughout Q4. RMT strikes (January & March) resulted in a reduced service pattern on Northern's lines of route.
	Queensway Tunnel	95.0%	95.0% ▶ No Change	Tunnels closed for no more than 10% of total available operating hours per annum due to planned/unplanned maintenance work (between 85-90%).
	Kingsway Tunnel	100.0%	100.0% ▶ No Change	
	Mersey Ferries, Commuter & Cruises	97.0%	98.0% ▲ 1.0%	Benchmark 98%
<b>Notes</b> All figures as Percentages Rail Figures are PPMs, Public Performance Measures. The Rail industry standard measure, combining Reliability and Punctuality.				














## KPI 4 – Punctuality

Reviewing the Q4 2017/18 Punctuality results against those from Q4 2016/17, we can see most modes of transport are continuing to meet their benchmark target. Punctuality of commercial bus has improved for Q4 2017/18 and Merseyrail are slightly above target. Mersey Tunnels journey times are quicker than the benchmark and Mersey Ferries are above their target of 95%. Northern (City Line) operated an unsatisfactory Q4 due to infrastructure difficulties, RTM strikes and poor weather conditions.

 <b>KPI 4: Punctuality</b>				
Mode	Q4 2016/17	Q4 2017/18	Variance	Benchmark /Target/ Comments
	Commercial Bus	 96.0% 98.9%	▲ 3.0%	Bus alliance target - 88% at destination
	Supported Bus	 98.0% 98.9%	▲ 0.9%	
	Merseyrail	 97.0% 95.2%	▼ -1.8%	PPM 94%
	Northern (City Line)	 89.0% 76.8%	▼ -13.7%	PPM 91% Average of Periods 10 - 13 2017/18. Unsatisfactory Q4, due to infrastructure difficulties ( Lime Street - 07/01/18). A points failure (Edge Hill - 13/01/18) as well as poor weather conditions throughout Q4. RMT strikes (January & March) resulted in a reduced service
	Queensway Tunnel	 04:26 04:23	▲ 1.1%	Average journey times for our customers. Benchmark - 5m 10s
	Kingsway Tunnel	 04:37 04:23	▲ 5.1%	Average journey times for our customers. Benchmark - 4m 55s
	Mersey Ferries, Commuter	 93.6% 96.0%	▲ 2.6%	Commuter sailings/ Leisure sailings Benchmark - 95%
	Mersey Ferries, Leisure Cruises	 99.3% 100.0%	▲ 0.7%	Commuter sailings/ Leisure sailings Benchmark - 95%
<b>Notes</b> All figures as Percentages , Except for Tunnels which average journey times for both directions of travel (Min : sec) Rail Figures are PPMs, Public Performance Measures. The Rail industry standard measure, combining Reliability and Punctuality. Last Updated: 11 May 2018				













## KPI 5 - Safety

The safety ratings for 2017 are taken from the Transport Focus public transport customer satisfaction survey, which took place in Autumn 2017. The Bus survey shows no significant change for the satisfaction with safety 'at the stop' or 'on the bus' questions. The 'on the train' safety question wording changed in 2017 survey, therefore, result comparisons prior to Spring 2017 should not be made. Both the Merseyrail and Northern 'on the train' results are within range of the national average of 75% for this safety question.

 <b>KPI 5: Safety</b> <b>Public Transport Customer Satisfaction</b> <b>(Quantitative Survey)</b>		Autumn 2016	Autumn 2017	Variance
Mode				
	Bus Stops	 <b>79.0%</b>	 <b>78.0%</b>	▼ <b>-1.3%</b>
	On the Bus	 <b>87.0%</b>	 <b>87.0%</b>	► <b>No Change</b>
	Rail Stations: Merseyrail	 <b>80.0%</b>	 <b>81.0%</b>	▲ <b>1.3%</b>
	Rail Stations: Northern	 <b>70.0%</b>	 <b>67.0%</b>	▼ <b>-4.3%</b>
	On the Train: Merseyrail		 <b>73.0%</b>	#DIV/0! #DIV/0!
	On the Train: Northern		 <b>72.0%</b>	#DIV/0! #DIV/0!
<b>Notes</b> <b>Benchmark 80%</b> <b>Surveys carried out in autumn of each year - results published January / February.</b> <b>New safety question asked for "On the train" in 2017.</b> <b>Last Updated: 24 May 2018</b>				





## KPI 6 - Customer Satisfaction

The Customer Satisfaction levels for bus has increased compared to previous years with 92% of customers 'fairly' or 'very' satisfied with the services provided. The train overall satisfaction rating has seen a drop across the country, with the national average at 83%. Merseyrail did see a drop of 6.3% when compared against 2016 findings; however they are still above the national average. Northern (City Line) seen a reduction in the overall satisfaction rating of 12.4%, with a number of factors contributing towards this including Industrial Action; Resilience to poor weather; Reaction to infrastructure failure, for example the wall collapse in Lime Street.

 <b>KPI 6: Customer Comments</b> <b>Public Transport Customer Satisfaction</b> <b>(Quantitative Survey)</b>			
Mode	Autumn 2016	Autumn 2017	Variance
 <b>Bus Services</b>	 <b>90.0%</b>	 <b>92.0%</b>	 <b>2.2%</b>
 <b>Merseyrail</b>	 <b>95.0%</b>	 <b>89.0%</b>	 <b>-6.3%</b>
<b>Northern (City Line)</b>	 <b>89.0%</b>	 <b>78.0%</b>	 <b>-12.4%</b>
<b>Surveys carried out in autumn of each year - results published January / February</b> <b>Last Updated: 21 May 2018</b>			

## KPI 7 - Connectivity to and within the City Region


Within this analysis for External Connectivity, we now use the same measures as those which underpin the analysis within the Long Term Rail Strategy (LTRS). Internal rail connectivity has been restored to its previous high level of 36.1%. The combined Rail and Bus figure for connectivity of Merseyside remains unchanged.

KPI 7: Connectivity				
Mode	End of Year 2016/17	End of Year 2017/18	Variance	Comments
 Internal connectivity of the Merseyside rail network	 28.0% 36.1%		▲ 28.9%	With the completion of the Wirral Line engineering works, internal rail connectivity has been restored to its previous high level of 36.1%.
 Connectivity of Merseyside (combined rail and bus figure)	 52.2% 52.2%		► No Change	
Notes				
Last Updated: 21 May 2018				

## KPI8 – Key Strategic Projects

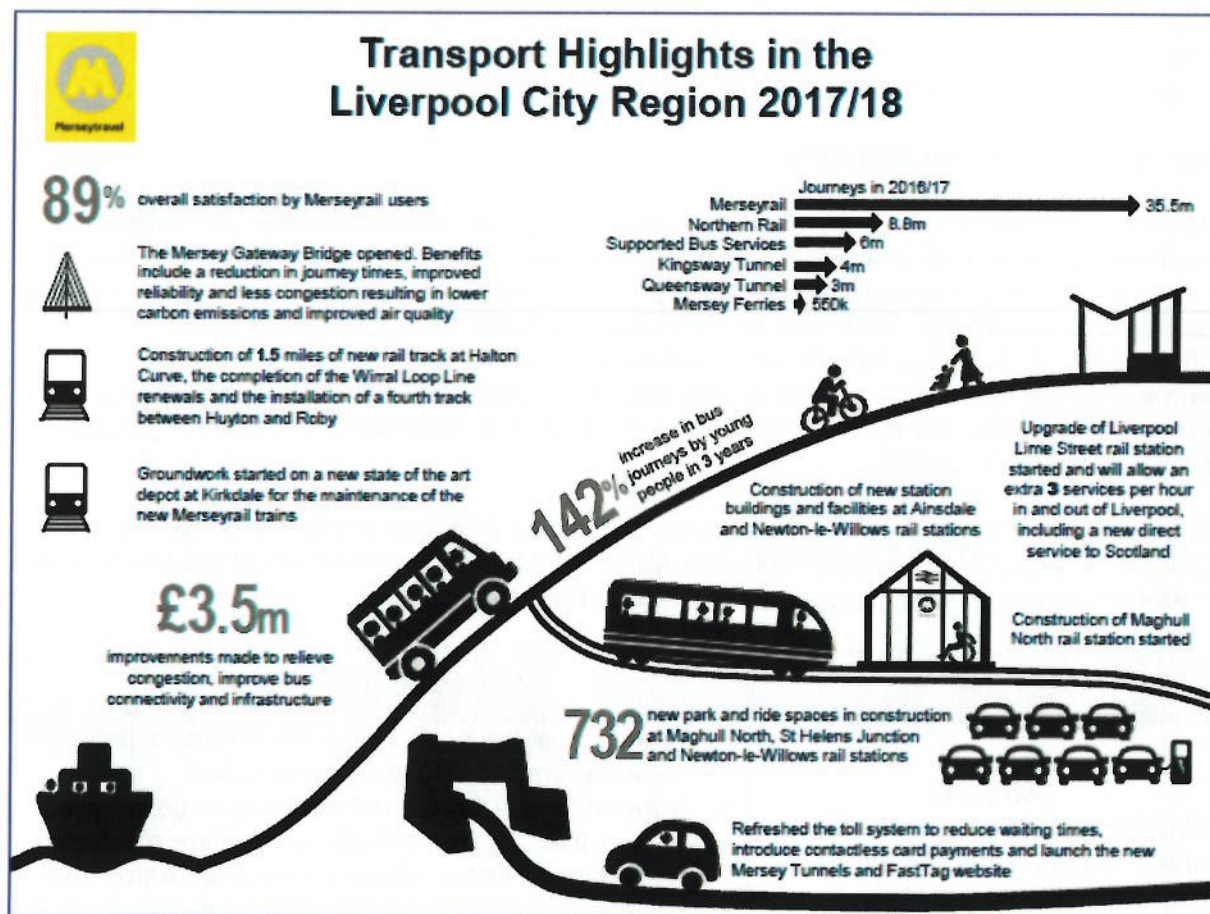
Merseytravel has ten key strategic projects, with the majority of these reported as on schedule or as been delivered. Three projects have a RAG status of 'Amber / Red' at the end of Q4, 2017/18. Details of these are shown below.

- The Newton-Le-Willows programme continues to experience challenges. Following re-designs the excavation has re-commenced but still remains behind schedule. The critical interfaces mean that this delay is now impacting on the wider schedule of works to deliver the bus interchange and car park.
- Rail Station Devolution OBC development tenders have been returned and analysed and cost of preferred bidder is above budget provision. An options appraisal has now been sent to Senior Officers for consideration. This has impacted on timescales for submission.
- Smart Ticketing Work stream has had some positive outcomes but still has challenges. Work on the portal has commenced, and while later than anticipated there is now a resource available to progress. Operators continue to work with their suppliers to resolve issues with software.

 <b>KPI 8: Projects</b>	
<b>Project</b>	<b>RAG Q4 2017/18</b>
<b>LGF 1 Rail Projects: Halton Curve</b>	<b>Green ↑</b>
<b>LGF 1 Rail Projects: Newton-le-Willows</b>	<b>Amber / Red ↑</b>
<b>LGF 1 Rail Projects: Maghull North</b>	<b>Green ↑</b>
<b>Rail Station Devolution</b>	<b>Amber / Red ↓</b>
<b>Rolling Stock</b>	<b>Amber / Green ⇒</b>
<b>Walrus Delivery Programme / Smart Ticketing</b>	<b>Amber / Red ⇒</b>
<b>Bus Alternative Delivery Model</b>	<b>Green ↑</b>
<b>Mersey Ferries Programme</b>	<b>Amber / Green ⇒</b>
<b>Tolls System Refresh</b>	<b>Green ⇒</b>
<b>Kingsway Rewire</b>	<b>Green ↑</b>
<b>Notes</b>	
<b>Last Updated: 24 May 2018</b>	

## Corporate Priorities

In support of delivering the corporate priorities and pan City Region functions undertaken, Merseytravel's key achievements during 2017/18 include:



## Risks and Uncertainties

Merseytravel has an embedded process to manage risk and assist in the achievement of its objective. The Corporate Risks recorded in the Risk Register define strategic risks associated with meeting Merseytravel's corporate objectives as set out in its corporate performance plan. The Corporate Risk Register is monitored and reviewed on a regular basis by the Primary Assurance and Risk Group (PARG). Through their terms of reference, the Audit Risk and Governance Board (ARG) are obliged to monitor the effective development and operation of risk management within Merseytravel. Consequently reports are submitted to ARG on a regular basis to allow them to consider revision to the Corporate Risk Register and monitor progress.

Key corporate risks are detailed in the Annual Governance Statement (AGS) however some of the key issues can be summarised as:

- Increasing capacity and capability across the organisation;
- Financial challenges posed as a consequence of a reducing transport grant from the Combined Authority;
- Development and replacement of key systems;
- Implementing improvements to the internal control environment.

In addition to the more local risks the decision to leave the European Union as a result of the EU Referendum on 23 June 2016, introduces a more general but pervasive uncertainty to the organisation. Whilst this will not directly impact on the core funding, Merseytravel has been a recipient of European funding and there is a significant degree of uncertainty with regards to the future of such funding stream or whether they will be supplemented by the Government if they are removed. The decision to leave the EU may have much wider impacts on Merseytravel and these will be assessed and monitored and fed into the Corporate Risk register to formalise the process for management as necessary.

### Future Developments (2018/19)

Merseytravel's focus is on supporting the economic growth of the Liverpool City Region by maximising connectivity across the region and beyond, improving the customer experience, and supporting the integrated transport network. We work with local and national rail and bus operators to ensure that the Liverpool City Region has the best possible transport infrastructure to enabling the efficient movement of people and goods. We work in partnership with government, local authorities, the Local Enterprise Partnership, public transport operators, Transport for the North, the business community, community groups and members of the public.

