Merseyside Passenger Transport Executive

Statement of Accounts
For the year ended 31 March 2013

TABLE OF CONTENTS

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE (PTE)
EXPLANATORY FOREWORD TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2013

Introduction

Merseyside Passenger Transport Executive (MPTE) is a body corporate under the Transport Act 1968 and operates under the trading name of Merseytravel. It acts as the executive arm of Merseyside Integrated Transport Authority (MITA) and receives funding from the MITA in the form of grants, both revenue and capital, to fund its net expenditure, in order to carry out the functions that the MITA sets.

The original approved budget for MPTE showed net spending of £105.5m being funded by a grant of £105.1m from MITA, together with the use of £0.4m of MPTE working balances. At revised budget time, in year budget management had produced savings to forecast a net spend of £100.9m to be fully funded by a reduced grant from the MITA of £100.9m.The out turn position showed savings across most service areas, which were used in part to increase the revenue support grant to Mersey Ferries as a consequence of an impairment charge of £1.7m as a result of a revaluation exercise re the Beatles Story memorabilia held on their balance sheet. The resulting net savings were transferred to Earmarked reserves.

The Executive relocated from its headquarters at 24 Hatton Garden to new premises at Mann Island in March 2012. Hatton Garden has now been being disposed of.

This set of accounts reflects the financial position of the MPTE at 31 March 2013.These accounts inform the structure and strategy of the rolling three-year Medium Term Financial Strategy (MTF) for the organisation. The MTF helps shape the policy, procurement and contracting decisions taken by the Executive and the Integrated Transport Authority.

The Medium Term Financial Strategy had identified the need to ensure that the ITA and Executive had sufficient working balances and reserves in order to meet potential challenges in the future, especially in regard to the proposal to replace the existing rolling stock of the Merseyrail fleet when the current extended lease for the existing fleet expires towards the end of 2019.

Careful consideration is given to the determining of reserve categories. Where reserves are earmarked this is done to ensure that the Executive is able to anticipate or meet any financial shocks. When reserves are no longer required due to changing circumstances they are released either to the CIES or transferred to other earmarked reserves should the need arise. This occurred in 2012/13 when an earmarked reserve was deemed surplus, and reallocated to assist an identified shortfall due to changing circumstances in another earmarked reserve. The Executive Rolling Stock reserve was used to great effect during 2012/13 to ensure no costs fell to be funded by ITA grant from the Levy. The Capital reserve has also been used to great effect since 2010/11 to off-set the 25% reduction in the Integrated Transport Block Grant imposed through .

The Accounts

The Executive and its Group accounts for the year ended 31 March 2013 are set out on pages 19 to 64. They consist of the:-

(a) Comprehensive Income and Expenditure Statement - the Executive's main revenue account covering income and expenditure on all Executive services. This is an abbreviated version of the Executives performance for 2012/13 in line with the code. Further analysis is set out in Note 6.This segmental analysis follows the budgeting and resource allocation units that the Executive uses to manage its day to day activities;

(b) Balance Sheet - which sets out the financial position of the Executive on 31 March 2013;

(c) Movement in reserves statements for 2012/13 and the previous year;

(d) Cash Flow Statement - which summarises the in/outflows of cash arising from transactions with third parties for revenue and capital purposes;

(e) Notes, comprising a summary of significant accounting policies and other explanatory information.

These accounts are supported by the Statement of Accounting Policies and the Annual Governance Statement.

Principal activities

The principal activities of the Executive and its Group are:

(a) Provision and operation of bus stations, interchanges, bus stops and shelters and other customer facilities;

(b) Production of timetable and route information on all services;

(c) Provision and operation of a commuter and leisure ferry service on the River Mersey along with various other leisure attractions to strengthen the local river front economy;

(d) Administration of the local rail network through the Merseyrail Electrics Concession and Northern Rail Franchise;

(e) Provision and operation of the local national concessionary travel schemes along with provision of a suite of prepaid travel tickets for public transport, including the development of Smartcard Ticketing, through the introduction of its Walrus card;

(f) Provision of supported bus services that cover gaps in service provision not undertaken as part of the commercial network.

Key Performance Indicators and Business Review

The financial results of the Executive and the Group (comprising of the Executive, Mersey Ferries Ltd and Merseyside Passenger Transport Services Ltd) are shown on pages 19 to 26.

The Group Comprehensive Income and Expenditure Statement (CIES) shows a surplus on the provision of services for the year of £2.1m (2011/12 £8.0).The PTE CIES shows a surplus for 2012/13 of £2.1m (2011/12 £8.0).The consolidated usable and unusable reserves of the Executive at the year-end were £82.9m (2011/12 £94.2m).

During 2012/13, the Group net cost of services was £106.5m (2012 £104.6m) and the PTE net cost of service was £106.5m (2011/12 £104.2m) as analysed on pages 19-20.

The Group CIES (page 19) and notes show that gross expenditure of £288.7m (£288.8m 2011/12). This was offset in part by supported bus fares shown as bus services £9.1m (£10.1m 2011/12), sales of prepaid tickets £26.5m (£23.5m 2011/12), MITA grant £100.9m (£101.9m 2011/12) and Special Rail Grant £89.2m (£92.4m 2011/12).

	Passenger Journeys	
	2012/13	**2011/12**
Supported bus	12.2m	12.6m
Rail Passengers	39.0m	41.2m
Special Needs Travel	0.1m	0.1m
Bus Infrastructure supporting both supported and commercial bus	136.2m	137.1m
Concessionary and Pre-paid travel (Bus & Rail)	116.9m	115.1m

Capital invested during the year by the PTE totalled £13.1m(£13.3m 2011/12 see Note11), which included the completion of works at Central station (£3.2m) with the aid of ERDF grant, completion of two new park & ride sites at Birkenhead North (£1.4m) and Bidston (£1.2m) both with ERDF support. Further works included the continuation of improvements along the major bus routes, improvements to Mersey Ferries vessels and terminals (£1.3m), improvements on the rail system (£0.9m) and further works to enhance Merseytravel's ICT infrastructure.

This Capital outlay was financed by a capital grant from the Authority £8.9m (2011/12 £11.1m) and other Executive funding resources £4.2 (2011/12 £2.2m).

Total reserves, excluding Minority Interest at the year-end are shown below:-

	Group		**PTE**	
	2013 £000's	**2012 £000's**	**2013 £000's**	**2012 £000's**
Capital Reserve	3,553	6,358	3,553	6,358
Working Balances	1,561	581	1,739	1,739
Various Usable Reserves	40,079	37,087	40,243	34,175
Unusable Reserves:				
Pensions Reserve*	(68,644)	(58,073)	(68,644)	(58,073)
Revaluation Reserve	3,882	5,385	3,857	5,360
Deferred Capital Grants	102,260	102,887	102,260	102,887
	82,691	94,225	83,008	92,446

*The consequence of a statutory override re Pensions: see below

Unusable reserves are held to reflect movements against balance sheet assets and liabilities and cannot be used to enhance service provision.

Pension costs are charged to the Comprehensive Income and Expenditure Statement in line with IAS19 (Employee Benefits),below surplus for the year as set out in CIPFA code paragraph 6.4.3.28 and Regulation 17 of the Accounts and Audit Regulations 2011.

Grants

The Executive's net expenditure, after taking into account all other sources of income and expenditure, is financed primarily by way of Revenue Grant from the Merseyside Integrated Transport Authority (MITA).

MITA makes a levy on the 5 district councils in Merseyside to meet its own expenditure which includes the Revenue Grant to the Executive. MITA also receives Special Rail Grants and Bus Grants from Central Government to fund the Executive's rail franchise payments and to improve bus services in rural areas and other areas where there would be no commercial bus service provision.

Capital Grants are also received from MITA in respect of approved expenditure on capital schemes.

The grants receivable by the Executive from MITA were as follows:

Group & Executive	**2013 £000's**	**2012 £000's**
Revenue Grants from MITA Received/Applied	100,863	101,934
Special Rail Grants	89,209	92,275
European grants	262	219
DFT- LSTF revenue grants	403	-
Capital Grants (from MITA) Received/Applied	8,900	11,066
	199,637	205,494

Principal Risks and Uncertainties

Principal risks and uncertainties facing the Executive were identified in the Medium Term Financial Strategy as follows:-

(i) Compliance Risk

If Merseytravel has to utilise scarce reserves and working balances in order to mitigate against over-spending or shortfalls in revenue generation, then there is the risk of failing to achieve the Executives financial objectives.