The Corporate Plan for 2018/19 outlines our Corporate Priorities and forward vision for transport in the LCR. The role of first LCR Mayor and further development of the CA delivery model will continue to shape our focus with our core activity being:

Our Priorities	What this will achieve
<p><b>ADVISE</b></p> <p>Provide high quality, professional advice to the Liverpool City Region Combined Authority</p>	<ul style="list-style-type: none"> <li>• Transport at the heart of the City Region's potential for economic growth and regeneration</li> <li>• Support for the Combined Authority to deliver across the City Region through a range of funding streams and with a robust governance framework</li> <li>• An effective and efficient centrally managed Transport Partnership</li> </ul>
<p><b>DEVELOP</b></p> <p>Improving connectivity through developing and leading strategic transport initiatives</p>	<ul style="list-style-type: none"> <li>• A safe, integrated, sustainable and efficient transport network for the Liverpool City Region that maximises the potential for economic growth and regeneration</li> <li>• A City Region where people want to live, work, visit and invest</li> <li>• Increased patronage across all public transport modes and a customer experience that is high quality, accessible, convenient, sustainable, clean and efficient</li> </ul>
<p><b>DELIVER</b></p> <p>Manage and develop a range of transport assets and services to support the efficient movement of people and goods</p>	<ul style="list-style-type: none"> <li>• Facilitating development and the promotion of all transport modes across the LCR</li> <li>• Ensuring directly delivered services are managed in a safe, customer focused, value for money and sustainable manner</li> <li>• Management of the Merseyrail franchise and working with national rail operators to deliver high quality rail services</li> <li>• Championing the LCR Bus Offer and working with operators to deliver high quality bus services</li> <li>• Facilitating the development of integrated,</li> </ul>

	sustainable transport modes <ul style="list-style-type: none"> <li>• Contemporary and affordable ticketing</li> <li>• Enhanced organisational and service performance and customer satisfaction.</li> </ul>
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## Key Projects

During the forthcoming financial year, Merseytravel will be engaged in the delivery of a number of key projects linked to the delivery of core priorities. For 2018/19 the projects to be delivered, and identified as such within KPI 8 Key Strategic Priorities, include:

- Delivery of the Rolling Stock programme. During 2018/19 both Birkenhead and Kirkdale depots will be completed and ready to receive the new trains. The new simulator will be delivered enabling early training of drivers to support a smooth transition from the old fleet to the new. The final design of the units will be agreed permitting the manufacture of the first unit to be complete by December 2018 with work on the power supply upgrade and platform train interface commencing mid 2018 for completion by the end of 2019.
- To continue work to develop a business case to assess the range of options available to the Liverpool City Region Combined Authority to allow it to discharge the powers available to it under the Bus Services Act.
- To develop a business case in respect of the options for rail station devolution.
- Continue to develop the Smart Ticketing agenda looking at opportunities to further enhance those tickets that are smart enabled.
- The progression of LGF 1 Rail Projects through to completion and opening of new facilities at:
  - Halton Curve
  - Newton-le-Willows
  - Maghull North.
- Deliver and implement the Mersey Ferry strategy, including the replacement of the Mersey Ferries and associated infrastructure works.
- Deliver and implement the Mersey Tunnel's strategy on behalf of the LCRCA.

## STATEMENT FOR RESPONSIBILITY FOR MERSEYTRAVEL'S STATEMENT OF ACCOUNTS

Merseytravel is required to:

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

### **Responsibilities of the Director of Corporate Services**

The Director of Corporate Services is responsible for the preparation of the Merseytravel's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom ("The Code"). The Statement of Accounts is required to present fairly the financial position of Merseytravel at the accounting date and its income and expenditure for the year end 31 March 2018. In preparing this statement of accounts, the Director of Corporate Services has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- complied with the Local Authority Code;
- assessed the ability of Merseytravel to continue to as a going concern; and
- used the going concern basis of accounting on the assumption that the functions of Merseytravel will continue in operational existence for the foreseeable future.

The Director of Corporate Services has also:

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

### **Responsible Financial Officer's Certificate**

I hereby certify that the Statement of Accounts presents a true and fair view of the financial position of Merseytravel as at 31 March 2018 and its income and expenditure for the year ended 31 March 2018.

  
J Fogarty (CREA)  
**Director of Corporate Services**  
Date 25 July 2018

# ANNUAL GOVERNANCE STATEMENT

## 1. Introduction

Merseytravel is required by law to review their governance arrangements at least once a year.

Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) fulfils this requirement.

This Annual Governance Statement summarises our arrangements and provides assurance that these responsibilities are being met.

## 2. Scope of Responsibilities

Merseytravel was responsible for ensuring that its business was conducted in accordance with the law and proper standards, and that public money was safeguarded and properly accounted for during 2017/18.

The Legal Framework that supports Merseytravel is governed by various statutory provisions, the main ones being:

- The Transport Act 1968
- The County of Merseyside Act 1980 (as amended by the Mersey Tunnels Act 2004)
- The Transport Act 1983
- The Transport Act 1985
- The Transport Act 2000
- The Railways Act 2005
- EU Regulation on Public Passenger Transport Services by Rail and By Road (1370/2007)
- The Local Government Finance Act 1972
- The Local Government Act 1999
- The Accounts and Audit Regulations 2015
- The Liverpool City Region Combined Authority (Functions and Amendment) Order 2017

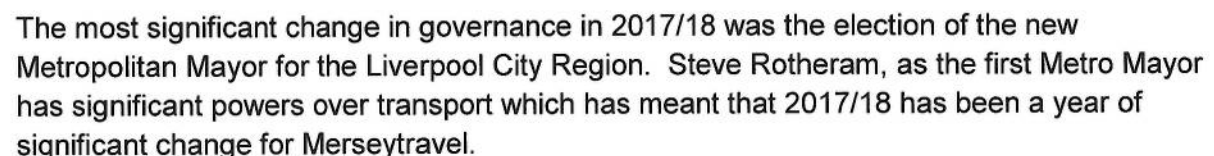
Merseytravel is a distinct statutory body in its own right but is accountable to the Liverpool City Region Mayoral Combined Authority (LCRCA). In addition Merseytravel acts as the Executive Body of, and fulfils the policy requirements of the LCRCA.

The Merseytravel Board meets formally every two weeks.

It is required to maintain its own governance arrangements and assurance framework. Merseytravel does so by its Audit Risk and Governance Board. Following some changes during 2017/18 the Board has three independent members, including an independent Chair.

In discharging this overall responsibility, Merseytravel is responsible for putting in place proper arrangements for the governance of its affairs. This includes facilitating the effective exercise of its functions, and making appropriate arrangements for the management of risk.

This framework summarises the key elements of the governance framework for Merseytravel in 2017/18:



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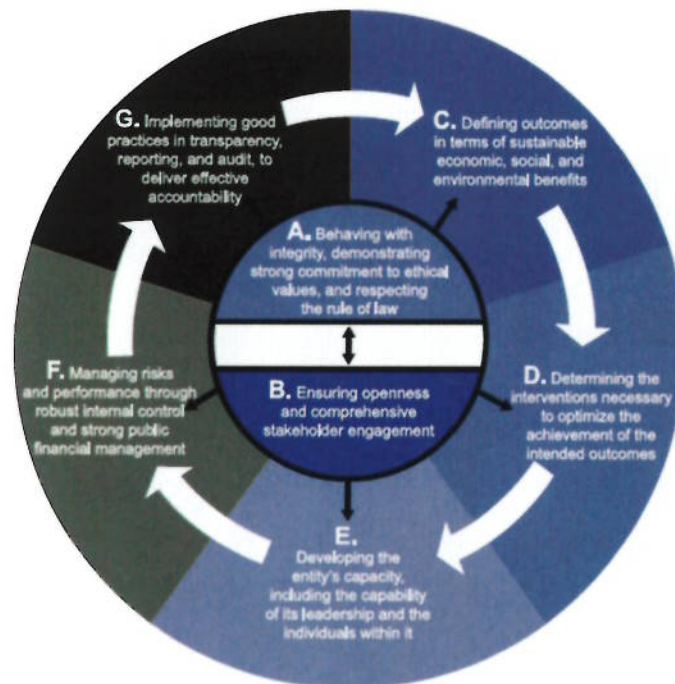
Merseytravel is at the heart of the LCRCA and provided a range of strategic, operational and management functions for the LCRCA in 2017/18.

This is a significant change in the governance framework for Merseytravel. The relationship between Merseytravel and the LCRCA is significantly different than that between Merseytravel and its predecessor body.

As such, the assurance framework has to reflect this change in governance and the role that Merseytravel play within the new LCRCA.

#### 4. Compliance with the CIPFA/SoLACE framework

Merseytravel has assessed itself against each of the CIPFA/SoLACE principles. We have highlighted areas where our arrangements changed to reflect the new governance structures and we also highlight those areas where arrangements need to improve or evolve as the organisation becomes more mature.



**Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law**

Merseytravel's constitutional arrangements and associated codes of conduct were reviewed in preparation for change to the Mayoral form of governance and these principles are reflected in our constitutional arrangements.

Merseytravel has a Code of Corporate Governance which was reviewed in 2017/18 and is available on the Merseytravel website. There were no key issues highlighted.

The Merseytravel Legal and Democratic Services teams have been providing support to the LCRCA as well as to Merseytravel and will continue to do so. This will be supported and enhanced by the recruitment of additional democratic services support and a new and dedicated post of Chief Legal Officer (Monitoring Officer) for the LCRCA.

There were no instances of a breach of the Code of Corporate Governance in 2017/18.

### Ensuring openness and comprehensive stakeholder engagement

Stakeholder engagement has been a key priority of Merseytravel and is essential to our role in transport delivery and coordination across the City Region.

Significant engagement has taken place in 2017/18 with respect to the Rolling Stock project. Stakeholder groups representing passengers have been consulted throughout the final design stages for the new fleet.

Engagement with stakeholders was also critical to the successful management of the closure of Lime Street Station and the management of the impact industrial action on the rail network, including during the Grand National and the British Open Golf Championship.

### Defining outcomes in terms of sustainable economic, social and environmental benefits

Securing the benefits of sustainable economic growth is the core purpose of the LCRCA and Merseytravel is now well-placed at the centre of this.

The LCRCA has a vision for economic growth that was revised and approved this year, through the **Growth Strategy** and will be built upon in the **Local Investment Strategy**.

The LCRCA's Overview and Scrutiny Committee conducted valuable work on Air Quality and on maintaining the social value of bus services in 2017/18 and this will also need to be reflected in both transport strategy and delivery and monitored through Merseytravel's internal arrangements and through the LCRCA and its Transport Committee.

### Key Issues

- To ensure that the Mayor's Transport Plan is consistent with the overall aims and objectives of the Local Industrial Strategy.
- To make best use of the powers within the Bus Services Act to maintain and enhance the economic, social and environmental benefits of bus transport for the LCRCA.
- To ensure that Air Quality issues are reflected in Transport Strategy and delivery.

## **Determining the interventions necessary to optimise the achievement of intended outcomes**

2017/18 was a year of significant progress towards the delivery of the new fleet of Rolling Stock for the Merseyrail Network.

As this is a significant project for Merseytravel it will continue to have risks attached to it and these will be managed by the dedicated governance structure for the project.

There will continue to be oversight by the Audit Risk and Governance (ARG) Board and Merseytravel in this regard.

Work commenced on new depot facilities and the design phase of the Rolling Stock was signed off to allow manufacture to commence from May 2018.

Merseytravel's Bus Strategy continued to increase bus patronage while reducing the cost of the Supported Network in 2017/18.

Merseytravel initiated work in 2017/18 into how the City Region can use new bus powers acquired through the devolution deal to capture and retain the social and environmental value of bus.

### **Key Issues**

- To effectively manage the Programme of activities necessary for the introduction of new Rolling Stock for the Merseyrail Network in 2020.
- To make best use of the powers within the Bus Services Act to maintain and enhance the economic, social and environmental benefits of bus transport for the City Region.

## **Developing Capacity and Capability**

Capacity at Merseytravel was tested in 2017/18 by the requirement for certain key officers to also support the LCRCA.

This relationship is now proving to be of significant benefit for Merseytravel as more formal integration with the LCRCA has strengthened the overall management team and will bring additional capacity to Transport Policy, Legal Services, Finance, Programme Management, IT and other support functions.

At the time of publication, however, there are vacancies in three key Heads of Service posts, although arrangements have been put in place for recruitment and for cover to ensure that there is no detriment to the organisation.

The budget agreed for 2018/19 has provided the financial certainty for Merseytravel after a period of aggressive levy reductions.

### **Key Issues**

- A number of key posts within the governance framework fell vacant around the end of 2017/18 and Merseytravel will need to ensure that successful recruitment ensures that capacity issues do not risk delivery as a result of this.
- Merseytravel will also need to ensure that its responsibilities in support of the LCRCA do not limit capacity for its core functions of transport delivery.

## **Managing Risks and Performance through robust internal control and strong public financial management**

Risk management arrangements have been reviewed. Merseytravel's Risk Management Strategy and Corporate Risk Register were formally reviewed and updated in 2017/18.

Merseytravel's Risk Management Arrangements were externally reviewed in 2017/18 as part of work undertaken by the Audit Risk and Governance (ARG) Board.

The review found that Merseytravel has a comprehensive framework for the management of risk and has a risk management strategy and policy document in place. The Corporate Risk Register is updated regularly and reports are provided to the Primary Assurance and Risk Group (PARG), and the ARG Board.

PARG members undertook a full review of the Corporate Risk Register during 2017/18 to ensure that new and emerging risks were included.

Performance Management arrangements put into place in previous years became substantially embedded at Merseytravel in 2017/18, with 97% of targets achieved within year.

A comprehensive Treasury Management Strategy for Merseytravel was approved by the LCRCA.

Procurement and contracting arrangements in respect of Supported Bus contracts were significantly improved.

2017/18 saw the implementation of a new financial ledger system which will significantly improve the quality and efficiency of financial reporting for the organisation.

### **Key Issues**

- Merseytravel needs to ensure that it optimises the benefits of its investment in the new financial ledger system.
- Further strategic review of the risk register needed during 2018/19 to ensure that the key strategic risks are reflected and that risks align to corporate objectives.

## **Implementing good practices in transparency, reporting and audit to deliver effective accountability**

Merseytravel follows good practice in providing clear and accurate information and has developed its reporting profile and its online presence with transparency in mind.

Merseytravel's ARG Board met at key stages within the 2017/18 reporting cycle.

Merseytravel's Internal Audit arrangements were subject to independent review in 2017/18 and found to be effective.

## 5. Review of Effectiveness

Merseytravel's External Auditor, KPMG, provides assurance on the accuracy of the annual Statement of Accounts and the adequacy of our arrangements for securing value for money. The most recent Audit Letter was issued in September 2017 and gave an unqualified opinion on both the accuracy of the accounts and our arrangements in respect of value for money.

Merseytravel's Internal Audit section – which was itself subject to external review in 2017/18 - delivered a comprehensive Internal Audit plan and through this, was able to provide a reasonable level of assurance in 2017/18.

Merseytravel's ARG Board also requested an external assessment of Risk Management arrangements in 2017/18 which was undertaken by the Chief Internal Auditor of Warrington Council. This officer agreed to support Merseytravel further by becoming an independent member of the Board.

## 6. Key areas for improvement in 2017/18

In summary, the following areas are key priorities for 2018/19 that have been identified in the 2017/18 review of governance:

To ensure that the Mayor's Transport Plan is consistent with the overall aims and objectives of the Local Industrial Strategy.

To ensure that Air Quality issues are reflected in transport strategy and delivery.

To effectively manage the Programme of activities necessary for the introduction of new Rolling Stock for the Merseyrail Network in 2020.

To make best use of the powers within the Bus Services Act to maintain and enhance the economic, social and environmental benefits of bus transport for the City Region.

To ensure that Merseytravel's responsibilities in respect of the LCRCA do not create capacity issues that impact on the delivery of Merseytravel's core transport delivery functions.

Merseytravel needs to ensure that it optimises the benefits of its investment in the new financial ledger system.

Further strategic review of the risk register needed during 2018/19 to ensure that the key strategic risks are reflected and that risks align to corporate objectives.

These areas for improvement have been accepted by the Merseytravel Board and Merseytravel Directors have accepted responsibility for ensuring that these are each addressed in 2018/19.

## 7. Conclusion

Merseytravel is satisfied that appropriate governance arrangements are in place and that the governance arrangements in place in 2017/18 were appropriate to its resources and responsibilities in that year.

The arrangements in place throughout Merseytravel's governance framework continue to improve as we build upon the work undertaken in previous years. The review of effectiveness in 2017/18 is able to provide a high degree of assurance to the organisation that the governance framework is working effectively despite the need for further improvement in some areas.

The change in governance to a Mayoral CA has meant that 2017/18 has been a transitional year, with Merseytravel needing to adapt its operational structure and a number of its policy objectives to align with this change in governance.

The arrangements in place in 2017/18 focussed on ensuring that capacity and resources were put in place to support the wider LCRCA functions while maintaining effective governance and delivery around Merseytravel's core activities.

While Merseytravel needs to maintain awareness of capacity risks, the closer relationship between Merseytravel and the new LCRCA that has developed in 2017/18 looks certain to increase overall capacity for transport and should allow Merseytravel to look forward to a successful partnership with the Mayor and the LCRCA.

## Merseytravel Directors



**Frank Rogers**  
Chief Executive & Director  
General (Merseytravel) and  
Interim Head of Paid  
Service (Liverpool City  
Region Combined  
Authority)



**John Fogarty**  
Director of Corporate  
Services (Liverpool City  
Region Combined Authority)



**Liz Chandler**  
Director of Corporate  
Development



**Mick Noone**  
Director of Integrated  
Transport

**Frank Rogers – Chief Executive & Director General**

A handwritten signature in black ink, appearing to read 'F. Rogers'.

**John Fogarty (CPFA) – Director of Corporate Services**

**25 July 2018**

A handwritten signature in black ink, appearing to read 'J. Fogarty'.

# INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF MERSEYTRAVEL

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

We have audited the financial statements of Merseytravel ('the Authority') for the year ended 31 March 2018 which comprise the Authority and Group Comprehensive Income and Expenditure Statement(s), the Authority and Group Balance Sheet(s), the Authority and Group Movement in Reserves Statement(s), the Authority and Group Cash Flow Statement(s) and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2018 and of the Authority's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

### Other information published with the financial statements

The Director of Corporate Services is responsible for the other information published with the financial statements, including the Narrative Statement and the Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information. In our opinion the other information published with the financial statements for the financial year is consistent with the financial statements.

## **Director of Corporate Services responsibilities**

As explained more fully in the statement set out on page 18, the Director of Corporate Services is responsible for: the preparation of the Authority's financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting on the assumption that the functions of the Authority and the Group will continue in operational existence for the foreseeable future.

## **Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities)

## **REPORT ON OTHER LEGAL AND REGULATORY MATTERS**

### **Report on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Merseytravel put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### **Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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

We are required under Section 20(1) (c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether Merseytravel had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Merseytravel put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### **Statutory reporting matters**

The Code of Audit Practice requires us to report to you if:

- any matters have been reported in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit;
- any recommendations have been made under Section 24 of the Local Audit and Accountability Act 2014;
- an application has been made to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- an advisory notice has been issued under Section 29 of the Local Audit and Accountability Act 2014;
- an application for judicial review has been made under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

## **THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## **CERTIFICATE OF COMPLETION OF THE AUDIT**

We certify that we have completed the audit of the financial statements of Merseytravel in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Timothy Cutler  
**For and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 St Peter's Square  
Manchester  
M2 3AE

25 July 2018

## MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement (MiRS) shows the movement from the start of the year to the end on the different reserves held by Merseytravel analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of Merseytravel's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to the revenue reserve for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments

	<b>Usable Reserves (General Fund Balance)</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 31 March 2016</b>	<b>70,921</b>	<b>8,343</b>	<b>79,264</b>
<b>Movement in Reserves during 2016/17</b>			
Total Comprehensive Income and Expenditure	36,889	(6,912)	<b>29,977</b>
Adjustments between accounting basis and funding basis under regulations (note 5)	(38,247)	38,247	<b>0</b>
<b>Increase/(Decrease) in 2016/17</b>	<b>(1,358)</b>	<b>31,335</b>	<b>29,977</b>
<b>Balance as at 31 March 2017 carried forward</b>	<b>69,563</b>	<b>39,678</b>	<b>109,241</b>
<b>Movement in Reserves during 2017/18</b>			
Total Comprehensive Income and Expenditure	48,516	36,619	<b>85,135</b>
Adjustments between accounting basis and funding basis under regulations (note 5)	(55,301)	55,301	<b>0</b>
<b>Increase/(Decrease) in 2017/18</b>	<b>(6,785)</b>	<b>91,920</b>	<b>85,135</b>
<b>Balance as at 31 March 2018 carried forward</b>	<b>62,778</b>	<b>131,598</b>	<b>194,376</b>

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This 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 taxation. Authorities raise taxation to cover expenditure in accordance with Regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Notes	2016/17				2017/18		
	Gross Expenditure £'000	Gross Income £'000	Net Spend £'000		Gross Expenditure £'000	Gross Income £'000	Net Spend £'000
	30,652	(12,107)	18,545	Bus Services	27,714	(9,199)	18,515
	88,758	(127,586)	(38,828)	Rail Services	110,360	(161,215)	(50,855)
	10,354	(3,224)	7,130	Customer Delivery	9,201	(2,056)	7,145
	74,326	(18,716)	55,610	Travel Concession	73,397	(18,638)	54,759
	2,737	(1,835)	902	Policy	5,043	(2,952)	2,091
	3,932	(511)	3,421	People and Customer Development	4,357	(874)	3,483
	3,635	(741)	2,894	Corporate Management and other	4,036	(192)	3,844
	4,465	0	4,465	Corporate Costs	2,127	0	2,127
				Net Cost of Mersey Ferries			
	<b>218,859</b>	<b>(164,720)</b>	<b>54,139</b>	<b>Net Cost of Service</b>	<b>236,235</b>	<b>(195,126)</b>	<b>41,109</b>
7			104	Other Operating Expenditure			107
8			3,268	Financing and Investment Income			2,288
10			(94,400)	Taxation and Non Specific Grant Income			(92,020)
			<b>(36,889)</b>	<b>(Surplus) or Deficit on the Provision of Services</b>			<b>(48,516)</b>
			6,912	Re measurement Gains/ Losses on Pension Assets/ Liabilities			(17,642)
			0	(Surplus)/Deficit on Revaluation Non Current Assets			(18,977)
			6,912	<b>Other Comprehensive Income and Expenditure</b>			<b>(36,619)</b>
			<b>(29,977)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(85,135)</b>

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet Date of the assets and liabilities recognised by Merseytravel. The net assets of Merseytravel (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

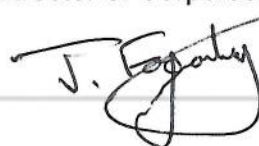
As at 31 March 2017 £'000		As at 31 March 2018 £'000	Note
141,178	Property, Plant and Equipment	217,797	17
326	Heritage Assets	326	
915	Intangible Assets	1,131	19
3,977	Long-term Debtors	3,799	20
<b>146,396</b>	<b>Long-term Assets</b>	<b>223,053</b>	
48	Inventories	80	
49,189	Short-term Debtors	53,437	21
50,901	Cash and Cash Equivalents	72,365	
<b>100,138</b>	<b>Current Assets</b>	<b>125,882</b>	
(25,103)	Short-term Creditors	(62,532)	22
(292)	Provisions	(251)	23
(4,440)	Grant Receipts in Advance	(5,591)	10
<b>(29,835)</b>	<b>Current Liabilities</b>	<b>(68,374)</b>	
(3,234)	Internal Loans	(3,080)	
(1,654)	Provisions	(1,654)	23
(102,571)	Pension Liability	(81,451)	9
<b>(107,459)</b>	<b>Long-term Liabilities</b>	<b>(86,185)</b>	
<b>109,240</b>	<b>Net Assets</b>	<b>194,376</b>	
69,562	Usable Reserves	62,778	6
39,678	Unusable Reserves	131,598	5
<b>109,240</b>	<b>Total Reserves</b>	<b>194,376</b>	

Frank Rogers

Chief Executive & Director General



John Fogarty (CPFA)  
Director of Corporate Services



## CASHFLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. 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. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

<b>2016/17 £'000</b>		<b>2017/18 £'000</b>	<b>Note</b>
<b>36,889</b>	<b>Net surplus/(deficit) on provision of services</b>	<b>48,516</b>	
7,952	Adjustments to net surplus on the provision of services for non-cash movements	3,859	27
(46,135)	Adjustments to net surplus on the provision of services for items which are investing and financing activities	(63,122)	27
<b>(1,294)</b>	<b>Net cash inflows from Operating Activities</b>	<b>(10,747)</b>	
3,589	Investing activities	32,211	27
<b>2,295</b>	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>21,464</b>	
48,606	Cash and cash equivalents as at 1 April	50,901	
<b>50,901</b>	<b>Cash and cash equivalents as at 31 March</b>	<b>72,365</b>	

## NOTES TO THE PRIMARY FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### **General Principals**

The Statement of Accounts summarises Merseytravel's transactions for the financial year 2017/18 and its position as at 31 March 2018. Merseytravel is required to prepare an Annual Statement of Accounts in accordance with the Accounts and Audit (England) Regulations 2015 which require the accounts to be completed in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted by the statement is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been completed on a going concern basis.

#### **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 Merseytravel transfer the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to Merseytravel.
- Revenue from the provision of services is recognised when Merseytravel can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to Merseytravel.
- 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 (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 debts may not 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. Cash equivalents are highly liquid investments that mature in three months or less from the date of

acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of Merseytravel's cash management.

### **Changes in Accounting Policies, Estimations, Errors and Prior Period Adjustments**

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on Merseytravel's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### **Charges to Revenue for Non-Current Assets**

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off; and
- amortisation of intangible assets attributable to the service.

### **Employee Benefits**

#### **Benefits Payable During Employment**

Short-term employee benefits are those due to be settled wholly 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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to Merseytravel. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by Merseytravel 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 and are charged on an accruals basis to the appropriate service line in the Comprehensive Income and Expenditure Statement at the earlier of when Merseytravel can no longer withdraw the offer of those benefits or when Merseytravel 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 Merseytravel 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 Merseytravel are members of a Local Government Pensions Scheme, administered by Merseyside Pension Fund. This is a defined benefit pension scheme.

The liabilities of the Merseyside Pension Fund attributable to Merseytravel 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, etc., and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of Merseyside Pension Fund attributable to Merseytravel are included in the Balance Sheet at their fair value.

The change in the net pension liability is analysed into the following components:

- Current service costs
- Past service costs (including curtailments)
- Pension administration expenses
- Net interest expenses (interest on plan assets and liabilities)
- Remeasurement gains and losses
- Contributions paid to Merseyside Pension Fund

In relation to retirement benefits, statutory provisions require the revenue account to be charged with the amount payable by Merseytravel to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement 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. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the revenue reserve of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

Merseytravel also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### **Events after the Reporting Period**

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is 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.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

#### **Financial Instruments**

##### Financial Assets

All investments used by Merseytravel are of the type whereby they are classed as 'Loans and Receivables' and are initially recognised on the basis of Fair Value, and subsequently accounted for using the Amortised Cost basis. In doing so, annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset, multiplied by the effective interest rate for the instrument. The interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

##### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when Merseytravel becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that Merseytravel has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

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 derecognition 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 and Contributions**

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

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

Amounts recognised as due to Merseytravel 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 in the form of 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 in the Balance Sheet as creditors. 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 and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out through 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. Where 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.

### Group Accounts

The financial statements comprise the accounts of Merseytravel and its subsidiary and associated undertakings as at 31 March 2018. Merseytravel has interests in a number of entities; the principal trading ones are detailed below.

Name	Immediate parent	Holding	Nature of the business	% equity interest 2017	% equity interest 2016
Mersey Ferries Ltd	Merseytravel	Company limited by guarantee	Passenger Transport	N/A*	N/A*
Merseyside Passenger Transport Service Ltd	Merseytravel	25 1 Ord. Shares 375 £1 5% Non Cumulative Pref Shares	Leasing	100	100
Real Time Information Group Limited	Merseytravel	1 £1 Ord Share	Real Time Information Systems	100	100
Accrington Technologies Ltd	Merseytravel	500 £1 Ord Shares	Smartcard	50.1	50.1
The Beatles Story Ltd	Mersey Ferries Ltd	290,000 £1 Ord Shares	Tourism	100	100

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. The financial performance of those subsidiaries that are considered material are fully consolidated on a line-by-line basis from the date that Merseytravel obtains control, until the date that such control ceases. Uniform accounting policies are used in the preparation of the group accounts. For those active subsidiaries for which the financial performance is not deemed to be material, further information on these is included within note 16.

All intra-group trading, balances and unrealised gains and losses as at the end of each period, are eliminated in full as part of the consolidation process.

In Merseytravel's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### Goodwill

Business combinations have been accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the Statement of Financial Position as goodwill and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and

whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at operating segment level or, if smaller, statutory company level. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Merseytravel has taken advantage of the option under the first time adoption provisions of The Code to use the brought forward value of goodwill as at 1 April 2009 as an appropriate approximation of fair value.

### **Heritage Assets**

These assets are to be preserved in trust for future generations because of their cultural, environmental or historical associations. Merseytravel reclassified several assets that were previously included within plant and equipment. These assets are now shown separately on the face of the balance sheet. The Beatles Story owns a statue in commemoration of John Lennon, which is also shown in the Group accounts.

### **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by Merseytravel (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to Merseytravel. Intangible assets are measured at cost and the balance is amortised over its useful life to the relevant service line in the Comprehensive Income and Expenditure Statement on a straight-line basis typically over a period of 3 years, although a longer amortisation period of 12 years has been applied to the Fab 4 Film. These amortisation charges are not permitted to have an impact on the General Fund Balance and are reversed to the Capital Adjustment Account via the Movement in Reserves Statement.

### **Inventories**

Inventories are included in the Balance Sheet at the lower of actual cost and net realisable value determined on a first in first out basis.

### **Leases**

Under the requirements of IAS 17 Leases, Merseytravel is required to consider/review all its lease arrangements and apply the primary and secondary tests detailed in the standard to determine the extent to which the risks and rewards incidental to ownership lie with the lessor or lessee and therefore whether leases should be classified as operating or finance leases, with the subsequent accounting treatment being in accordance with the standard.

#### **Authority as Lessee – operating leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the service(s) benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

#### Authority as Lessor – operating leases

Where Merseytravel grants an operating lease over an item of Property, Plant or Equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

### **Overheads and Support Services**

In line with best practice, charges for the cost of central support services are fully charged or apportioned to those that benefit from the supply of service using time recording and other appropriate methods.