(ii) Energy Shocks

Typical risks include further increases in fuel cost, which will have a direct impact upon the cost basis of Mersey Ferries and the supported bus network. Conversely, high fuel costs could impact the organisation in a number of ways, e.g. greater use of concessionary travel (and hence cost) or a slight downturn in discretionary travel traffic.

(iii) Population Demographics

The impact of the post-war baby boom will result in more people being eligible for concessionary travel, even allowing for the recent changes in eligibility. The arrangements with major bus operators and Merseyrail are on the basis that all eligible persons will have access to a local concession, until they reach the eligible age for the national concession. These arrangements have a cap and collar arrangement to insulate the PTE from cost exposures. However, the agreement with Merseyrail Electrics expires on 31 March 2014, and will require renegotiating.

(iv) Industry Consolidation/Transition

It is possible that further consolidation of bus operators could take place. There is no current evidence to suggest that this is happening either with the big operators or indeed with the smaller operators who predominantly provide contracts to Merseytravel. The risk with consolidation is that the supply side can result in fewer operators, resulting in less price competition for tenders. Other issues such as the 20% reduction in Bus Services Operation Grant (BSOG) from April 2012, together with fuel increases, may have a significant impact upon supported bus services costs

(v) Consumer Demand Shifts

A prolonged period of recession, as the country is now suffering, will impact upon consumer choice especially with regards to discretionary spending rather than ‘routine’ commuter expenditure. .Conversely, discretionary spending could increase if the economy improves.

(vi) Global Financial Shocks

The consequences of shocks affecting interest rates; currency rates; unemployment and economic growth

Currently the impact of any new public sector measures that a new Government might bring in during 2013/14 and beyond cannot be assessed.

Future Developments

Government funding cuts to the capital programme have focused the available resources on completing current commitments. Regarding future developments the following are planned, however, timing and priority will be dependent upon Government support for LTP3 (the ITA has been given two year indicative figures and two year provisional figures). In addition, bids have been made to Regional Growth Fund and Local Sustainable Transport Fund (LSTF), and both LSTF minor and major bids were approved).Prioritisation of new starts will be dependent upon the level of extra resources the PTE can attract, together with the availability of existing resources. The ITA has recently been confirmed as the Accountable Body for Major Scheme funding to cover the Liverpool City Region. The PTE as the executive arm of the ITA for the delivery of capital projects may benefit from these funds should any of the ITA major scheme bids be successful. Currently the 2013/14 capital programme includes the following planned developments:

New and Improved Facilities:-

- Development of Kirkby Bus station;
- Enhancement of bus services through use of the Better Bus Fund;
- Further development of the SMARTCARD initiative
- Further development to improve Merseytravel's ICT environment
- Development proposals to extend the network initially to Headbolt Lane, Kirkby and Wrexham;
- Develop proposals to reopen the Halton Curve to introduce a service between Lime Street, Liverpool South Parkway, Runcorn and Chester, and development proposals to replace the existing rolling stock.

Safe and Secure Network

- Increase CCTV on bus and rail services and continue to work with partners to reduce the number of incidents on the transport network.

Better Services

- Help protect the environment by reducing carbon emissions and operating sustainably;
- Use the new powers of the Local Transport Act to improve and more fully integrate the transport network;
- Work with our bus and rail operator colleagues to improve the reliability of transport information;
- Develop new forms of smart ticketing to add to the suite of ticket types and look at joint public transport and attractions ticketing.

Value for Money

- Continue to develop service efficiencies and operate responsibly;
- Keep supported bus fares at the current level for as long as practicable;
- Work with bus and rail operators to improve the reliability of transport information;
- Support economic regeneration partnerships and initiatives.

Research and Development

As regards a private sector/commercial definition of a company's research, there were no R&D activities during 2012/13 by Merseytravel.

Trade Payables

Generally the Executive aims to pay all of its undisputed creditors within 30 days.

Within Merseytravel's Performance Plan, a "payment within 30 days" target of 100% has been set, against which the actual performance was 96.1%.This compares to a performance of 96.5% of undisputed creditors paid within 30 days during the year 2011/12.

Members of the Executive

The Directors of the Executive who held offices of statutory Members during the year, in accordance with Section 9 (2) of the Transport Act 1968, were as follows:

J R Barclay	Interim Director General (appointed with effect from 12/1/12, resigned 31/12/12)
A G Stilwell	Director of Integrated Transport (resigned 31/12/12)
E Chandler	Director of Corporate Development
F Rogers	Director of Customer Services (appointed Interim Director General 31/12/12)
J Fogarty*	Temporary Shared Services Finance Director (appointed 19/9/12)

In addition to the Statutory Members above, the following individuals held a non-statutory Director role during the year:

A Doig – resigned 8/8/12
B Law – resigned 8/8/12
A Moore – resigned 8/8/12
N Newton – resigned 8/8/12

The Executive is a statutory body created by the Transport Act 1968 and does not have any share capital in its own right. The Executive does however, have a number of subsidiary companies and no Director had at any time during the year any pecuniary interest in their share capital, other than for shareholding or legal reasons i.e. they receive no dividend from any profits.

*now appointed as Director of Resources with effect from 1/4/13

Statement of Responsibilities for the Statement of Accounts

The Executive's Responsibilities

The Executive 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 Executive, that Officer is the Director of Resources;
- 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 Resources

The Director of Resources is responsible for the preparation of the Executive'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 the Executive at the accounting date and its income and expenditure for the year end 31 March 2013.

In preparing this statement of accounts, the Director of Resources 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.

The Director of Resources 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 Merseyside Passenger Transport Executive as at 31 March 2013 and its income and expenditure for the year ended 31 March 2013. The Statement of Accounts was authorised for issue by the Director of Resources on 25 September 2013. Events taking place after the Balance Sheet date have been considered up to the date of issue.

J Fogarty
Director of Resources

25 September 2013

Scope of responsibility

Merseyside Passenger Transport Executive (the Executive) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for.

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

- The Transport Act 1968
- 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 Companies Act 2006
- The Local Government Act 1999

The Executive is accountable to the Merseyside Integrated Transport Authority (the Authority). The Executive has its own statutory responsibilities as well as undertaking functions for the Authority. The Directors of the Executive are employees of the Authority. The Authority is a separate statutory body, subject to its own annual Statement of Accounts.

The governance framework of the Executive reflects that of the Authority, and as such, issues relating to the governance of the Authority are considered within this governance statement where appropriate.

The Authority has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. As the majority of these functions are discharged by the Executive, this duty is considered to fall equally on the Executive. The Executive similarly has a duty under sec 9 (a) of the 1968 Transport Act to have due regard for economy, efficiency and effectiveness.

In discharging this overall responsibility, the Executive 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.

The Executive has approved and adopted a governance framework which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the constitution and other policies related to the governance framework is published through our website at www.merseytravel.gov.uk .

This statement explains how the Executive has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the Executive is directed and controlled in its activities. It is the mechanism through which it accounts to, engages with and leads its stakeholders. It enables the Executive to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and is intended to provide a reasonable - but not absolute - assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify and prioritise the risks to the achievement of the Executive's policies, aims and objectives. It also seeks to evaluate the likelihood and potential impact of those risks being realised, and to manage these risks efficiently, effectively and economically.

The governance framework that was in place at the Executive for the year ended 31 March 2013 changed significantly during the year, and further changes have been implemented between the end of the financial year and the date of approval of the statement of accounts as part of an on-going programme of improvement will take place throughout 2013/14..

The governance framework

The governance framework itself is based around the organisation's Corporate Plan. This document establishes the key priorities for the Authority and the Executive and has been determined following consultation with passengers and other key stakeholders within Merseyside and beyond.

The Corporate Plan for 2012/13 was the first of its kind for the Executive and effectively sets the template for all of the organisation's activities and articulates our priorities and values.

The Corporate Plan is supported by Directorate Plans and Service Plans and is underpinned by a budget and staffing structure that ensures our resources are available to meet our corporate objectives. A performance management system ensures that high-quality services are delivered effectively and efficiently. This is achieved through the translation of overall objectives into individual performance plans and by monitoring and measuring outcomes against key targets.

Training and development is an important aspect of the overall performance management framework and the organisation maintains a training and development programme linked to corporate priorities. That includes both officers and elected members.

The Executive has a constitution that contains procedure rules, standing orders, a scheme of delegation and financial regulations. These clearly define how decisions are taken and where authority lies. The constitution reflects the organisation's ethical standards.

There are three statutory officers with legal responsibilities for assurance and governance. These are the Head of Paid Service (Chief Executive), the Chief Financial Officer (Director of Resources) and the Monitoring Officer (Head of Legal and Member Services).