### **Property Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to Merseytravel and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price; and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Merseytravel does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of Merseytravel). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by Merseytravel.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income

and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective; and
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains might be credited to the Surplus or Deficit on the Provision of Services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation on all Property, Plant and Equipment assets is calculated by allocating the asset value over the period expected to benefit from their use on a straight-line basis. All assets are assessed individually in relation to their asset lives for the purpose of calculating depreciation. Conditions relative to each asset are considered in arriving at this determination.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### Disposal and Non- Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for

Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts and can then only be used for new capital investment [or set aside to reduce Merseytravel's underlying need to borrow (the capital financing requirement) (England and Wales)]. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against the levy, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

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

### Provisions

Provisions are made where an event has taken place that gives Merseytravel 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 Merseytravel becomes aware of the obligation, and are 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 relevant service.

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 Merseytravel settles the obligation.

### Contingent Liability

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

## Contingent Assets

A contingent asset arises where an event has taken place that gives Merseytravel a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of Merseytravel. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

## **Reserves**

Merseytravel sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are shown in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or 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, financial instruments, retirement and employee benefits and do not represent usable resources for Merseytravel – these reserves are explained in the relevant policies.

## **Revenue Expenditure Funded from Capital under Statute (REFCUS)**

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 has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where Merseytravel has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the Revenue Reserve Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of levy.

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

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## **2. Accounting Standards Issued but not yet Adopted**

There are several amendments to International Financial Reporting Standards that will apply from 1 April 2018 namely:

- Implementation of IFRS 9, *Financial Instruments*;
- Implementation of IFRS 15, *Revenue from Contracts with Customer*;
- Amendments to IAS 12 *Income Taxes*; and
- Amendments to IAS 7 *Statement of Cashflows*.

It is not expected that any of these will have a material impact on Merseytravel's accounts and as such no further disclosure is required.

## **3. Significant Accounting Estimates and Assumptions**

The preparation of the Authority's accounts requires management to make judgements, estimates and assumptions that affect the amounts reported as revenues, expenses, assets and liabilities reported in the accounts. Uncertainty

about these assumption and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities in future periods.

In terms of the Authority's Balance Sheet as at 31 March 2018, the items for which there is a significant risk of material adjustment are as follows:

- Pension benefits: the cost of defined benefit pension plans is determined using an independent actuarial valuation, involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end and determined jointly between the pension fund management and the actuaries.
- Property, Plant and Equipment: for assets held at historical cost the carrying value is initial cost less accumulated depreciation. Depreciation is calculated on a straight line basis over the expected useful life, which is the best estimate of the life of the asset as provided for by independent experts. For assets held at valuation, a full valuation is performed every five years by an independent external valuer. Increases in property values since the date of the last valuation (31<sup>st</sup> March 2014) have been estimated and recognised in the Balance Sheet as at 31<sup>st</sup> March 2018. The estimates are based upon desktop valuations undertaken by a professional external valuer which take into account the movement in tender price indices and location factors over the period. Impairment reviews are conducted annually by management.
- Merseytravel has examined all its significant lease agreements to establish whether these should be classed as operational or finance leases. Where the application of IAS 17 does not provide a definitive solution, judgement is applied in determining whether the lease is operating or financial. Based on this assessment all Merseytravel's leases have been assessed to be operational.
- Provisions for doubtful debts: as at 31 March 2018 the Authority has £59m short term debtors. The recoverability of debts are reviewed annually and provision is made for any debts over 12 months old or for which there is evidence of the initial debt being unrecoverable.
- Group accounts: the Authority has a number of interests in other entities which fall within the group boundary. Whilst some of these are deemed to be material and are therefore consolidated into group accounts, others are considered not sufficiently material to warrant full group account disclosures. To ensure there is sufficient visibility on these arrangements, narrative disclosures on these arrangements are included within note 16.

#### **4. Adjustments Between Accounting Base and Funding Under Regulation**

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 the resources that are specified by statutory provisions as being available to the Authority to meet future capital and revenue expenditure.

2016/17 General Fund Balance £'000		2017/18 General Fund Balance £'000
<b>Adjustments to the Revenue Resources</b>		
<b>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue in the year in accordance with statutory requirements:</b>		
1,413	<b>Pensions costs (transferred to the Pensions Reserve)</b>	2,559
372	<b>Holiday Pay (transferred to the accumulated Absences Reserve)</b>	0
(40,032)	<b>Reversal of entries included in the Surplus on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)</b>	(57,860)
(38,247)	<b>Total Adjustments to Revenue Resources</b>	(55,301)

## 5. Unusable Reserves

2016/17 £'000		2017/18 £'000
11,169	Revaluation Reserve	29,699
131,452	Capital Adjustment Account	189,759
(102,571)	Pension Reserve	(87,488)
(372)	Accumulated Absences Account	(372)
<b>39,678</b>	<b>Total</b>	<b>131,598</b>

### Revaluation Reserve

The Revaluation Reserve contains the gains made by Merseytravel arising from increases in the value of its property, plant and equipment (and intangible assets). The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2016/17 £'000	2016/17 £'000		2017/18 £'000	2017/18 £'000
	11,615	<b>Balance as at 1 April</b>		<b>11,169</b>
0		Upward revaluation of assets	19,275	
0		Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on Provision of Services	(299)	
	0	Surplus on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		18,976
(446)		Difference between fair value depreciation and historical cost depreciation	(446)	
	(446)	Amount written off to the Capital Adjustment Account		(446)
	<b>11,169</b>	<b>Balance as at 31 March</b>		<b>29,699</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is charged with the cost of acquisition, construction or enhancement, as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by Merseytravel as finance for the costs of acquisition, construction and enhancement.

The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2016/17 £'000		2017/18 £'000
90,974	<b>Balance as at 1 April</b>	<b>131,452</b>
	<b>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</b>	
(6,102)	Charges for depreciation, amortisation and impairment of non-current assets	(6,438)
(4,661)	Revenue expenditure funded from capital under statue	(14,232)
0	Amounts of non-current assets written off on disposal or sale as part of gains/ losses on disposal to the Comprehensive Income and Expenditure Statement	(1,910)
<b>(10,763)</b>		<b>(22,580)</b>
446	Adjusting amounts written out of the Revenue Reserve	446
<b>(10,317)</b>	<b>Net written out amount of the costs of noncurrent assets consumed in the year</b>	<b>(22,134)</b>
	<b>Capital financing applied in the year</b>	

50,795	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	77,014
0	Use of the Capital Reserve to finance new capital expenditure	3,427
<b>50,795</b>		<b>80,441</b>
<b>131,452</b>	<b>Balance as at 31 March</b>	<b>189,759</b>

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. Merseytravel accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as Merseytravel makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore represents a substantial shortfall in the benefits earned by past and current employees and the resources Merseytravel has set aside to meet them. The Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>2016/17 £'000</b>		<b>2017/18 £'000</b>
<b>(94,246)</b>	<b>Balance as at 1 April</b>	<b>(102,571)</b>
(6,912)	Remeasurements of the net defined benefit liability	17,642
(8,031)	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	(9,569)
6,618	Employers pension contributions and direct payments to pensioners payable in the year	7,010
0	Recognition of pension deficit prepayment	
<b>(102,571)</b>	<b>Balance as at 31 March</b>	<b>(87,488)</b>

### Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the Revenue Reserve Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the Revenue Reserves Balance is neutralised by transfers to or from the Account.

<b>2016/17 £'000</b>		<b>2017/18 £'000</b>
<b>0</b>	<b>Balance as at 1 April</b>	<b>(372)</b>
(372)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements	0
<b>(372)</b>	<b>Balance as at 31 March</b>	<b>(372)</b>

## 6. Revenue and Earmarked Reserves

This note sets out the amounts set aside from the Revenue Reserve balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	<b>Balance at 1 April 2016</b>	<b>Transfers Out 2016/17</b>	<b>Transfers In 2016/17</b>	<b>Balance at 31 March 2017</b>	<b>Transfers Out 2017/18</b>	<b>Transfers In 2017/18</b>	<b>Balance at 31 March 2018</b>
Capital Reserve (a)	<b>9,176</b>	0	0	<b>9,176</b>	(3,427)	0	<b>5,749</b>
Rail Franchise Agreement Reserve (b)	<b>19,648</b>	(2,347)	4,907	<b>22,208</b>	0	2,811	<b>25,019</b>
Rail Financing Reserve (c)	<b>16,099</b>	(3,245)	0	<b>12,854</b>	(9,650)	0	<b>3,204</b>
Restructuring Reserve (d)	<b>4,368</b>	0	0	<b>4,368</b>	0	0	<b>4,368</b>
Grant/Contributions Unapplied Reserve (e)	<b>2,329</b>	0	0	<b>2,329</b>	0	0	<b>2,329</b>
OLR Reserve (f)	<b>2,000</b>	0	0	<b>2,000</b>	0	0	<b>2,000</b>
Operational Reserves (g)	<b>4,731</b>	0	0	<b>4,731</b>	0	0	<b>4,731</b>
Sustainable Transport Reserve (h)	<b>918</b>	(753)	60	<b>225</b>	0	0	<b>225</b>
Revenue Reserve	<b>1,739</b>	0	0	<b>1,739</b>	0	0	<b>1,739</b>
Other Reserves	<b>9,913</b>	(669)	688	<b>9,932</b>	0	3,482	<b>13,414</b>
<b>Total</b>	<b>70,921</b>	<b>(7,014)</b>	<b>5,655</b>	<b>69,562</b>	<b>(13,077)</b>	<b>6,293</b>	<b>62,778</b>

- (a) The capital reserve is used to support the funding of the capital programme.
- (b) The rail franchise agreement (benefit share) reserve is used to support development of strategic transport initiatives.
- (c) The rail financing reserve has been created to support the delivery of a new rolling stock fleet.
- (d) The restructuring reserve is utilised to provide support to staffing cost implications of service transformation programmes.
- (e) The grants/contributions unapplied reserve represents capital grants that have been received but not yet utilised to support the delivery of the capital programme.
- (f) The OLR (Operator of Last Resort) reserve has been created to provide funding should the incumbent rail operator experience difficulties in running the MEL franchise. In this instance Merseytravel has step in rights to allow it to take over the running of the franchise until a new operator can be found.
- (g) Operational reserves are used to support the current transport network and ticketing initiatives.
- (h) The sustainable transport reserve supports the Local Growth Fund initiatives surrounding the STEP programme.

#### 7. Other Operating Expenditure

2016/17 £'000		2017/18 £'000
104	Pension Administration Costs	107
<b>104</b>	<b>Total</b>	<b>107</b>

#### 8. Financing and Investment Income

2016/17 £'000		2017/18 £'000
11,367	Interest on Pension Liabilities	9,208
(8,099)	Pension Interest on Plan Assets	(6,920)
173	Interest Payable on Intercompany Loan	166
(173)	Interest Receivable on Intercompany Loan	(166)
<b>3,268</b>	<b>Total</b>	<b>2,288</b>

#### 9. Pensions

As part of the terms and conditions of employment of its officers, Merseytravel makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, Merseytravel has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement. Merseytravel participates in Merseyside Pension Fund administered locally by Wirral Council – this is a funded defined benefit final salary scheme, meaning that Merseytravel and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

##### Transactions Relating to Post Employment Benefits

The following transactions have been made in the Comprehensive Income and Expenditure Statement within the Surplus or Deficit on the Provision of Services to

comply with the reporting requirements of IAS 19 in respect of defined benefits schemes.

2016/17 £'000		2017/18 £'000
4,789	<b>Net Cost of Service</b>	7,174
5	Current service cost	0
	Curtailments	
104	<b>Other Operating Expenditure</b>	107
	Administration expenses	
3,133	<b>Financing and Investments Income</b>	2,288
	Net interest expense	
<b>8,031</b>	<b>Total Post Employment Benefits Charged to the CIES</b>	<b>9,569</b>

The following transactions are then recognised in the Movement in Reserves as adjustments between the accounting basis and funding basis under Regulation.

2016/17 £'000		2017/18 £'000
(8,031)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services	(9,569)
6,618	Employers contribution payable to the Scheme	7,010

#### Pension Assets and Liabilities recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows:

2016/17 £'000		2017/18 £'000
373,646	Benefit obligation at end of the period	366,405
(271,075)	Fair Value of plan assets at end of the period	(284,954)
<b>102,571</b>	<b>Deficit as at 31 March</b>	<b>81,451</b>

#### Reconciliation of the movement in the Fair Value of Scheme (Plan) Assets

2016/17 £'000		2017/18 £'000
231,974	Balance brought forward 31 March	271,075
8,099	Interest on plan assets	6,920
35,015	Remeasurement	4,661
(104)	Administration expenses	(107)
6,618	Employers contributions	13,047
1,447	Members contributions	1,503
(11,974)	Benefits/ transfers paid	(12,145)
<b>271,075</b>	<b>Balance carried forward 1 April</b>	<b>284,954</b>

Reconciliation of Present Value of Scheme Liabilities (Defined Benefit Obligations)

<b>2016/17 £'000</b>		<b>2017/18 £'000</b>
326,220	Balance brought forward 31 March	373,646
4,789	Current service cost	7,174
11,232	Interest on pension liabilities	9,208
1,447	Member contribution	1,503
41,927	Remeasurement (liabilities)	(12,981)
5	Curtailments	0
(11,974)	Benefits/ transfers paid	(12,145)
<b>373,646</b>	<b>Balance carried forward 1 April</b>	<b>366,405</b>

As at 31 March the assets comprised:

2016/17					2017/18			
Quoted £'000	Unquoted £'000	Total £'000	% of total		Quoted £'000	Unquoted £'000	Total £'000	% of total
56,423	0	56,423	21	<b><u>Equities</u></b>	60,041	0	60,041	21
88,953	0	88,953	33	UK	90,188	0	90,188	32
				Global				
10,843	0	10,843	4	<b><u>Bonds</u></b>	10,230	0	10,230	4
6,777	0	6,777	3	UK Government	12,339	0	12,339	4
24,126	0	24,126	9	UK Corporate	23,110	0	23,110	8
				UK Index Linked				
0	12,741	12,741	5	<b><u>Property</u></b>	0	16,556	16,556	6
813	3,253	4,066	1	UK Direct Property	541	4,303	4,844	2
				UK Managed				
0	4,337	4,337	2	Property	0	3,989	3,989	1
				Global Managed				
				Property				
27	9,217	9,244	3	<b><u>Private Equity</u></b>	28	9,375	9,403	3
0	9,488	9,488	4	UK	0	8,919	8,919	3
				Global				
9,217	0	9,217	3	<b><u>Cash</u></b>	7,608	0	7,608	3
				Cash Instruments				
0	1,979	1,979	-	<b><u>Other</u></b>	0	1,453	1,453	-
0	6,614	6,614	2	Private Equity UK	0	7,466	7,466	3
			2	Private Equity				
271	5,394	5,665	2	Global	313	6,725	7,038	2
81	5,340	5,421	2	Infrastructure UK	0	5,614	5,614	2
				Infrastructure				
4,310	6,696	11,006	4	Global	3,818	7,238	11,056	4
949	3,226	4,175	2	Opportunities UK	1,624	3,476	5,100	2
				Opportunities				
				Global				
202,790	68,285	271,075	100		209,840	75,114	284,954	100

### Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The Local Government Pension Scheme liabilities have been assessed by Mercers, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme. The main assumptions used in their calculations are detailed in the table below.