The Chief Financial Officer is the designated Section 151 Officer and complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Further assurance is provided through the maintenance of an Internal Audit function. Internal Audit review the internal control framework across the organisation, based on a formal risk assessment, and present recommendations where internal control weaknesses are identified. Our assurance is also informed by the work of our external auditors.

The organisation also maintains a register of key corporate risks and has risk management practices and processes in place as part of the overall governance framework.

Review of the effectiveness of the governance framework

The Executive has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The effectiveness review is informed by the work of Internal Audit and those key officers within the Executive with responsibility for the development and maintenance of the governance environment.
The assessment of the effectiveness of the control framework is also informed by our external auditors and other review agencies and inspectorates. This external challenge has been particularly important in determining the effectiveness of the governance framework in 2012/13.

Well-publicised concerns raised from a number of sources in 2011/12 and 2012/13 prompted the Authority to seek a formal Peer Review of its governance arrangements in the summer of 2012. This review included the Executive within its scope and was conducted by a team of senior professionals from the five Merseyside District Councils, led by the Chief Executives of Liverpool City Council and St Helens Council.

The Peer Review highlighted some significant governance concerns and presented both statutory bodies with a detailed action plan to assist the organisation in improving its arrangements. This action plan was accepted in full by the Executive and its contents have been incorporated into an annual governance improvement plan.

The review concluded that while the overall objectives of the organisation were clear, the governance arrangements did not sufficiently support the delivery of these objectives in a transparent and accountable manner.

The Peer Review Team found that the relative roles of the Executive and the Authority needed to be properly clarified, in order to demonstrate clear accountability within a revised constitution, together with a clear and unambiguous definition of a key decision.

The Peer Review also found that Performance Management needed to be improved with more coherent links between corporate and service plans and individual targets and a greater focus on our core functions and responsibilities.

The governance issues raised by the Peer Review prompted further work in a number of areas that resulted in some further and specific issues becoming apparent in 2012/13. These primarily relate to governance and value for money issues prior to 2012/13.

In addition to general concerns relating to governance, the Executive was also subject to a number of complaints relating to governance that were dealt with through the confidential reporting procedures and through Internal Audit arrangements.

The concerns regarding governance relate to the quality and transparency of decision-making and the effectiveness of internal control over a period that pre-dates the 2012/13 Statement of Accounts.

The Executive, working closely with the Authority took immediate action in 2012/13 to address these concerns, and its scheme of delegation and decision-making structures were changed to ensure that decisions are now subject to greater levels of scrutiny and challenge both internally and by elected members, than was the case prior to 2012/13.

As a result of the Peer Review and of changes made in 2012/13 the governance framework that was in place on 31st March 2013 is much more robust than in previous years. Swift action was taken in changing management structures, the committee structure and schemes of delegation in particular. The roles of both the Monitoring Officer and the Chief Financial Officer have been strengthened as part of these changes.

There is, however a degree of further work to be undertaken to ensure that all aspects of the governance framework are performing effectively and that the principles and practices of good governance become embedded throughout the organisation.

The Executive has changed significantly in 2012/13 and updating and addressing its governance framework is a key corporate priority. The challenges that remain are summarised in the section below.

Significant governance issues

Performance Management

Both the Executive and the Authority have made a clear commitment to focus on core transport activity and, in particular, on delivering world class transport services on behalf of Merseyside.

Effective performance management arrangements will be needed to deliver these objectives and the good practice that is evident in some parts of the organisation needs to be extended and embedded throughout.

The Corporate Plan for 2013-2015 has established fewer and more focussed priorities than in other years, and these priorities are based around what the organisation considers to be its key objectives.

At the same time, a zero-based approach to budget-setting has been introduced that will focus resources on the achievement of these objectives. In 2012-13, over £10 million of budget saving was identified through the zero-based process and this has been invested to support planned future commitments, including the replacement of the ageing Merseyrail fleet of rolling stock.

The next stage is to further develop and embed our performance management framework to ensure that the core objectives translate into service plans and targets for individual staff so that we can ensure that resources are being deployed effectively.

A suite of key performance indicators will be developed across all service areas and reported alongside financial performance though the revised Committee Structure.

The establishment of a Scrutiny Committee will improve performance management by providing effective and appropriate challenge from elected members. It will ensure that service managers, budget-holders, senior staff and directors are each made accountable for the effectiveness of the services they provide through regular reporting on progress against Corporate Plan objectives and regular reporting of financial performance.

Risk Management

The Executive has robust arrangements for the management of key health and safety risks. The Health and Safety Risk Management system is ISO18000 compliant reflecting the fundamental importance of Health and Safety as a key corporate risk in the direct provision of transport services such as Mersey Ferries and the Mersey Tunnels.

In addition, technical and engineering risks in respect of our core infrastructure are also well-managed. Maintenance schedules are robust and the capital programme provides adequately for a rolling programme of investment that keeps our infrastructure assets, including the tunnels, the vessels and the riverside landing stages safe and effective.

It is apparent, however that this best-practice approach to risk management needs to be embedded across the whole organisation in respect to other forms of Corporate Risk. Our Peer Review recommended that the Corporate Risk Register is revised and that our arrangements for managing corporate risks are strengthened. In addition, our own Internal Audit of Risk Management arrangements in 2012/13 found some weaknesses in this area.

We have responded by establishing a Risk and Primary Assurance Group to advise the Authority on issues relating to risk and governance and by establishing an Audit and Governance Committee to oversee the production and maintenance of the Corporate Risk Register.

The Risk Register for 2012/13 contained a number of risks that were not corporate in nature. Equally, some clear corporate risks were not included, and the Peer Review made it very clear that the Risk Register needed to be reviewed.

It is important to note that while there are inconsistencies within the Risk Management process across the organisation, this does not mean that risks are not being managed effectively. Across the organisation there are examples of key strategic risks being well-managed however it is acknowledged that a consistent approach to risk needs to be adopted across all areas of the business.

A review of the Corporate Risk Register will be presented to the Authority in summer 2013 after consideration by the Audit and Governance Committee. As the body charged with corporate governance, the Audit and Governance Committee will oversee risk management and receive regular reports on the effectiveness of our arrangements.

Value for Money

A number of significant value for money concerns became apparent in 2012/13 and these are linked to the effectiveness of the organisation's governance framework in previous years. These issues include those which led to the Authority seeking a Peer Review in 2012/13, and a number of these issues continue to have an effect on the organisation.

In the years before 2012/13, the Executive acquired or established a number of subsidiary companies to deliver services that were not directly related to its core transport function. One such company was a marketing and ticketing company called 'Livesmart Limited'.

In 2012/13 a major Internal Audit review of the organisation's relationship with Livesmart Ltd was undertaken. This review confirmed that the Executive had invested £6.5 million in this venture between 2006 and 2011/12, and also confirmed that this investment had realised very little that was ultimately of value to the Executive.

The Internal Audit review raised significant concerns about a governance framework that had allowed such losses to accrue over a number of years without any apparent challenge. The auditors identified a lack of transparency within decision-making and financial reporting in respect of the organisation's subsidiary companies as a primary factor in allowing this situation to develop.

Recommendations were made and accepted and the organisation's constitution has been amended to prevent such a situation recurring. Livesmart Ltd has ceased to trade and was effectively closed down in 2012/13 and is now in the process of being formally wound down.

Another of the organisation's subsidiary interests is the Beatles Story visitor attraction. There are no governance issues relating to the operation and management of the Beatles Story, and the financial performance of the Beatles Story remains fundamentally sound.

Nonetheless, we received information relating to the valuation of Beatles Story assets purchased in 2008 which meant that these assets have had to be significantly impaired within the 2012-13 accounts at a significant loss to the organisation.

A further and significant value for money issue relates to the organisation's move into the new Headquarters at Mann Island in March 2012. This move has significantly increased the premises costs to the organisation to the extent that they are disproportionate to the size and function of the organisation.

This situation has arisen because the organisation has assumed the full occupancy risk associated with the building but has been unable to let all surplus office space to other tenants. The organisation continues to take steps to mitigate these losses and new tenants have been identified and secured in 2012/13.

Decision Making Process

The Peer Review identified a common theme that is apparent in the background to these significant value for money issues. This theme was the transparency of decision making and, in particular, the relationship between the Executive and the Authority, to whom it is accountable to.

Both statutory bodies have taken steps to address this issue in 2012/13 by revising the committee structure and by making the minutes of the Executive available to all elected members. Furthermore, both statutory bodies have defined criteria for Key Decisions that would prevent any of the failures in governance identified above from recurring without the full knowledge of all elected members.

Further work will be carried out to clarify the roles of the Executive and the Authority and this work will be reflected in the terms of reference for all our key committees.

Internal Audit

Based on their work in 2012/13, the Head of Internal Audit found that internal control at the Executive was 'Adequate with Some Reservations'. These reservations have each been included in the Annual Governance Improvement Plan that underpins this document and progress towards the implementation of Internal Audit Recommendations will now be monitored by the Audit and Governance Committee.

The reservations identified within the Chief Internal Auditor's annual report included Risk Management and the relationship with Livesmart Ltd, both of which are considered above.

One further significant reservation related to contract monitoring in general, and in particular to changes made to the original concession agreement between the Executive and our rail concession holder. A number of changes to the original concession have been made over the course of many years and Internal Audit found that not all of these had been properly recorded and formally agreed between both parties.

Addressing this is a priority for all parties and agreed revisions to the original concession agreement will be formally codified and agreed in 2013/14.

The Peer Review examined the effectiveness of Internal Audit arrangements at the Executive based on the CIPFA Code of Practice for Internal Audit. The review made a series of recommendations towards improving the effectiveness of the Internal Audit service.

The recommendations have been accepted and the Internal Audit section is currently under review. We will once again review the effectiveness of the service in 2013/14 to ensure that the necessary improvements have been made.

SUMMARY

2012/13 was a pivotal year for both the Executive and the Authority, with significant changes in both the committee structure and in the management and leadership of the organisation. It was a year in which some significant value for money issues forced the organisation to examine its overall governance framework.

An honest, impartial appraisal of the governance framework was conducted on our behalf by colleagues from within the Merseyside group of local authorities. The organisation subjected itself to this Peer Review in order to identify and redress the governance issues that led to the organisation incurring significant costs through a number of ventures in previous years.

The Audit and Governance Committee will now act as the body charged with governance and will oversee the effectiveness of the governance framework and the changes that have been made in 2012/13. The organisation now also has a Scrutiny Committee to provide effective challenge particularly around value for money and the effectiveness of service delivery.

We propose over the coming year to take further steps to address those matters identified above and to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation through our Audit and Governance Committee and as part of our next annual review.

David Brown: Director General, Merseyside Passenger Transport Executive

25 September 2013

Independent Auditor's Report to the Directors of Merseyside Passenger Transport Executive

We have audited the financial statements of Merseyside Passenger Transport Executive for the year ended 31 March 2013 on pages 19 to 64. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the Directors of the Passenger Transport Executive, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the Directors of the Passenger Transport Executive, 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 Directors of the Passenger Transport Executive, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of Responsibilities of the Director of Resources, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Passenger Transport Executive's and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accounting Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Passenger Transport Executive and the Group as at 31 March 2013 and of the Passenger Transport Executive's and the Group's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 10 to 15 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of the Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Passenger Transport Executive has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in November 2012, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and
- locally determined risk-based work on the governance issues that came to light in the year.

As a result, we have concluded that there are no matters to report.

Certificate

We certify that we have completed the audit of the financial statements of Merseyside Passenger Transport Executive in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Graham Prentice

For, and on behalf of, KPMG LLP Appointed Auditor

Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW

30 September 2013

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 March 2013

The Group and Comprehensive Income and Expenditure Statement show the costs of the Executive's service provision for operating Mersey Ferries (via the Mersey Ferries Ltd subsidiary company), socially necessary bus services, local Merseyrail Electrics and Northern Rail (City Line) train services, the operation of a very comprehensive season and day ticket scheme as well as the provision of Statutory and Discretionary Concessionary Travel Schemes. In the case of the latter, decisions on what discretionary arrangements exist are made by the ITA using various statutory powers. However, the cost falls upon the Executive.

In addition, these tables summarise the key sources of income and financial support the Executive receives. Crucial to this are the Special Rail Grant that funds local rail services and the Revenue Support Grant from the ITA. This grant is approved by the ITA at its February budget meeting and is the maximum and permitted level of grant the Executive can spend. The ITA grant is a product of its levy on the five District Councils, and is the net sum after those costs borne by the ITA have been accounted for.

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 grant income. The Executive receives grant income to cover expenditure in accordance with regulations; this may be different from the accounting cost. The reserves position is shown in the Movement in Reserves Statement:

2011/12				2012/13			
Gross Expenditure	**Gross Income**	**Net Expenditure**	**GROUP**	**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Note No.**
£000's	**£000's**	**£000's**		**£000's**	**£000's**	**£000's**	
259,181	161,759	97,422	Highways & Transport Services	254,814	158,879	95,935	4
7,155	-	7,155	Non distributed costs*	10,589	-	10,589	
266,336	**161,759**	**104,577**	**Cost of Services**	**265,403**	**158,879**	**106,524**	
10,814	9,838	976	Financing & Investment income and expenditure	10,444	9,031	1,413	
-	113,576	(113,576)	Taxation & non specific grant income	-	110,025	(110,025)	
277,150	**285,173**	**(8,023)**	**(Surplus)/deficit on Provision of Services**	**275,847**	**277,935**	**(2,088)**	
-	-	-	Impairment of investments	1,294		1,294	
11,640	-	11,640	Actuarial (gains)/losses on pension assets/liabilities	11,541		11,541	
11,640	**-**	**11,640**	**Other comprehensive income & expenditure**	**12,835**	**-**	**12,835**	
288,790	**285,173**	**3,617**	**Total Comprehensive Income & Expenditure**	**288,682**	**277,935**	**10,747**	
			(Surplus)/deficit attributable to:				
		3,596	MPTE			10,747	
		21	Minority interests			-	
		3,617	**Total (Surplus)/deficit**			**10,747**	

All amounts relate to continuing operations.

Note 4 Segmental Reporting provides further analysis of the CIES.

The notes from page 27 onwards form part of these accounts.

For further details regarding the PTE's pension deficit, please refer to Note 23.

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013

2011/12				2012/13			
Gross Expenditure	Gross Income	Net Expenditure	MPTE	Gross Expenditure	Gross Income	Net Expenditure	Note No.
£000's	£000's	£000's		£000's	£000's	£000's	
242,788	145,741	97,047	Highways & Transport Services	239,718	143,798	95,920	4
7,155	-	7,155	Non distributed costs *	10,589	-	10,589	
249,943	145,741	104,202	**Cost of Services**	250,307	143,798	106,509	
11,009	10,037	972	Financing & Investment income and expenditure	10,641	9,228	1,413	
-	113,219	(113,219)	Taxation & non specific grant income	-	110,025	(110,025)	
260,952	**268,997**	**(8,045)**	**(Surplus)/Deficit on Provision of Services**	**260,948**	**263,051**	**(2,103)**	
11,640	-	11,640	Actuarial (gains)/losses on pension assets/liabilities	11,541	-	11,541	
11,640	-	**11,640**	**Other comprehensive income & expenditure**	**11,541**	**-**	**11,541**	
272,592	**268,997**	**3,595**	**Total comprehensive income & expenditure**	**272,489**	**263,051**	**9,438**	

All amounts relate to continuing operations.

For further information on Pensions, please refer to note 23 to the accounts.

Note 4 Segmental Reporting provides further analysis of the CIES.

The notes from page 27 onwards form part of these accounts.

For further details regarding the PTE's pension deficit, please refer to Note 23.

Balance Sheet

The Balance Sheet shows the value as at the balance sheet date of the assets and liabilities recognised by the Executive. The net assets of the Executive (assets less liabilities) are matched by the reserves held by the Executive. Reserves are reported in two categories, usable and unusable. Usable reserves may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that the Executive is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses – e.g. the Revaluation reserve, where amounts would only become available if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement.