	2016/17	2017/18
<b><u>Base Assumptions</u></b>		
Rate of CPI inflation	2.3%	2.1%
Rate of increase in salaries	3.8%	3.6%
Rate of increase in pensions	2.3%	2.2%
Discount Rate	2.5%	2.6%
<b><u>Mortality Assumptions</u></b>		
Life expectancy of male future pensioner aged 65 in 20 years' time	24.9	25
Life expectancy of female future pensioner aged 65 in 20 years' time	27.7	27.8
Life expectancy of male current pensioner aged 65	21.9	22
Life expectancy of female current pensioner aged 65	24.7	24.8

A sensitivity analysis has been provided by Mercers which provides an illustrative impact of marginal changes to the assumptions used in respect of the long term discount rate, inflation and life expectancy. The results of this sensitivity analysis are detailed below.

	Central	+0.1% p.a. discount rate	+0.1% p.a. inflation	+0.1% p.a. pay growth	1 year increase in life expectancy
	£'000	£'000	£'000	£'000	£'000
Liabilities	366,405	360,674	372,228	367,377	373,880
Assets	(284,954)	(284,954)	(284,954)	(284,954)	(284,954)
(Surplus)/ Deficit	81,451	75,720	87,274	82,423	88,926
Projected service cost next year	6,675	6,486	6,872	6,675	6,818
Projected net interest cost for next year	2,068	1,992	2,227	2,101	2,270

### Impact on Merseytravel's Cashflows

The objectives of the scheme are to keep employer's contributions at as constant and affordable rate as possible. Merseyside Pension Fund has agreed a strategy with the scheme's actuary which was approved by the Pensions Committee in March 2017. Funding levels are monitored on an annual basis. The next triennial valuation is due 1 April 2020.

The fund is currently at 85% solvency and the objective is to recover the deficit over a reasonable timeframe and as quickly as participating employers can reasonably afford given other competing cost pressures. The recovery period for the deficit is set by the Fund however employers may elect to select a shorter deficit recovery period if they wish. The average recovery period for the Fund as a whole is 19 years.

The scheme will need to take account of the national changes to the scheme under the Public Pensions Act 2013. Under the Act, the Local Government Pension Scheme in England and Wales and the other main existing public service schemes may not provide benefits in relation to service after 31 March 2014 (or services after 31 March 2015 for other main existing public service pension schemes in England and Wales). The Act provides for scheme regulations to be made within a common framework, to establish new career average revalued earnings schemes to pay pensions and other benefits to certain public servants.

Merseytravel anticipates to pay £3.3m in contributions to the scheme in 2018/19 excluding deficit contributions.

#### 10. Grant Income

The following grants and contributions have been credited to the Comprehensive Income and Expenditure Statement during the period.

2016/17 £'000	Credited to Services	2017/18 £'0000
78,874	Special Rail Grant (pass ported through from LCRCA)	81,729
2,184	Bus Special Operator Grant	2,406
	Cycling and Walking to Work	482
112	Other Grants	404
<b>81,170</b>	<b>Total</b>	<b>85,021</b>

2016/17 £'000	Credited to Taxation and Non Specific Grant Income	2017/18 £'0000
94,400	Merseytravel Grant	92,020
<b>94,400</b>	<b>Total</b>	<b>92,020</b>

Merseytravel has received a number of grants and contributions that have conditions attached to them. These have not yet been recognised as income and will only be credited to the Comprehensive Income and Expenditure Statement once all conditions are met. The balances at the year-end are as follows:

2016/17 £'000		2017/18 £'0000
3,347	LCRCA	3,733
178	Better Bus Area	129
61	ERDF	0
733	LGF	0
0	DfT	1,500
121	Other	229
<b>4,440</b>	<b>Total</b>	<b>5,591</b>

## 11. Rail Concession Agreement (Benefit Share)

Under the concession agreement in respect of Merseyrail Electrics (MEL), there is an agreement that surpluses above a certain threshold are shared between MEL and Merseytravel. Merseytravel's net share for 2017/18 was £2.8m (2016/17 £3.4m). For 2017/18 costs of £1.5m (2016/17 £1.5m) and income of £4.3m (2016/17 £4.8m) have been included in Merseytravel income and expenditure.

The balance as at 31 March 2018 is £25.0m (2016/17 £22.2m) is included in useable reserves in the Balance Sheet. Agreed ongoing expenditure includes strengthening services on the Chester and Ormskirk Lines, funding the enhanced Chester-Liverpool train service and further improvements at Liverpool South Parkway. Discussions are on-going with MEL to determine the best use and maximum benefits to the travelling public for investing the remaining £25.0m.

## 12. Officers Remuneration

### Senior Officers Remuneration

The table below details the remuneration of the directors of Merseytravel.

		Salary (incl Allowances) £'000	Employers Pension Contribution £'000	Total Remuneration £'000
Chief Executive & Director General (i)	2017/18	26	4	30
	2016/17	145	21	166
Director of Corporate Development	2017/18	109	16	125
	2016/17	108	15	123
Director of Resources (ii)	2017/18	72	11	83
	2016/17	108	15	123
Director of Integrated Transport (iii)	2017/18	8	1	9
	2016/17	0	0	0

- (i) Chief Executive & Director General seconded to LCRCA as the Head of Paid Service from 26 May 2017.
- (ii) Director of Resources appointed as LCRCA Director of Corporate Services 17 November 2017.
- (iii) Director of Integrated Transport appointed 5 March 2018.

### Employee Remuneration

The number of employees (excluding Merseytravel's directors) in receipt of remuneration for the year of £50,000 or more is detailed below. For the purpose of this note remuneration includes allowances, bonuses and severance pay but excludes employer' pension contributions.

<b>Remuneration Range</b>	<b>2016/17</b>	<b>2017/18</b>
£50,000 to £54,999	12	14
£55,000 to £59,999	6	7
£60,000 to £64,999	4	5
£65,000 to £69,999	6	4
£70,000 to £74,999	0	2
£75,000 to £79,999	0	0
£80,000 to £84,999	2	3
£85,000 to £89,999	1	0
£90,000 to £94,999	0	1
£95,000 to £99,999	0	0
£100,000 to £104,000	1	1
£105,000 to £109,999	0	0
£125,000 to £129,999	1	1

### 13. Exit Packages

<b>Merseytravel Exit Package Cost Band</b>	<b>No. of Compulsory Redundancies</b>		<b>No. of other Departures agreed</b>		<b>Total No. of Exit Packages by Cost Band</b>		<b>Total Cost of Exit Packages in each Band</b>	
	<b>16/17</b>	<b>17/18</b>	<b>16/17</b>	<b>17/18</b>	<b>16/17</b>	<b>17/18</b>	<b>16/17 £000</b>	<b>17/18 £000</b>
£0 - £20,000	1	1	0	3	1	4	2	32
£20,001 - £40,000	2	0	2	2	4	2	132	62
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,000 - £150,000	0	0	0	0	0	0	0	0
<b>TOTAL</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>6</b>	<b>134</b>	<b>94</b>

14. Expenditure and Funding Analysis

**EXPENDITURE AND FUNDING ANALYSIS STATEMENT**

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
16,590	1,955	18,545	Bus	17,440	1,075	18,515
1,726	(40,554)	(38,828)	Rail	12,455	(63,311)	(50,856)
7,164	(34)	7,130	Hubs	10,123	(2,979)	7,145
55,595	15	55,610	Travel Concession	54,759	-	54,759
(186)	1,088	902	Policy	2,775	(684)	2,091
2,545	876	3,421	People & Customer Development	5,184	(1,701)	3,483
(876)	3,770	2,894	Corporate Management & Other Services	11,480	(5,509)	5,972
2,916	1,549	4,465	Mersey Ferries	(166)	166	-
<b>85,474</b>	<b>(31,335)</b>	<b>54,139</b>	<b>Net Cost of Services</b>	<b>114,052</b>	<b>(72,943)</b>	<b>41,109</b>
(84,116)	(6,912)	(91,028)	Other Income & Expenditure	(107,267)	17,642	(89,625)
<b>1,358</b>	<b>(38,247)</b>	<b>(36,889)</b>	<b>Surplus or deficit</b>	<b>6,785</b>	<b>(55,301)</b>	<b>(48,516)</b>
(70,921)			Opening General Fund Balance at 1 April	(69,563)		
1,358			Less/plus Surplus or Deficit on General Fund in Year	6,785		
<b>(69,563)</b>			<b>Closing General Fund Reserves at 31 March</b>	<b>(62,778)</b>		

**Note to the EFA 2017/18**

<b>Adjustments from General Fund to arrive at the CIES</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bus	2,578	(1,502)	0	1,076
Rail	(62,371)	(938)	0	(63,309)
Hubs	22	(3,001)	0	(2,979)
Travel Concessions	0	0	0	0
Policy	20	(704)	0	(684)
People & Customer Development	0	(1,701)	0	(1,701)
Corporate Management & Other Services	60	(5,571)	0	(5,511)
Mersey Ferries	1,831	(1,666)	0	165
Net Cost of Services	(57,860)	(15,083)	0	(72,943)
Other Income & Expenditure from the Funding Analysis	-	17,642	0	17,642
<b>Difference between General Fund surplus or deficit and CIES surplus or deficit</b>	<b>(57,860)</b>	<b>2,559</b>	<b>0</b>	<b>(55,301)</b>

**Note to the EFA 2016/17**

<b>Adjustments from General Fund to arrive at the CIES</b>	<b>Adjustments for Capital Purposes</b>	<b>Net change for the Pensions Adjustments</b>	<b>Other Differences</b>	<b>Total Adjustments</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Bus	1,047	877	31	1,955
Rail	(41,071)	487	30	(40,554)
Hubs	(1,667)	1,558	75	(34)
Travel Concessions	15	0	0	15
Policy	713	354	21	1,088
People & Customer Development	114	723	39	876
Corporate Management & Other Services	160	3,448	162	3,770
Mersey Ferries	657	878	14	1,549
Net Cost of Services	(40,032)	8,325	372	(31,335)
Other Income & Expenditure from the Funding Analysis	0	(6,912)	0	(6,912)
<b>Difference between General Fund surplus or deficit and CIES surplus or deficit</b>	<b>(40,032)</b>	<b>1,413</b>	<b>372</b>	<b>(38,247)</b>

## Expenditure Analysed by Type

2016/17 £'000		2017/18 £'000
	<b>Expenditure</b>	
29,494	Employee benefits expenses	23,352
192,096	Other services expenses	211,791
4,337	Support services recharges	3,970
4,403	Depreciation, amortisation, impairment	6,437
173	Interest payable	166
<b>230,503</b>	<b>Total expenditure</b>	<b>245,716</b>
	<b>Income</b>	
(39,782)	Fees, charges and other service income	(39,883)
(173)	Interest and investment income	(166)
(227,437)	Government grants and contributions	(254,183)
<b>(267,392)</b>	<b>Total income</b>	<b>(294,232)</b>
<b>(36,889)</b>	<b>(Surplus) or deficit on the Provision of Services</b>	<b>(48,516)</b>

### 15. Audit Fees

Merseytravel incurred external audit fees of £38k in 2017/18 (£38k in 2016/17) in respect of its external audit and inspection work.

### 16. Related Party Transactions

Merseytravel is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence or to be controlled or influenced by Merseytravel. The following is an analysis of the organisations or individuals deemed to meet this criteria.

#### **Liverpool City Region Combined Authority (LCRCA).**

Merseytravel is required to implement and administer transport policies determined by the LCRCA which means that the Authority is Merseytravel's parent and ultimate controlling party. The Authority provides Merseytravel with revenue and capital grants in support of its transport activities, be that revenue or capital. The revenue grant that is received by Merseytravel is funded through the transport levy made by LCRCA on the district councils in Merseyside. In addition to the transport grant, a number of other grants from Central Government are passported through to Merseytravel, primarily the Special Rail Grant which is received to meet the costs associated with the Merseytravel rail franchise and the Bus Services Operator Grant which is used to support bus services where there is no commercial bus service operation. Details on all of these items are included in note 10.

Group banking arrangements exist for LCRCA and Merseytravel with all investments made in the name of the LCRCA. As at 31 March 2018 Merseytravel had short term deposits of £30,200k (£30,200k 2016/17) with LCRCA. Balances are unsecured, interest free and settlement occurs in cash. No guarantees have been provided or received in respect of these sums.

Whilst LCRCA is a separate legal entity, during the financial year 2017/18, the Authority did not directly employ any of its own employees. During the year, the

statutory functions of the Authority were fulfilled by Officers from the constituent member district councils and organisations with the Director of Resources Merseytravel fulfilling the statutory role of Treasurer for the Authority and the Director General/ Chief Executive of Merseytravel being seconded to the Post of Head of Paid Service for the CA from May 2018. Recharges were made to Merseytravel for these services and totalled £230k. No pecuniary interests were disclosed during the year.

The role of Accountable Body for the Authority is fulfilled by Merseytravel and during 2017/18, a variety of support functions were provided by Merseytravel to the Authority, primarily Legal, Financial, Internal Audit and Project Management support. As this support was provided by Merseytravel staff a charge was made to the Authority of £244k for 2017/18.

### Subsidiary Companies

Merseytravel has interests in several companies, some of which are active, some of which are dormant or in the process of being wound up. The table below details the principal undertakings.

Name	Parent	Holding	Nature of Business	% Equity Interest
Mersey Ferries Ltd	Merseytravel	Company limited by guarantee	Passenger transport	N/A
Merseyside Passenger Transport Services Ltd	Merseytravel	25 £1 ordinary shares 375 £1 5% non-cumulative preference shares	Leasing	100%
Real Time Information Group Ltd	Merseytravel	1x £1 ordinary shares	Real Time Information systems	100%
Accrington Technologies Ltd	Merseytravel	500 £1 ordinary shares	Smartcards	50.1%
The Beatles Story	Mersey Ferries Ltd	290,000 £1 ordinary shares	Tourism	100%

Certain directors of Merseytravel are also directors of the above companies. Whilst these individuals are paid a salary by Merseytravel as detailed in note 12, no additional remuneration is received in respect of these directorships.

Under the relevant accounting standards all of the above fall to be classed as subsidiary undertakings and as such the financial performance of each should be consolidated into the financial statements of Merseytravel on an equity basis however as the financial performance of RTIG and Accrington Technologies is not considered material the financial performance has not been consolidated into the Merseytravel group. A brief summary of the financial performance of Accrington Technologies and Real Time Information Group (RTIG) is included below.