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
BALANCE SHEET AS AT 31 MARCH 2013

As at 31/03/2012 Group £000's	As at 31/03/2012 Executive £000's		As at 31/03/2013 Group £000's	As at 31/03/2013 Executive £000's	Note No.
		NON-CURRENT ASSETS			
		Property, Plant & Equipment			
79,498	79,498	Infrastructure Assets	77,916	77,916	
684	-	Leasehold Property	645	-	
19,636	17,076	Plant & Machinery	19,206	18,515	
8,237	8,237	Vessels	8,058	8,058	
18	18	Ancillary Vehicles	16	16	
893	893	Assets Under Construction	893	893	
525	525	Surplus Assets	519	519	
109,491	106,247	**Total Property, Plant & Equipment**	107,253	105,917	9,25
385	-	**Heritage assets**	385	-	10
1,698	-	**Intangible Assets**	1,695	-	12
1,295	-	**Long Term Investments**	-	-	13
837	4,862	**Long Term Debtors**	818	4,726	16(b)
113,706	111,109	**TOTAL NON-CURRENT ASSETS**	110,151	110,643	
		CURRENT ASSETS			
1,800	1,800	Assets Held for Sale	-	-	14
564	42	Inventories	458	27	15
37,413	37,251	Short term Debtors	44,726	44,195	16(a)
23,851	23,644	Cash and cash equivalents	27,110	26,569	17,27
63,628	62,737	**TOTAL CURRENT ASSETS**	72,294	70,791	
177,334	173,846	**TOTAL ASSETS**	182,445	181,434	
		CURRENT LIABILITIES			
(117)	(117)	Loans from ITA	(122)	(122)	21
(18,306)	(15,954)	Short Term Creditors & Deferred Revenue	(24,081)	(23,071)	18
(129)	(92)	Provisions	(239)	(184)	19
(18,552)	(16,163)	**TOTAL CURRENT LIABILITIES**	(24,442)	(23,377)	
45,076	46,574	**NET CURRENT ASSETS**	47,852	47,414	
		LONG TERM LIABILITIES			
(4,008)	(3,908)	Internal loans due after one year	(3,954)	(3,786)	
(3,256)	(3,256)	Provisions	(2,709)	(2,619)	19
(58,073)	(58,073)	Pension Liability	(68,644)	(68,644)	23
(9)	-	Other Long Term Liabilities	(7)	-	
(65,346)	(65,237)	**TOTAL NON CURRENT LIABILITIES**	(75,314)	(75,049)	
93,436	92,446	**NET ASSETS**	82,689	83,008	
		FUNDS BALANCES & RESERVES			
44,026	42,272	Useable Reserves	45,193	45,535	22
50,199	50,174	Unusable Reserves	37,498	37,473	
(789)	-	Minority Interest	(2)	-	
93,436	92,446	**TOTAL RESERVES**	82,689	83,008	

The notes from page 27onwards form part of these accounts.

J Fogarty
Director of Resources
25 September 2013

E Chandler
Director of Corporate Development
25 September 2013

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

The following statements show the movement in the year of the different reserves held by the Executive, analysed into “Usable” (i.e. those that can be applied to fund expenditure) and other reserves and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Executives services, more details of which are shown in the Comprehensive Income and Expenditure statement. This is different from the statutory amounts required to be charged to the General fund. The net increase/decrease before transfers to earmarked reserves line shows statutory General Fund balance before any discretionary transfers to or from earmarked reserves undertaken by the Executive.

Group 2011/12	Revenue Reserves (Note 22) £000's	Earmarked Reserve (Note 22) £000's	Total Useable Reserves £000's	Pension Reserve (Note 22) £000's	Revaluation Reserve (Note 22) £000's	Deferred Cap Grants (Note 22) £000's	Total Unusable Reserves £000's	Minority interests £000's	Total Reserves £000's
Bal b/f 1st April 2011	**939**	**38,113**	**39,052**	**(45,579)**	**5,912**	**98,436**	**58,769**	**(768)**	**97,053**
Movement in Reserves during 2011/12:									
Surplus on the provision of services	8,044	-	8,044	-	-	-	-	(21)	**8,023**
Actuarial gains/losses on Pensions	-	-	-	(11,640)	-	-	(11,640)	-	**(11,640)**
Total comprehensive income & expenditure	**8,044**	-	**8,044**	(11,640)	-	-	**(11,640)**	**(21)**	**(3,617)**
Pensions charged to CIES - See note 23	5,850	-	5,850	(5,850)	-	-	(5,850)	-	-
Employer's pension contribution	(4,996)	-	(4,996)	4,996	-	-	4,996	-	-
Capital grants applied MITA re PPE	-	(9,585)	(9,585)	-	-	9,585	9,585	-	-
Release from reserves re depreciation/Impairment	5,030	-	5,030	-	(527)	(4,503)	(5,030)	-	-
Assets held for sale	631	-	631	-	-	(631)	(631)	-	-
Transfers in respect of long term loans	(2,327)	2,327	-	-	-	-	-	-	-
Adjustments between accounting basis and funding basis under regulations	**4,188**	**(7,258)**	**(3,070)**	**(854)**	**(527)**	**4,451**	**3,070**	**-**	**-**
Net increase/(decrease) before transfers to earmarked funds	**12,232**	**(7,258)**	**4,974**	**(12,494)**	**(527)**	**4,451**	**(8,570)**	**(21)**	**(3,617)**
Transfers to/from earmarked funds									
Grants received MITA	(11,066)	11,066	-	-	-	-	-	-	-
Grants received EU	(221)	221	-	-	-	-	-	-	-
Grants applied MITA revenue from capital	3,681	(3,681)	-	-	-	-	-	-	-
Grants applied re EU	348	(348)	-	-	-	-	-	-	-
Transfers to earmarked reserves	(5,332)	5,332	-	-	-	-	-	-	-
Total transfers to earmarked funds	(12,590)	12,590	-	-	-	-	-	-	-
Increase/Decrease in year	**(358)**	**5,332**	**4,974**	**(12,494)**	**(527)**	**4,451**	(8,570)	(21)	**(3,617)**
Balance 31 March 2012 carried forward	**581**	**43,445**	**44,026**	**(58,073)**	**5,385**	**102,887**	**50,199**	**(789)**	**93,436**

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

Group 2012/13	Revenue Reserves (Note 22) £000's	Earmarked Reserve (Note 22) £000's	Total Useable Reserves £000's	Pension Reserve (Note 22) £000's	Revaluation Reserve (Note 22) £000's	Deferred Cap Grants (Note 22) £000's	Total Unusable Reserves £000's	Minority interests £000's	Total Reserves £000's
Bal b/f 1st April 2012	581	43,445	44,026	(58,073)	5,385	102,887	50,199	(789)	93,436
Movement in Reserves during 2012/13:									
Surplus on the provision of services	2,088	-	2,088	-	-	-	-	-	2,088
Impairment of investments	(1,294)	-	(1,294)	-	-	-	-	-	(1,294)
Actuarial gains/losses on Pensions	-	-	-	(11,541)	-	-	(11,541)	-	(11,541)
Total comprehensive income & expenditure	**794**	**-**	**794**	**(11,541)**	**-**	**-**	**(11,541)**	**-**	**(10,747)**
Pensions charged to CIES - See note 23	4,573	-	4,573	(4,573)	-	-	(4,573)	-	-
Employer's pension contribution	(5,543)	-	(5,543)	5,543	-	-	5,543	-	-
Grants applied MITA re PPE	-	(5,230)	(5,230)	-	-	5,230	5,230	-	-
Release from reserves for depreciation/impairment/revaluation	5,560	-	5,560	-	(1,503)	(4,057)	(5,560)	-	-
Disposal of assets held for sale	-	1,800	1,800	-	-	(1,800)	(1,800)		-
Transfer from Reserves/ Use of Capital Receipts			-	-	-	-	-	-	-
Adjustments between accounting basis and funding basis under regulations	**4,590**	**(3,430)**	**1,160**	**970**	**(1,503)**	**(627)**	**(1,160)**		**-**
Net increase/(decrease) before transfers to earmarked funds	**5,384**	**(3,430)**	**1,954**	**(10,571)**	**(1,503)**	**(627)**	**(12,701)**		**(10,747)**
Transfers to/from earmarked funds									
Grants received MITA	(8,900)	8,900	-	-	-	-	-	-	-
Grants received EU	(262)	262	-	-	-	-	-	-	-
Grants applied MITA revenue from capital	7,875	(7,875)	-	-	-	-	-	-	-
Grants applied re EU	211	(211)	-	-	-	-	-	-	-
Transfers to/from earmarked reserves	(2,770)	1,983	(787)	-	-	-	-	787	-
Total transfers to earmarked funds	**(3,846)**	**3,059**	**(787)**	**-**	**-**	**-**	**-**	**787**	**-**
Net Increase/Decrease in year	**1,538**	**(371)**	**1,167**	**(10,571)**	**(1,503)**	**(627)**	**(12,701)**	**787**	**(10,747)**
Balance 31 March 2013 carried forward	**2,119**	**43,074**	**45,193**	**(68,644)**	**3,882**	**102,260**	**37,498**	**(2)**	**82,689**

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

MPTE 2011/12	Revenue Reserves (Note 22) £000's	Earmarked Reserve (Note 22) £000's	Total Useable Reserves £000's	Pension Reserve (Note 22) £000's	Revaluation Reserve (Note 22) £000's	Deferred Cap Grants (Note 22) £000's	Total Unusable Reserves £000's	Total Reserves £000's
Bal b/f 1st April 2011	**1,739**	**35,533**	**37,272**	**(45,579)**	**5,912**	**98,436**	**58,769**	**96,041**
Movement in Reserves during 2011/12:								
Surplus on the provision of services	8,045	-	**8,045**	-	-	-	**-**	**8,045**
Actuarial gains/losses on Pensions	-	-	**-**	(11,640)	-	-	**(11,640)**	**(11,640)**
Total comprehensive income & expenditure	**8,045**	**-**	**8,045**	**(11,640)**	**-**	**-**	**(11,640)**	**(3,595)**
Pensions charged to CIES - See note 23	5,850	-	5,850	(5,850)	-	-	(5,850)	-
Employer's pension contribution	(4,996)	-	(4,996)	4,996	-	-	4,996	-
Capital grants applied MITA re PPE	-	(9,585)	(9,585)	-	-	9,585	9,585	-
Release from reserves for depreciation/Impairment	5,055	-	5,055	-	(552)	(4,503)	(5,055)	-
Assets held for sale	631	-	631	-	-	(631)	(631)	-
Transfer to reserve	(2,327)	2,327	-	-	-	-	-	-
Adjustments between accounting basis and funding basis under regulations	**4,213**	**(7,258)**	**(3,045)**	**(854)**	**(552)**	**4,451**	**3,045**	**-**
Net increase/(decrease) before transfers to earmarked funds	**12,258**	**(7,258)**	**5,000**	**(12,494)**	**(552)**	**4,451**	**(8,595)**	**(3,595)**
Transfers to/from earmarked funds								
Capital grants received MITA	(11,066)	11,066	-	-	-	-	-	-
Capital grants received EU	(221)	221	-	-	-	-	-	-
Grants applied MITA revenue from capital	3,681	(3,681)	-	-	-	-	-	-
Grants applied re EU	348	(348)	-	-	-	-	-	-
Transfers to earmarked reserves	(5,000)	5,000	-	-	-	-	-	-
Total transfers to earmarked funds	**(12,258)**	**12,258**	**-**	**-**	**-**	**-**	**-**	**-**
Net Increase/Decrease in year	**-**	**5,000**	**5,000**	**(12,494)**	**(552)**	**4,451**	**(8,595)**	**(3,595)**
Balance 31 March 2012 carried forward	**1,739**	**40,533**	**42,272**	**(58,073)**	**5,360**	**102,887**	**50,174**	**92,446**

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

MPTE 2012/13	Revenue Reserves (Note 22) £000's	Earmarked Reserve (Note 22) £000's	Total Useable Reserves £000's	Pension Reserve (Note 22) £000's	Revaluation Reserve (Note 22) £000's	Deferred Cap Grants (Note 22) £000's	Total Unusable Reserves £000's	Total Reserves £000's
Bal b/f 1st April 2012	**1,739**	**40,533**	**42,272**	**(58,073)**	**5,360**	**102,887**	**50,174**	**92,446**
Movement in Reserves during 2012/13:							-	**-**
Surplus on the provision of services	2,103	-	**2,103**	-	-	-	-	**2,103**
Actuarial gains/losses on Pensions	-	-	**-**	(11,541)	-	-	(11,541)	**(11,541)**
Total comprehensive income & expenditure	**2,103**	**-**	**2,103**	**(11,541)**	**-**	**-**	**(11,541)**	**(9,438)**
			-					
Pensions charged to CIES - See note 23	4,573	-	4,573	(4,573)	-	-	(4,573)	-
Employer's pension contribution	(5,543)	-	**(5,543)**	5,543	-	-	**5,543**	-
Grants applied MITA re PPE	-	(5,230)	**(5,230)**	-	-	5,230	**5,230**	-
Release from reserves for depreciation/Impairment/revaluation	5,560	-	**5,560**	-	(1,503)	(4,057)	**(5,560)**	-
Disposal of assets held for sale	-	1,800	**1,800**	-	-	(1,800)	**(1,800)**	-
Transfer from Reserves/Use of Capital Receipts			**-**	-	-	-	**-**	-
Adjustments between accounting basis and funding basis under regulations	**4,590**	**(3,430)**	**1,160**	**970**	**(1,503)**	**(627)**	**(1,160)**	**-**
Net increase/(decrease) before transfers to earmarked funds	**6,693**	**(3,430)**	**3,263**	**(10,571)**	**(1,503)**	**(627)**	**(12,701)**	**(9,438)**
Transfers to/from earmarked funds								
Grants received MITA	(8,900)	8,900	**-**	-	-	-	-	-
Grants applied MITA revenue from capital	7,875	(7,875)	**-**	-	-	-	-	-
Transfers to earmarked reserves	(5,668)	5,668	**-**	-	-	-	-	-
Total transfers to earmarked funds	**(6,693)**	**6,693**	**-**	-	-	-	-	-
Net Increase/Decrease in year	**-**	**3,263**	**3,263**	**(10,571)**	**(1,503)**	**(627)**	**(12,701)**	**(9,438)**
Balance 31 March 2013 carried forward	**1,739**	**43,796**	**45,535**	**(68,644)**	**3,857**	**102,260**	**37,473**	**83,008**

The notes from page 27onwards form part of these accounts.

MERSEYSIDE PASSENGER TRANSPORT EXECUTIVE
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013

The Cash flow statement shows the changes in cash and cash equivalents of the Executive during the reporting period. The statement shows how the Executive 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 Executive are funded by way of grant income or from the recipients of services provided by the Executive. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Executive'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 Executive.

2012			2013		
Group £000's	**Executive £000's**		**Group £000's**	**Executive £000's**	**Note No.**
		Operating Activities			
(8,023)	(8,045)	Net (surplus) on the provision of services	(2,088)	(2,103)	
		Adjustments to net surplus or deficit on the provision of services for non cash movements:			
(6,134)	(5,686)	Depreciation and impairment of property, plant and equipment	(7,511)	(5,551)	
2,744	3,183	(Increase) / decrease in trade and other receivables	4,113	3,744	
79	4	(Increase) / decrease in inventories	(108)	(15)	
916	736	Increase / (decrease) in trade and other payables	(5,835)	(7,180)	
(969)	(881)	Movement in provisions	437	545	
		Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities:			
25	-	Donated asset value & revaluation			
(854)	(854)	Transfer from pension reserve	970	970	
(12,216)	**(11,543)**	***Net cash flow from operating activities***	**(10,022)**	**(9,590)**	
		Investing Activities			27
11,424	10,986	Purchase of property, plant and equipment and intangible assets	5,312	5,263	
(48)	-	Proceeds from the sale of property, plant and equipment and intangible assets	(1,779)	(1,779)	
669	669	Loans Advanced			
-	(112)	Loan payments received	(19)	(19)	
12,045	**11,543**	***Net cash flows from investing activities***	**3,514**	**3,465**	
		Financing Activities			
(202)	(202)	Other receipts from financing activities	(197)	(197)	
395	110	Repayment of internal loans*	49		
(5,400)	(5,400)	Repayment of loan to ITA			
		Advance of loan to ITA	3,200	3,200	
	-	Repayment of short term and long term borrowing			
202	202	Other payments for financing activities	197	197	
(5,005)	**(5,290)**	***Net cash flows from financing activities***	**3,249**	**3,200**	
(5,176)	(5,290)	***Net (increase)/decrease in cash and cash equivalents***	(3,259)	(2,925)	
(18,675)	(18,354)	Cash and cash equivalents as at 1 April	(23,851)	(23,644)	
(23,851)	**(23,644)**	**Cash and cash equivalents as at 31 March**	**(27,110)**	**(26,569)**	

*Repayment of internal Group loans

The notes from page 27 onwards form part of these accounts.

1. Summary of Significant Accounting Policies

The accounts have been prepared in accordance with the Accounts and Audit Regulations 2011. This requires PTE's to prepare their accounts under CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2013 (The Code) in so far as it is applicable.

The financial statements were authorised for issue by the directors on Friday 28 June 2013. The Director of Resources (Section 151 Officer) has on 28 June 2013, authorised that this Statement of Accounts should be issued for distribution. This is the date up to which events after the balance sheet date have been considered.

Basis of Preparation

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain categories of non-current assets and financial instruments.

Group accounts and Basis of Consolidation

The financial statements comprise the accounts of the Executive and its subsidiary and associated undertakings as at 31 March 2013, as listed in note13.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. They are fully consolidated on a line-by-line from the date that Executive obtains control, until the date that such control ceases. Uniform accounting policies as set out below are used in the preparation of the group accounts.

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.

Interests in subsidiaries and unlisted equity interests

In the Executive's own entity accounts, the executive's interests in its subsidiaries are included at their historical cost less any impairment provision (note 13).

The initial fair value of the Executive's unlisted equity interests is based on cost. As the fair value of the equity interest cannot be measured reliably at the end of each year, the cost is estimated at its initial fair value and subsequently reduced by any impairment loss.