Accrington Technologies - during the last two financial years the company has not traded and has received no income and incurred no expenditure. As at 31 March 2018 the company had net assets of £5k and reserves of £5k.

Real Time Information Group (RTIG) - the disclosed profit after taxation for 2017/18 was £5k. As at 31 March 2017 the company had net assets of £24k and reserves of £24k.

17. Property Plant and Equipment

Merseytravel	Infrastructure Assets	Freehold Property	Leasehold Property	Plant and Machinery	Vessels	Ancillary Vehicles	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
As at 1 April 2017	38,438	11,107	57,268	3,582	5,450	22	2,146	41,736	159,749
Additions	509	0	109	189	21	0	0	65,013	65,841
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	593	12,698	0		0	0	0	13,292
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	(608)	(81)	0		0	0		(690)
Reclassification	0	0	0	0	86	0	0	(86)	0
Derecognition - disposals	0	(2)	0	(35)	0	0	0	(1,911)	(1,948)
<b>As at 31 March 2018</b>	<b>38,947</b>	<b>11,090</b>	<b>69,994</b>	<b>3,736</b>	<b>5,557</b>	<b>22</b>	<b>2,146</b>	<b>104,752</b>	<b>236,244</b>
<b>Depreciation and Impairment</b>									
As at 1 April 2017	12,616	835	3,055	1,201	726	8	130	0	18,571
Depreciation	2,763	455	1,597	515	390	3	130	0	5,853
Depreciation written out to the Revaluation Reserve	0	(1,063)	(4,622)	0	0	0	0	0	(5,685)
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	(227)	(30)	0	0	0	0	0	(257)
Disposals	0	0	0	(35)	0	0	0	0	(35)
<b>As at 31 March 2018</b>	<b>15,379</b>	<b>0</b>	<b>0</b>	<b>1,681</b>	<b>1,116</b>	<b>11</b>	<b>260</b>	<b>0</b>	<b>18,447</b>
<b>Net Book Value</b>									
<b>As at 31 March 2018</b>	<b>23,569</b>	<b>11,090</b>	<b>69,994</b>	<b>2,055</b>	<b>4,441</b>	<b>11</b>	<b>1,886</b>	<b>104,752</b>	<b>217,797</b>
<b>As at 31 March 2017</b>	<b>25,822</b>	<b>10,272</b>	<b>54,213</b>	<b>2,381</b>	<b>4,724</b>	<b>14</b>	<b>2,016</b>	<b>41,736</b>	<b>141,178</b>

Merseytravel	Infrastructure Assets	Freehold Property	Leasehold Property	Plant and Machinery	Vessels	Ancillary Vehicles	Surplus Assets	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>									
As at 1 April 2016 restated	37,455	10,545	55,641	3,740	4,967	22	2,146	0	114,516
Additions	983	562	1,627	479	483	0	0	41,736	45,870
Reclassification	0	0	0	(637)	0	0	0	0	(637)
As at 31 March 2017	38,438	11,107	57,268	3,582	5,450	22	2,146	41,736	159,749
<b>Depreciation and Impairment</b>									
As at 1 April 2016	9,917	405	1,491	534	336	5	0	0	12,688
Depreciation	2,699	430	1,564	709	390	3	130	0	5,925
Reclassification	0	0	0	(42)	0	0	0	0	(42)
As at 31 March 2017	12,616	835	3,055	1,201	726	8	130	0	18,571
<b>Net Book Value</b>									
As at 31 March 2017	25,822	10,272	54,213	2,381	4,724	14	2,016	41,736	141,178
As at 31 March 2016	27,538	10,140	54,150	3,206	4,631	17	2,146	0	101,828

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## Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Infrastructure assets 3 – 55 years
- Freehold property 8 – 37 years
- Leasehold property 8 – 55 years
- Vehicles, plant and machinery 1-16 years
- Surplus assets 8 – 18 years

## Revaluations

The authority carries out a rolling programme that ensures that all property plant and equipment required to be measured at current value is revalued at least every five years. All valuations were carried out externally. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second hand market or latest list prices adjusted for the condition of the asset.

The significant assumptions applied in estimating the current values of property, plant and equipment are:

- That no deleterious material was used in the construction of any property and that none has been subsequently incorporated.
- That the properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoing and that good titles can be shown.
- That the properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- That inspection of those parts which have not been inspected would not cause alteration to the opinion of value.
- That the land and properties are not contaminated nor adversely affected by radon.

Infrastructure assets (gross book value £38,947k) and assets under construction (gross book value £104,752k) are carried at historical cost. The remaining categories of property, plant and equipment (gross book value £92,545k) are carried at current value with the last full valuation being undertaken at 31 March 2014.

During the 2017/18 financial year estimates were made of the increase in value of leasehold and freehold properties since the last valuation date. Further detail is provided in Note 3 significant accounting estimates and assumptions.

The next full valuation of these assets will take place during the 2018/19 financial year.

## Capital Commitments

As at 31 March 2018, the authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2018/19 and future years budgeted to cost £262,812k. Similar commitments at 31 March 2017 were £317,617k.

The major commitments are:

- Rolling Stock - £245,426k
- Newton-le-Willows - £4,767k
- Halton Curve - £4,045k

#### 18. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the authority, the expenditure results in an increase in the Capital Finance Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	2017/18 £'000	2016/17 £'000
<b>Opening Capital Financing Requirement</b>	<b>(381)</b>	<b>(381)</b>
<b>Capital investment</b>		
PPE	65,841	45,870
Intangible assets	369	264
Revenue Expenditure Funded from Capital Under Statute	14,232	4,661
<b>Sources of Finance</b>		
Government grants and other contributions	(77,015)	(50,795)
Use of Reserves	(3,427)	0
<b>Closing Capital Financing Requirement</b>	<b>(381)</b>	<b>(381)</b>
<b>Movement in Capital Financing Requirement</b>	<b>0</b>	<b>0</b>

## 19. Intangible Assets

2016/17		2017/18
£000s		£000s
	<b>Cost or valuation:</b>	
	<b>Opening balance:</b>	
555	Gross carrying amount	1,456
(322)	Accumulated amortisation	(541)
<b>233</b>	<b>Opening net carrying amount</b>	<b>915</b>
	<b>Additions, amortisation, reclassification:</b>	
264	Additions	369
(177)	Amortisation	(153)
595	Reclassification of assets	0
<b>915</b>	<b>Net carrying amount at end of year</b>	<b>1,131</b>
	<b>Comprising:</b>	
1,456	Gross carrying amount	1,825
(541)	Accumulated amortisation	(694)
<b>915</b>		<b>1,131</b>

Intangible assets relate to licenses acquired by Merseytravel.

## 20. Long Term Debtors

2016/17 £'000		2017/18 £'000
687	Rechargeable Works (i)	687
48	Loan to Restaurant (ii)	28
3,239	Other Loans (iii)	3,081
3	Other Debtors	3
<b>3,977</b>	<b>Total</b>	<b>3,799</b>

- (i) Rechargeable works relate to costs recoverable for the construction of the bus station at Liverpool 1. A provision of £687k has been made (note 23) should this become unrecoverable.
- (ii) The loan to the restaurant is to the owners of the Pier Head's Matou Pan Asian Restaurant to assist in the fit out of the restaurant and is repayable over ten years.
- (iii) Other loans relate to a loan to Mersey Ferries Limited for the acquisition of the Beatles Story. This is repayable in equal instalments of principal and interest until 2032/33.

## 21. Short Term Debtors

2016/17 £'000		2017/18 £'000
2,928	Central Government	3,052
31,077	Other Local Authorities	30,552
30	NHS Bodies	0
15,160	Other Entities	19,842
<b>49,195</b>	<b>Total</b>	<b>53,446</b>
<b>(6)</b>	<b>Less: Provision for Bad Debt</b>	<b>(9)</b>
<b>49,189</b>	<b>Total</b>	<b>53,437</b>

The figures above are net of bad debt provision. A provision of £9k (£6k 2016/17) has been made for bad debt. The table below provides an analysis of the movement in bad debt provision.

2016/17 £'000		2017/18 £'000
7	Balance as at 1 April	6
2	Charge for the year	6
(3)	Amounts written off	0
0	Amounts recovered	(3)
<b>6</b>	<b>Balance as at 31 March</b>	<b>9</b>

## 22. Short Term Creditors

2016/17 £'000		2017/18 £'000
159	Central Government	1,174
1,434	Other Local Authorities	2,118
60	Public Corporations	0
23,450	Other Entities	59,240
<b>25,103</b>	<b>Total</b>	<b>62,532</b>

## 23. Provisions

	As at 31 March 2017 £'000	Expenditure charged to provision in year £'000	Increase/ (decrease) in provision £'000	As at 31 March 2018 £'000
Employment Related Provision	530	(98)	-	432
Contractual Provisions	729	(49)	106	786
Contract Maintenance Provisions	687	-	-	687
<b>Total</b>	<b>1,946</b>	<b>(147)</b>	<b>106</b>	<b>1,905</b>

Employment related provisions relate to pension obligations and provisions arising from job evaluation/ employment harmonisation.

Contractual provisions relate to insurance claims and the Merseytram project.

Contract maintenance provisions relate to works rechargeable to a third party that are disputed by that party.

Provisions have been analysed by management between those likely to be settled in less than one year and those that have a longer duration. The table below provides an analysis of the closing balances between long and short term provisions.

	As at 31 March 2017 £'000	As at 31 March 2018 £'000
Short Term Provisions	292	251
Long Term Provisions	1,654	1,654
<b>Total</b>	<b>1,946</b>	<b>1,905</b>

## 24. Leases

### Authority as Lessor

Merseytravel has a number of operating leases where it acts as the lessor. The table below details the minimum future lease payments receivable under non-cancellable leases in future years.

2016/17 £'000		2017/18 £'000
19	Not later than one year	19
75	Between one and five years	56
0	Over five years	0
<b>94</b>	<b>Total</b>	<b>75</b>

## 25. Financial Instruments

### Categories of Financial Instruments

31 March 2017			31 March 2018	
Current £'000	Long Term £'000		Current £'000	Long Term £'000
148	3,239	<b>Investments</b>	155	3,080
30,200	0	Internal loans	30,200	0
		Amounts deposited with LCR CA		
		Current loans and receivables		
15,192	738	<b>Debtors</b>	20,001	719
		Financial Assets carried at Contract Value		
<b>45,540</b>	<b>3,977</b>	<b>Total Financial Assets</b>	<b>50,356</b>	<b>3,799</b>
148	3,234	<b>Borrowings</b>	155	3,080
		Financial Liabilities at Amortised Cost		
23,486	0	<b>Creditors</b>	59,296	0
		Financial Liabilities carried at Contract Value		
<b>23,634</b>	<b>3,234</b>	<b>Total Financial Liabilities</b>	<b>59,451</b>	<b>3,080</b>

### Income and Expenses through the CIES

During the year, Merseytravel paid interest of £166k (£173k in 2016/17) and received interest of £166k (£173k in 2016/17). This relates to interest payable on the loan from

the LCR CA to Merseytravel and subsequently on to Mersey Ferries Group in respect of the Acquisition of the Beatles Story and is recognised in the Comprehensive Income and Expenditure Statement.

#### Cash and Cash Equivalents

2016/17 £'000		2017/18 £'000
50,901	Cash and Bank Current Accounts	72,365
<b>50,901</b>	<b>Total</b>	<b>72,365</b>

#### Fair Values of Assets and Liabilities

Merseytravel's financial liabilities and financial assets are represented by loans, cash balances with LCRCA and its debtors and creditors. As Merseytravel's financial assets and liabilities are predominantly trade payables and receivables and amounts deposited with the LCRCA, fair value is taken as the amount invoiced or billed.

#### Nature and Extent of Risk Arising from Financial Instruments

Merseytravel's activities expose it to a variety of financial risks. The key risks as are:-

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

##### *Credit risk*

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to Merseytravel's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score of P1 and A3 (Moody's) and/or F1 and A (Fitch's), with weightings of the total amount deposited in the highest rated categories. Merseytravel on-lends surplus monies interest free to the LCRCA to make investments. These investments are governed by the LCRCA's Treasury Management policy.

##### *Liquidity risk*

Through LCRCA, Merseytravel has ready access to borrowings from the Public Works Loans Board, and therefore there is no significant risk that it will be unable to raise finance to meet its commitments. There is a future risk that Merseytravel will be bound to replenish a proportion of its borrowings at a time of unfavourable interest rates.

All undiscounted financial liabilities are payable within 1 year with the exception of a loan from LCRCA amounting to £3,236k payable by instalments until 2032/33

##### *Market risk*

Interest rate risk: Merseytravel is exposed to marginal risk in terms of its exposure to interest rate movements on its borrowings and investments.

Borrowings are carried at amortised cost so nominal gains and losses on fixed rate borrowings would not affect the Statement of Income and Expenditure or Movement in Reserves Statement.

Price risk: Merseytravel does not generally invest in equity shares but the Group Accounts do reflect shareholdings in a number of subsidiaries, therefore exposure to price risk is limited.

Foreign exchange risk: Merseytravel has no material financial assets or liabilities denominated in foreign currencies, and thus have no exposure to loss arising from movements in exchange rates.

Hedging Instruments: Merseytravel holds no financial instruments that would be classified as hedging instruments.

## 26. Contingent Liabilities

During the year, Merseytravel was notified of a potential legal challenge seeking monies from Merseytravel for breach of contract. As yet the outcome of this challenge is currently unknown; it is not possible to accurately forecast the potential financial implications.

Commercial negotiations are in process relating to disputed costs. Some negotiations were concluded in 2013/14 and 2014/15 and the reserve created for this purpose has been partially utilised. The balance on this reserve is available to fund resulting costs which are not expected to be concluded for several years. The information usually required under IAS 37 Provisions, Contingent Liabilities and Assets is not disclosed on the grounds that it could be expected to seriously prejudice the outcome of these negotiations.

The land assembly for the new transport interchange at Newton le Willows could not be completed by negotiation alone. It proved necessary for St Helens Council to use their compulsory purchase powers to acquire part of the site, this land then being transferred subsequently to Merseytravel for a nominal sum. Merseytravel agreed to indemnify the Council for the costs relating to the CPO including compensation payable to the land owners and businesses affected. Compensation negotiations are ongoing and it is difficult to precisely estimate the eventual settlement figure at this stage.