Income

Grant and other funding income is recognised where there is reasonable assurance that the income will be received and all attached conditions have been complied with.

Lease Income

Rentals receivable under operating leases are credited to income as they arise. Any premiums or incentives within the lease are recognised within income on an equal basis over the term of the lease.

Lease expenditure

Rentals paid under operating leases are charged to expenditure on a straight line basis over the term of the lease. Lease incentives are recognised over the lease term on a straight line basis.

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 future economic benefits or service potential associated with the asset flow to the Executive or Group and the cost of the item can be measured reliably. General repair and maintenance costs are recognised in the statement of comprehensive income and expenditure in the period in which they are incurred.

1 **Summary of Significant Accounting Policies** (continued)

Measurement: Assets are initially measured at cost comprising the purchase price, 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 and the initial estimate of the costs of dismantling and disposal of the asset where considered material.

Subsequently assets are carried in the Balance Sheet using the following measurement bases:

- Infrastructure and assets under construction are measured at depreciated historical cost as required by the code; such costs may include the costs of replacing significant portions of the asset, upon which the portion being replaced is immediately derecognised.
- non-operational assets and assets that are surplus to requirements, are included in the balance sheet at the lower of net current replacement cost and net realisable value. In the case of investment properties, this is normally open market value;
- All other classes of property, plant and equipment are measured at fair value. If there is no market-based evidence of fair value because of the specialist nature of the asset, the fair value is estimated using a depreciated replacement cost approach.

The majority of fixed assets with a value of £7,500 (i.e. de-minimis threshold for capitalisation purposes) or more were valued, during a quinquennial valuation, as at 31 March 2009. For each of the five years between formal valuations, the historical value of all new capital investment, regardless of the £7,500 threshold, will be assumed to be at current values with appropriate adjustments being made in the accounts at the next formal quinquennial valuation.

Surpluses arising on the valuation of fixed assets are credited to the fixed asset revaluation reserve. Subsequent revaluations of fixed assets are planned at five yearly intervals, although material changes to asset valuations will be adjusted in the interim period, as they occur. The directors are not aware of any material changes to the asset values since the date of revaluation.

Componentisation: The major components of the Executive’s assets have been identified and are depreciated separately. Assets with comparable useful economic lives are categorised together and are subject to a consistent method of depreciation.

Depreciation: Depreciation is provided on all assets with finite useful lives by the systematic allocation of their depreciable amounts over their useful lives using the reducing balance method. That portion of depreciation related to any revaluation gain is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Impairment: Annual reviews are made of the estimated remaining life and current carrying amount of assets, ensuring that significant assets are reviewed annually and other assets are reviewed at least every three years. Adjustments to the carrying amount, or remaining useful life, are made where necessary. See impairment of non-financial assets below

Disposals: An item of property, plant and equipment is derecognised upon disposal, replacement or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition (calculated as the difference between the net disposal proceeds and the carrying amount) is included in the income statement in the year the item is derecognised, offset by the write-back of any related unamortised grant funding that has been received.

Capital expenditure and capital financing

Capital project grants are recognised as income in the period in which they are received. Expenditure is classified as assets under construction. Upon the assets becoming available for use, the expenditure is categorised to the appropriate class of property, plant and equipment and depreciated from the following month. In the event that capital expenditure does not directly result in an operational asset, the costs are recognised within the Statement of Income and Expenditure as Revenue Expenditure Funded from Capital..

1 **Summary of Significant Accounting Policies** (continued)

Heritage Assets

These assets are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. The Executive itself does not hold any heritage assets. The Beatles Story owns a statue in commemoration of John Lennon which is shown in the Group accounts. The asset was re-valued by a suitably qualified practitioner, see Note 10.

Assets held for sale

Non-current assets are classified as held for sale, and measured at the lower of carrying amount and fair value less costs to sell, if their value will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, and management is committed to the sale, which is expected to complete within one year.

Property, plant and equipment classified as held for sale are not depreciated.

Impairment of non-financial assets

The Executive assesses each year whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Executive estimates the asset's recoverable amount, which is the higher of its fair value less costs to sell, and its value in use. It is determined for an individual asset, unless it doesn't generate cash inflows independently from other assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is impaired down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted at a rate reflecting the Executive's current assessment of its average borrowing rates. In determining fair value less costs to sell, an appropriate valuation model is used. The calculations are reviewed where possible against other available indicators.

Impairment losses are recognised in the Income and Expenditure Statement in those expense categories consistent with the function of the asset, except for property previously re-valued, where the revaluation was taken to reserves. In this case the impairment is also recognised in reserves up to the amount of any previous revaluation.

An assessment is also made each year whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognised. Such reversal is recognised in the Income and Expenditure Statement unless the asset is carried at re-valued amount, in which case the reversal is treated as a revaluation increase.

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.

1 **Summary of Significant Accounting Policies** (continued)

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.

The Executive 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.

Inventories

Inventories are carried at the lower of cost (including costs incurred in bringing the inventory to its present location, such as freight) and net realisable value, determined on a first in first out basis.

Financial Assets

Financial assets are classified at initial recognition as loans, cash and cash equivalents (short term deposits) or receivables in accordance with IAS 39(Code Chapter 7.3), and recognised at cost. The Executive has not designated any financial assets as at fair value through profit or loss. The Executive’s financial assets include cash, short-term deposits, trade and other receivables. Financial assets are derecognised when the appropriate cash flows have been received, or when the rights to receive cash flows from the asset have expired.

Subsequent measurement depends on their classification as follows:

Cash and cash equivalents: cash and short term deposits in the Statement of Financial Position comprise of cash at bank and in hand and short-term deposits with a maturity of 90 days or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

Loans and deposits: consist of non-derivative financial assets with fixed or determinable payments not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income and Expenditure Statement when the assets are amortised, derecognised or impaired.

Trade and other receivables: are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should an amount become uncollectable, it is written off to the Income and Expenditure Statement in the period in which it is recognised.

Impairment of financial assets: the Executive assesses at each period end whether there is any evidence that a financial asset, or group of assets, is impaired. Financial assets are impaired if, and only if, there is objective evidence of one or more events that will negatively impact future expected cash flows, and the impact can be reliably estimated. Objective evidence may be that a debtor is experiencing financial difficulty to the extent that cash flows are, or are likely to be, negatively impacted. If such objective evidence exists, then the financial asset is impaired to the extent of the present value of estimated cash flow shortfall. The amount of the allowance for impairment is recorded separately to the asset, and written off against income.

Financial Liabilities

Financial liabilities are classified at initial recognition as loans and borrowings in accordance with IAS 39 (The Code Chapter 7.2), and recognised at cost. The Executive has not designated any financial liabilities as at fair value through profit or loss. The Executive’s financial liabilities include short term creditors, loans and other payables, and bank overdraft. Financial liabilities are derecognised when the appropriate cash flow obligations have been discharged, expired or otherwise cancelled.

1 **Summary of Significant Accounting Policies** (continued)

Subsequent measurement depends on their classification as follows:

Loans and borrowings: consist of non-derivative financial liabilities with fixed or determinable payments not quoted in an active market. Such interest-bearing liabilities are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the Income and Expenditure Statement when the liabilities are amortised, derecognised or impaired.

Trade and other payables: are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Statement of Income and Expenditure in the period in which it is recognised.

Finance leases: refer to further information below.

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset, and the net amount reported in the Statement of Financial Position, if and only if there is an enforceable legal right to offset and there is an intention to settle on a net basis in order to realise the assets and discharge the liabilities simultaneously.

Debtors

Receivables are considered both individually and collectively for impairment and provision has been made for all overdue receivables as at 31 March 2013. Where the actual amount has not yet been determined, the amount provided is estimated on the basis of the latest available information.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when the Executive has a present, legal or constructive obligation as a result of a past event which makes it probable that a transfer of economic benefits will be required to settle the obligation, and a reliable estimate can be made of its amount.

Where the Executive expects some or all of a provision to be reimbursed, for example under an Insurance contract, the reimbursement is recognised as a separate asset only if the reimbursement is highly probable.

The expense relating to any provision is recognised in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a rate reflecting the Executive’s current assessment of its average borrowing rates.

A contingent asset arises where an event has taken place that gives a possible asset whose existence will only be confirmed by the occurrence of future uncertain events, not wholly within the control of the Executive. 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 economic benefit or service potential.

A contingent liability arises where an event has taken place that gives rise to a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Executive. Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

1 **Summary of Significant Accounting Policies** (continued)

Pensions

The Executive participates in a defined benefit pension scheme, the assets of which are held separately in an independently administered fund. The funds are valued every three years by a professionally qualified independent actuary.