## 27. Cash Flow Statement

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

2016/17 £'000		2017/18 £'000
6,103	Depreciation and amortisation	6,005
0	Revaluation losses	432
1,331	Increase in creditors	3,129
(882)	Increase in debtors	(4,071)
7	(Increase)/decrease in inventories	(27)
1,413	Movement in pension liability	(3,478)
(20)	Other non-cash items charged to the net surplus on the provision of services	(41)
0	Carrying amount of non-current assets derecognised	1,910
<b>7,952</b>		<b>3,859</b>

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

2016/17 £'000		2017/18 £'000
(46,135)	Grants received for the financing of capital expenditure	(63,122)
<b>(46,135)</b>		<b>(63,122)</b>

### **Cash Flow Statement Investing Activities**

2016/17 £'000		2017/18 £'000
(46,823)	Purchase of property, plant and equipment and intangible assets	(32,861)
50,412	Other receipts from investing activities	65,072
<b>3,589</b>		<b>32,211</b>

## MERSEYTRAVEL GROUP ACCOUNTS

The Accounting Code of Practice requires that where a Council has material financial interests and a significant level of control over one or more entities, it should prepare Group Accounts. The aim of these statements is to give an overall picture of the Council's financial activities and the resources employed in carrying out those activities.

The Group Accounts comprise the following key financial statements (with appropriate disclosures):

- Group Comprehensive Income and Expenditure Statement;
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash Flow Statement

Please refer to the explanation of statements on page 3-4 for further description of the purpose of each statement.

For completeness, the following entities results have been consolidated into the Merseytravel group accounts:

- Mersey Ferries Group (including the Beatles Story, Spaceport and U534)
- Merseytravel Passenger Transport Services Limited

Where figures in the group accounts differ materially from the Merseytravel accounts, the relevant explanatory notes have been prepared on a consolidated basis. The notes below give information on the areas that have materially changed on consolidation of the group entities into the Merseytravel's accounts.

## MOVEMENT IN RESERVES STATEMENT

	<b>Usable Reserves (General Fund Balance)</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Balance as 31 March 2016	72,214	8,559	80,773
<b>Movement in Reserves during 2016/17</b>			
Total Comprehensive Income and Expenditure	37,406	(6,912)	30,494
Adjustments between accounting basis and funding basis under regulations	(38,247)	38,247	0
Increase/(Decrease) in 2016/17	(841)	31,335	30,494
Balance as at 31 March 2017 carried forward	71,373	39,893	111,266
<b>Movement in Reserves during 2017/18</b>			
Total Comprehensive Income and Expenditure	47,997	36,619	84,616
Adjustments between accounting basis and funding basis under regulations	(55,299)	55,299	0
Increase/(Decrease) in 2017/18	(7,302)	91,918	84,616
Balance as at 31 March 2018 carried forward	64,071	131,811	195,882

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Note s	2016/17				2017/18		
	Gross Expenditure Restated	Gross Income Restated	Net Spend Restated		Gross Expenditur e	Gross Income	Net Spend
	£'000	£'000	£'000		£'000	£'000	£'000
	30,652	(12,107)	18,545	Bus Services	27,714	(9,199)	18,515
	100,948	(139,776)	(38,828)	Rail Services	122,628	(173,483)	(50,855)
	10,354	(3,224)	7,130	Customer Delivery	9,201	(2,056)	7,145
	74,326	(18,716)	55,610	Travel Concession	73,397	(18,638)	54,759
	2,738	(1,835)	903	Policy	5,043	(2,952)	2,091
	3,932	(512)	3,420	People and Customer Development	4,357	(874)	3,483
	3,635	(741)	2,894	Corporate Management and other Corporate Costs	4,036	(192)	3,844
	13,426	(9,479)	3,947	Mersey Ferries Group	14,064	(11,418)	2,646
	<b>240,011</b>	<b>(186,390)</b>	<b>53,621</b>	<b>Net Cost of Service</b>	<b>260,440</b>	<b>(218,812)</b>	<b>41,628</b>
			104	Other Operating Expenditure			107
			3,268	Financing and Investment Income			2,288
			(94,400)	Taxation and Non Specific Grant Income			(92,020)
			<b>(37,407)</b>	<b>(Surplus) or Deficit on the Provision of Services</b>			<b>(47,997)</b>
			6,912	Re measurement Gains/ Losses on Pension Assets/ Liabilities			(17,642)
			0	(Surplus)/ Deficit on Revaluation Non Current Assets			(18,977)
			6,912	Other Comprehensive Income and Expenditure			<b>(36,619)</b>
			<b>(30,494)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(84,616)</b>

## BALANCE SHEET

As at 31 March 2017 Restated		As at 31 March 2018	Note
£'000		£'000	
142,516	Property, Plant and Equipment	219,034	4
711	Heritage Assets	711	
2,610	Intangible Assets	2,826	5
736	Long-term Debtors	719	6
<b>146,573</b>	Long-term Assets	<b>223,290</b>	
449	Inventories	562	8
49,451	Short-term Debtors	51,561	7
51,010	Cash and Cash Equivalents	72,549	
<b>100,910</b>	Current Assets	<b>124,672</b>	
(23,904)	Short-term Creditors	(59,659)	9
(414)	Provisions	(402)	
(4,440)	Grant Receipts in Advance	(5,835)	
<b>(28,758)</b>	Current Liabilities	<b>(65,896)</b>	
(3,234)	Loan from group company	(3,080)	
(1,654)	Provisions	(1,653)	
(102,571)	Pension Liability	(81,451)	
<b>(107,459)</b>	Long-term Liabilities	<b>(86,184)</b>	
<b>111,266</b>	Net Assets	<b>195,882</b>	
71,373	Usable Reserves	64,071	1
39,893	Unusable Reserves	131,811	
<b>111,266</b>	Total Reserves	<b>195,882</b>	

## CASHFLOW STATEMENT

2016/17 £'000		2017/18 £'000	Note
37,407	Net surplus/(deficit) on provision of services	47,997	13
7,423	Adjustments to net surplus on the provision of services for non-cash movements	4,473	13
(46,135)	Adjustments to net surplus on the provision of services for items which are investing and financing activities	(63,122)	13
(1,305)	Net cash inflows from Operating Activities	(10,652)	
3,598	Investing activities	32,191	
2,293	Net increase/(decrease) in cash and cash equivalents	21,539	
48,717	Cash and cash equivalents as at 1 April	51,010	
<b>51,010</b>	Cash and cash equivalents as at 31 March	<b>72,549</b>	

## NOTES TO THE PRIMARY STATEMENTS

### 1. Earmarked and Usable Reserves

This note sets out the amounts set aside from the Revenue Reserve balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet Revenue Reserve expenditure in 2017/18. Details of the Merseytravel Single Entity reserves are included in note 7 of the single entity accounts

	Balance at 1 April 2016	Transfers Out 2016/17	Transfers In 2016/17	Balance at 31 March 2017	Transfers Out 2017/18	Transfers In 2017/18	Balance at 31 March 2018
Single Entity Reserves	70,921	(7,014)	5,655	69,562	(13,077)	6,293	62,778
The Beatles Story P&L Reserve	1,941	0	803	2,744	0	(793)	1,951
Mersey Ferries Limited	(649)	0	(285)	(933)	0	275	(658)
Total	72,213	(7,014)	6,173	71,373	(13,077)	5,775	64,071

### 2. Tax

Included within the Group CIES is estimated corporation tax payable on the Beatles Story profits of £251k (£137k 2016/17).

### 3. Expenditure and Funding Analysis

2016/17				2017/18		
Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES		Net Expenditure Chargeable to the General Fund	Adjustments between funding and accounting basis	Net Expenditure in the CIES
£'000	£'000	£'000		£'000	£'000	£'000
16,590	1,955	18,545	Bus	17,440	1,075	18,515
1,725	(40,554)	(38,828)	Rail	12,455	(63,311)	(50,855)
7,164	(34)	7,130	Hubs	10,123	(2,979)	7,145
55,595	15	55,610	Travel Concessions	54,759	0	54,759
(185)	1,088	903	Policy	2,775	(684)	2,091
2,544	876	3,420	People & Customer Development	5,184	(1,701)	3,483
(876)	3,770	2,894	Corporate Management & Other Corporate Costs	9,351	(5,507)	3,844
2,398	1,549	3,947	Mersey Ferries Group	2,481	166	2,646
84,956	(31,335)	53,621	<b>Net Cost of Services</b>	114,569	(72,940)	41,628
(84,116)	(6,912)	(91,028)	Other Income & Expenditure	(107,267)	17,642	(89,625)
841	(38,247)	(37,406)	<b>Surplus or deficit</b>	7,302	(55,299)	(47,997)
(72,214)			<b>Opening General Fund Balance at 1 April</b>	(71,373)		
841			Less/plus Surplus or Deficit on General Fund in Year	7,302		
(71,373)			<b>Closing General Fund Reserves at 31 March</b>	(64,071)		

### Note to EFA 2017/18

Adjustments from General Fund to arrive at the CIES	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Bus	2,578	(1,502)	0	1,076
Rail	(62,371)	(938)	0	(63,309)
Hubs	22	(3,001)	0	(2,979)
Travel Concessions	0	0	0	0
Policy	20	(704)	0	(684)
People & Customer Development	0	(1,701)	0	(1,701)
Corporate Management & Other Corporate Costs	60	(5,571)	0	(5,511)
Mersey Ferries Group	1,833	(1,666)	0	167
Net Cost of Services	(57,858)	(15,083)	0	(72,941)
Other Income & Expenditure from the Funding Analysis	0	17,642	0	17,642
Difference between General Fund surplus or deficit and CIES surplus or deficit	<b>(57,858)</b>	<b>2,559</b>	<b>0</b>	<b>(55,299)</b>

### Note to EFA 2016/17

Adjustments from General Fund to arrive at the CIES	Adjustments for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
Bus	1,047	877	31	1,955
Rail	(41,071)	487	30	(40,554)
Hubs	(1,667)	1,558	75	(34)
Travel Concessions	15	0	0	15
Policy	713	354	21	1,088
People & Customer Development	114	723	39	876
Corporate Management & Other Corporate Costs	160	3,448	162	3,770
Mersey Ferries Group	657	878	14	1,549
Net Cost of Services	(40,032)	8,325	372	(31,335)
Other Income & Expenditure from the Funding Analysis	0	(6,912)	0	(6,912)
Difference between General Fund surplus or deficit and CIES surplus or deficit	<b>(40,032)</b>	<b>1,413</b>	<b>372</b>	<b>(38,247)</b>

## Expenditure and Income Analysed by Type

2016/17 £'000		2017/18 £'000
	<b>Expenditure</b>	
32,645	Employee benefits expenses	26,951
206,190	Other services expenses	230,615
6,545	Support services recharges	5,752
6,102	Depreciation, amortisation, impairment	6,437
173	Interest payable	0
<b>251,655</b>	<b>Total expenditure</b>	<b>269,755</b>
	<b>Income</b>	
(57,160)	Fees, charges and other service income	(63,568)
(173)	Interest and investment income	0
(231,729)	Government grants and contributions	(254,183)
<b>(289,062)</b>	<b>Total income</b>	<b>(317,752)</b>
<b>(37,407)</b>	<b>(Surplus) or deficit on the Provision of Services</b>	<b>(47,997)</b>

#### 4. Property Plant and Equipment

##### Movement on Balances 2017/18

	Infrastructure Assets £'000	Freehold Property £'000	Leasehold Property £'000	Plant and Machinery £'000	Vessels £'000	Ancillary Vehicles £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation</b>									
As at 1 <sup>st</sup> April 2017	38,438	11,108	58,345	6,214	5,450	22	2,146	41,736	163,459
Additions	509	0	109	293	21	0	0	65,013	65,945
Reclassification	0		0	0	86		0	(86)	0
Revaluation	0	593	12,699	0	0			0	13,292
increases/(decreases) recognised in the Revaluation Reserve									
Revaluation	0	(608)	(81)	0	0	0	0	0	(689)
increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services									
Derecognition - disposals	0	(2)	(8)	(96)	0	0	0	(1,910)	(2,016)
As at 31 <sup>st</sup> March 2018	38,947	11,091	71,064	6,411	5,557	22	2,146	104,753	239,991
<b>Depreciation and Impairment</b>									
As at 1 <sup>st</sup> April 2017	12,616	835	3,545	3,080	726	8	130	0	20,940
Depreciation	2,763	455	1,639	665	390	3	130	0	6,045
Depreciation written out to the Revaluation Reserve	0	(1,063)	(4,622)	0	0	0	0	0	(5,685)
Depreciation written out to the Surplus/Deficit on the Provision of Services									
Derecognition - disposals	0	(227)	(30)	0	0	0	0	0	(257)
As at 31 <sup>st</sup> March 2018	15,379	0	530	3,661	1,116	11	260	0	20,957
<b>Net Book Value</b>									
As at 31 <sup>st</sup> March 2018	23,568	11,091	70,534	2,750	4,441	11	1,886	104,753	219,034
As at 31 <sup>st</sup> March 2017	25,822	10,273	54,800	3,131	4,724	14	2,016	41,736	142,516

## Movement on Balances 2016/17

	Infrastructure Assets £'000	Freehold Property £'000	Leasehold Property £'000	Plant and Machinery £'000	Vessels £'000	Ancillary Vehicles £'000	Surplus Assets £'000	Assets Under Construction £'000	Total £'000
<b>Cost or Valuation</b>									
As at 1 <sup>st</sup> April 2016 restated*	37,455	10,545	56,717	6,240	4,967	22	2,146	0	118,092
Additions	983	563	1,628	611	483	0	0	41,736	46,004
Reclassification	0	0	0	(637)	0	0	0	0	(637)
As at 31 <sup>st</sup> March 2017	38,438	11,108	58,345	6,214	5,450	22	2,146	41,736	163,459
<b>Depreciation and Impairment</b>									
As at 1 <sup>st</sup> April 2016 restated*	9,917	405	1,939	2,232	336	5	0	0	14,833
Reclassification	0	0	0	(42)	0	0	0	0	(42)
Depreciation	2,699	430	1,606	893	390	3	130	0	6,151
As at 31 <sup>st</sup> March 2017	12,616	835	3,545	3,080	726	8	130	0	20,942
<b>Net Book Value</b>									
As at 31 <sup>st</sup> March 2017	25,822	10,273	54,800	3,131	4,724	14	2,016	41,736	142,516
As at 31 <sup>st</sup> March 2016	27,538	10,140	54,778	4,008	4,631	17	2,146	0	103,258

As Merseytravel applies consistent policies for both its single entity and group accounts, please refer to note 17 in the single entity account for further information on accounting for non-current assets.

\* The cost and depreciation balances for Leasehold Property and Plant and Machinery as at 1<sup>st</sup> April 2016 have been restated. This is to correct an equal and opposite misstatement of gross book value and accumulated depreciation. The restatement has not had any impact on the reported net book value as at 1<sup>st</sup> April 2016.

## 5. Intangible Assets

2016/17				2017/18		
Goodwill on Consolidation	Licences & Fab 4D Film	Total		Goodwill on Consolidation	Licences & Fab 4D Film	Total
£000s	£000s	£000s		£000s	£000s	£000s
2,803 (1,108)	555 (322)	3,358 (1,430)	<b>Cost or valuation:</b>	2,803 (1,108)	1,456 (541)	4,259 (1,649)
<b>1,695</b>	<b>233</b>	<b>1,928</b>	<b>Opening balance:</b>	<b>1,695</b>	<b>915</b>	<b>2,610</b>
			Gross carrying amount			
			Accumulated amortisation			
			<b>Opening net carrying amount</b>			
			<b>Additions, amortisation, impairment and reclassification</b>			
0	264	264	Additions	0	369	369
0	(177)	(177)	Amortisation	0	(153)	(153)
0	595	595	Reclassification	0	0	0
<b>1,695</b>	<b>915</b>	<b>2,610</b>	<b>Net carrying amount at end of year</b>	<b>1,695</b>	<b>1,131</b>	<b>2,826</b>
			<b>Comprising:</b>			
2,803 (1,108)	1,456 (541)	4,259 (1,649)	Gross carrying amount	2,803 (1,108)	1,825 (694)	4,628 (1,802)
<b>1,695</b>	<b>915</b>	<b>2,610</b>	<b>Accumulated amortisation</b>	<b>1,695</b>	<b>1,131</b>	<b>2,826</b>

Goodwill of £1.7m relates to the acquisition by Mersey Ferries Limited of The Beatles Story. For impairment testing purposes, this goodwill has been allocated to the wholly owned subsidiary, which forms part of the Mersey Ferries Group. This represents the lowest level within the LCRCA at which goodwill is monitored for internal management purposes.

Merseytravel has performed its annual impairment test as at 31 March 2018. The recoverable amount of The Beatles Story is determined on a value in use basis using cash flow projections based on historical financial outturns. The discount rate applied to the cash flows is 5.0% (2016: 5%). The growth rate used to extrapolate the cash flows beyond the 2017/18 year period is 2% for expenditure and 5% for income growth based on prudent assumptions from reviewing actuals (2016/17 2% for expenditure and 5% for income).

Some sensitivity analysis was then applied to these assumptions resulting in little change to the original values. The resultant calculation showed the value of implied goodwill was consistent with that shown in the group balance sheet and no impairment was required for 2017/18.

## 6. Long Term Debtors

2016/17 £'000		2017/18 £'000
687	Rechargeable Works (1)	687
48	Loan to Restaurant (2)	28
1	Other Debtors	4
<b>736</b>	<b>Total</b>	<b>719</b>

## 7. Short Term Debtors

2016/17 £'000		2017/18 £'000
2,954	Central Government	3,052
31,083	Other Local Authorities	30,552
30	NHS Bodies	0
15,384	Other Entities	17,957
<b>49,451</b>	<b>Total</b>	<b>51,561</b>

A provision of £10k (£8k 2016/17) has been made for bad debt. The table below provides an analysis of the movement in bad debt provision.

2016/17 £'000		2017/18 £'000
13	Balance as at 1 April	8
5	Charge for the year	6
(7)	Amounts written off	(1)
(3)	Amounts recovered	(3)
<b>8</b>	<b>Balance as at 31 March</b>	<b>10</b>

## 8. Inventories

2016/17 £'000		2017/18 £'000
467	Balance as at 1 April	449
59	Purchases	1,360
(77)	Issues	(1,271)
	Write Off's	24
<b>449</b>	<b>Balance as at 31 March</b>	<b>562</b>

## 9. Short Term Creditors

2016/17 £'000		2017/18 £'000
383	Central Government	1,469
1,437	Other Local Authorities	2,118
60	Public Corporations	0
22,024	Other Entities	56,072
<b>23,904</b>	<b>Total</b>	<b>59,659</b>

## 10. Leases

### Merseytravel as Lessee

Within the Merseytravel group there is use of various types of vehicles and computer equipment under terms of operating leases. The future minimum lease payments due under non-cancellable leases in future years are shown in the following table:

2016/17 £'000		2017/18 £'000
12,304	Not later than one year	9,201
9,228	Between one and five years	0
0	Over five years	0
<b>21,532</b>	<b>Total</b>	<b>9,201</b>

Merseytravel's subsidiary company MPTS has an operating lease for the rental of Merseyrail rolling stock. There is a back to back lease with Merseyrail Electrics Limited (MEL) who fully reimburses the cost of this lease. The existing lease with Angel Trains expired in March 2015 but was extended until December 2018. It is envisaged that the lease will be extended further until 2020/21 when the replacement rolling stock becomes operational. Negotiations will commence in 2018/19.

#### Merseytravel as Lessor

The table below details the future minimum lease payments in respect of Merseytravel's leases in future years

<b>2016/17 £'000</b>		<b>2017/18 £'000</b>
553	Not later than one year	556
2,213	Between one and five years	2,203
4,096	Over five years	3,586
<b>6,862</b>	<b>Total</b>	<b>6,345</b>

Within the group, Mersey Ferries Limited holds several operating leases with external parties, leasing out various properties under operational leases. These include interchange sites and ferry terminals.

#### 11. Long Term Loan from Group

The long term loan on the Merseytravel group Balance Sheet relates to a loan from Liverpool City Region Combined Authority to Merseytravel to fund the acquisition of the Beatles Story. This loan is payable in equal instalments of principal and interest until 2032/33.

#### 12. Contingent Assets and Liabilities

Contingent liabilities are disclosed in note 26 in the single entity accounts. There are no further contingent liabilities for the group.

### 13. Cashflow

#### Cash Flow Statement Operating Activities

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

2016/17 £'000		2017/18 £'000
6,328	Depreciation and amortisation	6,194
578	Increase in creditors	1,614
0	Revaluation losses	432
0	NBV	1,929
(868)	Increase in debtors	(2,093)
19	(Increase)/decrease in inventories	(113)
1,413	Movement in pension liability	(3,478)
(47)	Other non-cash items charged to the net surplus on the provision of services	(12)
<b>7,423</b>		<b>4,473</b>

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

2016/17 £'000		2017/18 £'000
(46,135)	Grants received for the financing of capital expenditure	(63,122)
<b>(46,135)</b>		<b>(63,122)</b>

#### Cash Flow Statement Investing Activities

2016/17 £'000		2017/18 £'000
(46,956)	Purchase of property, plant and equipment and intangible assets	(32,882)
50,554	Other receipts from investing activities	65,073
<b>3,598</b>		<b>32,191</b>

## GLOSSARY OF FINANCIAL TERMS

### **Accounting Policies**

Those specific principles, bases, conventions, rules and practices applied that specify how the effects of transactions and other events are to be reflected in the financial statements.

### **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

### **Agent/Agency**

Where the organisation is acting as an intermediary, as opposed to on its own behalf.

### **Amortisation**

The accounting technique of recognising a cost or item of income in the Comprehensive Income and Expenditure Statement or the Movement in Reserves Statement over a period of years rather than when the initial payment is made.

Its purpose is to charge/credit the cost/income over the accounting periods that gain benefit for the respective item.

The technique is supported by relevant accounting policies and practices.

### **Amortised Cost**

A method of determining the Balance Sheet carrying amount and periodic charges to the Comprehensive Income and Expenditure Statement of a financial instrument based on the expected cash flows of that instrument.

### **Capital Expenditure**

Expenditure on the acquisition or enhancement of a non-current asset or capital advances and loans to other individuals or other third parties.

### **Capital Financing Requirement (CFR)**

Introduced as a result of the Prudential Framework for Capital Accounting and measures the underlying need of the organisation to borrow for expenditure of a capital nature.

### **Capital Receipts**

The proceeds from the sale of capital assets or repayment of capital advances.

### **Carrying Amount**

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

### **Cash Equivalents**

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

### **Cash Flows**

Inflows and outflows of cash and cash equivalents.

### **Community Assets**

Assets that the organisation intends to hold in perpetuity, that have no determinable useful life and that may have restrictions on their disposal. Examples include parks and public open spaces.

### **Contingent Asset**

An asset arising from past events where its existence can only be confirmed by one or more uncertain events not wholly within the control of the organisation.

### **Contingent Liability**

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events. Where a material loss can be estimated with reasonable accuracy a contingent liability is accrued in the financial statements. If, however, a loss cannot be accurately estimated or the event is not considered sufficiently certain, it will be disclosed in a note to the balance sheet.

### **Creditors**

Financial liabilities arising from the contractual obligation to pay cash in the future for goods or services or other benefits that have been received or supplied.

### **Credit Risk**

The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the other party.

### **Current Replacement Cost**

The cost the organisation would incur to acquire the asset on the reporting date.

### **Current Service Cost (Pensions)**

The increase in the present value of liabilities resulting from employee service in the period.

### **Curtailment (Pensions)**

An event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:

- (i) termination of employees services earlier than expected, for example as a result of closing or discontinuing a segment of a business; and
- (ii) termination of, or amendment to the terms of, a defined benefit plan so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

### **Debtors**

Financial assets arising from the obligation to future cash receipt for goods or services or other benefits that have been delivered or provided.

### **Defined Benefit Plan**

A pension or other retirement benefit plan other than a defined contribution plan. Usually, the plan rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the plan. The plan may be funded or un-funded (including notionally funded).

### **Depreciated Replacement Cost (DRC)**

A method of valuation which provides the current cost of replacing an asset with its modern equivalent less deductions for all physical deterioration and all relevant forms of obsolescence.

### **Depreciation**

The measure of the wearing out, consumption or other reduction in the useful life of a non-current asset over its useful economic life.

### **Discretionary Benefits**

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the organisation's discretionary powers.

### **Existing Use Value (EUV)**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property and disregarding potential alternative uses and any other characteristics that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

### **Fair Value**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

### **Financial Instrument**

A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. The term covers both financial assets and financial liabilities and includes both the most straightforward financial assets such as trade receivables (debtors) and trade payables (creditors) and the most complex ones such as derivatives.

Typical financial instruments are:-

#### **(i) Liabilities**

- Trade payables
- Borrowings
- Financial Guarantees

#### **(ii) Assets**

- Bank deposits
- Trade receivables
- Loans receivable
- Investments

### **Finance Lease**

A lease that transfers substantially all of the risks and rewards of ownership of a non-current asset to the lessee, with the asset then recognised the lessee's Balance Sheet.

### **Financing Activities**

Activities that result in changes to the size and composition of the principal, received from or repaid to external providers of finance.

### **Going Concern**

An assumption that the functions of the Authority will continue in operational existence for the foreseeable future.

### **Government Grants and Contributions**

Assistance in the form of cash or transfers of resources to an Authority in return for past or future compliance with certain conditions relating to the operation of activities of the Authority.

### **Heritage Assets**

The Heritage Assets are assets that are held by the organisation principally for their contribution to knowledge, understanding and appreciation of the Borough's history and/or culture.

### **Historical Cost**

Deemed to be the carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

### **IAS19**

This International Accounting Standard (IAS) is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

### **Impairment**

A reduction in the value of a non-current asset below its carrying amount on the balance sheet.

### **Infrastructure Assets**

A class of non-current assets that are inalienable. Examples of infrastructure assets are bridges, roads and footpaths.

### **Intangible Fixed Asset**

"Non-financial" fixed assets that do not have physical substance but are identifiable and are controlled by the organisation through custody or legal rights e.g. software licences.

### **Interest On Plan Assets (Pensions)**

The annual investment return on the fund assets based on an average of the expected long-term return.

### **Interest On Plan Liabilities (Pensions)**

The expected increase during the period in the present value of liabilities as the benefits move one year closer to being paid.

### **Inventories**

The amount of unused or unconsumed stocks held in expectation of future use or resale.

### **Investing Activities**

The acquisition and disposal of long-term assets and other investments not included in cash equivalents.

### **Liquidity Risk**

The possibility that one party will be unable to raise funds to meet its commitments associated with financial instruments.

### **Market Risk**

The possibility that the value of a financial instrument will fluctuate because of changes in interest rates, market prices, foreign currency exchange rates, etc.

### **Market Value**

The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arms-length transaction after proper

marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

### **Material/Materiality**

Omissions or mis-statements are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the size of the omission or mis-statement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

### **Net Book Value**

The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amount provided for depreciation.

### **Net Realisable Value**

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

### **Non-Current Assets**

Assets that yield benefits to the organisation and the services it provides for a period of more than one year.

### **Non-Operational Assets**

Non-current assets held by an organisation but not directly occupied, used or consumed in the delivery of services, or for the service or strategic objectives of the organisation.

### **Operating Activities**

Activities of the organisation that are not investing or financing activities.

### **Operating Leases**

A lease that does not transfer substantially all of the risks and rewards of ownership of a non-current asset to the lessee. The asset is recognised on the lessor's Balance Sheet. Expenditure financed by operating leasing does not count against capital allocations.

### **Past Service Cost/Gain (Pensions)**

The increase or reduction in the present value of liabilities arising from decisions in the period whose effect relates to years of service earned in earlier periods.

### **Plan Liabilities (or plan defined benefit obligations)**

The liabilities of a defined benefit plan for outgoings due after the valuation date. Plan liabilities measured using the projected unit credit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

### **Price Risk**

The risk that the value of financial instruments will fluctuate as a result of changes in market prices.

### **Projected Unit Credit (Actuarial Cost) Method**

An accrued benefits valuation method in which the plan's liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the plan liabilities at the valuation date relate to:-

- (i) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- (ii) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not. Guidance on the method is given in the Guidance Note GN26 issued by the Faculty and Institute of Actuaries. Under this method, the current service cost will increase as members of the plan approach retirement.

### **Provisions**

A liability of uncertain timing or amount.

### **Refcus (Revenue Expenditure Financed From Capital Under Statute)**

Expenditure that is classified as revenue in accordance with proper accounting practices, but which statute determines may be financed by Capital sources of funding.

### **Related Parties**

Related parties are those individuals and entities that the organisation either has the potential to influence or control (or be influenced or controlled by). Related include central government, other bodies, its members and its chief officers.

### **Related Party Transaction**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. Related party transactions include the provision of services to a related party.

The materiality of related party transactions should be judged not only in terms of their significance to the authority, but also in relation to its related party.

### **Re-Measurement (Pensions)**

The changes in estimated assets and liabilities, assessed by the actuary and arising because:

- (i) events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- (ii) the actuarial assumptions have changed.

### **Remuneration**

The *Accounts and Audit Regulations 2015* require the disclosure of amounts paid to Officers and define remuneration as:-

‘.....all amounts paid to or receivable by a person, and includes sums due by way of expense allowance (so far as those sums are chargeable to United Kingdom income tax), and the estimated money value of any other benefits received by an employee otherwise than in cash.’

### **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. Retirement benefits do not include termination benefits payable as a result of either:-

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

### **Revenue Expenditure**

This is money spent on the day-to-day running costs of providing services and includes salaries, goods and services.

It is usually of a constantly recurring nature and produces no permanent asset.

### **Senior Employees**

Senior employees are defined under the Local Government and Housing Act 1989, however within Merseytravel this is deemed to be the Directors and Chief Executive.

### **Settlement (Pensions)**

An irrevocable action that relieves the employer of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlement includes the transfer of scheme assets and liabilities relating to a group of employees leaving the Authority's scheme.

### **Termination Benefits**

Amounts payable as a result of either:

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits.

### **Useful Life**

The period over which the organisation will derive benefits from the use of a non-current asset.