The employees of the Executive are members of a Local Government Superannuation Scheme: The Merseyside Pension Fund.

The cost of providing benefits under the defined benefit plans is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in CIES on a straight-line basis over the vesting period or immediately if the benefits have vested.

When a settlement (eliminating obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long-term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year. The difference between the expected return on plan assets and the interest cost is recognised in the income statement as other finance revenue or cost.

Actuarial gains and losses are recognised in full in other comprehensive income in the period in which they occur.

Pension costs have been charged to the CIES in line with IAS 19(The Code Chapter 6.4) (Employee Benefits). The effect of transfers in the movement in reserves is that the general fund is charged with the employers contributions with the balance between this and the amount charged to the CIES being charged or credited to the Pension Reserve..

Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result in 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.

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

Exceptional Items
When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the CIES or in the notes to the accounts, depending on significant the items are to an understanding of the Executives financial performance.

1 **Summary of Significant Accounting Policies** (continued)

Value Added Tax

Income and expenditure excludes VAT, as all VAT collected is payable to HR Revenue& Customs and all VAT paid is recoverable from it.

Reserves

Reserves are classified as either 'Usable' (identified and maintained for specific future purposes), or 'Unusable' (kept to manage the accounting processes for non-current assets and retirement and employee benefits). Unusable Reserves do not represent resources available for use by the Executive.

Support Service Allocation

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

Accruals of income and expenditure

Expenditure and income is accounted for in the period it takes place, not when cash is received or paid.

Events after the Balance Sheet Date

Events after the balance sheet date are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts are authorised for issue. Two types of event can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the accounts are amended to reflect these events
- those that arose after the end of the reporting period – the accounts are not amended to include these, but should they have a material effect upon the accounts, disclosure is made in the accounts as to their nature and estimated financial impact

2. Accounting standards that have been issued but have not yet been adopted

The following accounting standards have been issued but not yet adopted:

- Amendments to *IAS1 - Presentation of Financial statements* issued in June 2011–this standard addresses presentation, there is no impact on the amounts included in the financial statements.
- Amendments to IFRS 7 – Financial Instruments: Disclosures (Offsetting financial assets and liabilities) issued in Dec 2011- The amendment to this standard would have no effect as the Executive has no financial assets and liabilities that would meet the recognition criteria for offset.
- Amendments to IAS 19 – *Employment benefits* issued in June 2011 – The impact of the amendments is shown in note 23.
- Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets issued December 2010 – The amendment to this standard has no effect as the Group has no material deferred tax assets.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Executive's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the reporting date.

Judgements

In the process of applying the Executive's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

Operating leases: the Executive has various commercial property leases to let out property units to third parties. The Executive has determined that, based on an evaluation of the lease terms and conditions, that it retains all the significant risks and rewards of ownership, and so accounts for the leases as operating leases.

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the period end, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below.

Property revaluation: the Executive carries certain assets at fair value. Periodically, external revaluations are used, and the last independent survey was carried out in March 2009. Between independent surveys, reviews are carried out by internal but qualified staff. Such valuations and any related estimates are subject to some sensitivity.

IT Asset Valuations and Depreciation: depreciated historical cost is used as a proxy for fair value due to the relatively short useful economic life of IT assets.

Pension benefits: the cost of defined benefit pension plans is determined using independent actuarial valuation, involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end, and determined jointly between the pension fund management and the actuaries.

Provision for Bad Debts: debts are provided for as follows:-

- 100%, for any debts over 12 months old
- Any debts where information indicates recoverability is in doubt.

Provisions: Provisions set out in note 19 are based on management's best estimate of the amount and timing of liabilities.

4. Amounts Reported for Resource Allocation Decisions (Segmental Reporting)

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the SERCOP. Decisions about resource allocation are taken by the Executive's Board of Directors on the basis of reports analysed across Directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. For budgeting and management purposes, the Executive is organised into business units based on the following reportable segments as shown on the following tables:

	Ferry and tourism services	Bus services	Rail services	Prepaid and concessionary travel	Others services	Total segments	Inter departmental charges, depreciation and pensions	Non distributed costs	Cost of services reported in CIES
Group Income 2013	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees charges and service income	7,720	9,111	19,174	26,528	27,880	**90,413**	(21,436)	-	**68,977**
Government grant income	-	-	89,202	-	-	**89,202**	-	-	**89,202**
Other grant income	700	-	-	-	-	**700**	-	-	**700**
Total income	8,420	9,111	108,376	26,528	27,880	**180,315**	(21,436)	-	**158,879**
Group Expenditure 2013									
Franchises and operators	-	24,683	87,837	77,695	-	**190,215**	-	-	**190,215**
Support services	1,077	3,435	9,898	4,133	35,713	**54,256**	(21,436)	-	**32,820**
Depreciation and impairment	-	-	-	-	-	**-**	5,787	-	**5,787**
Pension costs	-	-	-	-	-	**-**	3,168	2,528	**5,696**
Provisions								186	**186**
Other expenses	10,828	-	11,996	-	-	**22,824**	-	7,875	**30,699**
Total expenditure	11,905	28,118	109,731	81,828	35,713	**267,295**	(12,481)	10,589	**265,403**
Surplus/(deficit)	(3,485)	(19,007)	(1,355)	(55,300)	(7,833)	**(86,980)**	(8,955)	(10,589)	**(106,524)**

	Ferry and tourism services	Bus services	Rail services	Prepaid and concessionary travel	Other services	Total segments	Inter departmental charges, depreciation and pensions	Non distributed costs	Cost of services reported in CIES
Group Income 2012	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Fees charges and service income	7,691	10,104	18,227	23,520	31,853	**91,395**	(22,611)	-	**68,784**
Government grant income	-	-	92,275	-	-	**92,275**	-	-	**92,275**
Other grant income	700	-	-	-	-	**700**	-	-	**700**
Total income	8,391	10,104	110,502	23,520	31,853	**184,370**	(22,611)	-	**161,759**
Group Expenditure 2012									
Franchises and operators	-	24,134	90,935	75,780	-	**190,849**	-	-	**190,849**
Support services	1,318	3,569	7,463	3,556	42,616	**58,522**	(22,611)	-	**35,911**
Depreciation and impairment	-	-	-	-	-	**-**	6,128	-	**6,128**
Pension costs	-	-	-	-	-	**-**	4,887	2,536	**7,423**
Provisions								1,133	**1,133**
Other expenses	9,515	-	11,891	-	-	**21,406**	-	3,486	**24,892**
Total	10,833	27,703	110,289	79,336	42,616	**270,777**	(11,596)	7,155	**266,336**
Surplus/(deficit)	(2,442)	(17,599)	213	(55,816)	(10,763)	**(86,407)**	(11,015)	(7,155)	**(104,577)**

No operating segments have been aggregated in order to report reportable operating segments. Segment revenue, segment expense and segment result include cross charges between business segments that are eliminated on consolidation.

Employee costs are included in support services and other expenses are set out in note 9

4 **Amounts Reported for Resource Allocation Decisions (Segmental Reporting)** (continued)

The income and expenditure of the Executive's and the Group principal reporting segments for management for the year is as follows:

2011/12				2012/13			
Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's	Group Accounts	Gross Expenditure £000's	Gross Income £000's	Net Expenditure £000's	Note No
10,833	8,391	2,442	Mersey Ferries Group	11,905	8,420	3,485	
27,703	10,104	17,599	Bus Services	28,118	9,111	19,007	
110,289	110,502	(213)	Rail Services (including Rolling Stock)	109,731	108,376	1,355	
79,336	23,520	55,816	Prepaid and Concessionary Travel	81,828	26,528	55,300	
42,616	31,853	10,763	Other Services	35,713	27,880	7,833	
(22,611)	(22,611)	-	Interdepartmental Charges	(21,436)	(21,436)	-	
6,128	-	6,128	Depreciation & Impairment	5,787	-	5,787	
4,887	-	4,887	Pensions: Current service costs & curtailments*	3,168	-	3,168	
259,181	**161,759**	**97,422**	**Highways & Transport services**	**254,814**	**158,879**	**95,935**	
1,133	-	1,133	Transfers to provisions	186	-	186	
2,536	-	2,536	Pensions Special Contributions	2,528	-	2,528	23
3,486	-	3,486	Revenue expenditure treated as capital	7,875	-	7,875	11
7,155	**-**	**7,155**	**Non distributed costs**	**10,589**	**-**	**10,589**	
266,336	**161,759**	**104,577**	**Cost of services**	**265,403**	**158,879**	**106,524**	
10,798	9,835	963	Pensions: Net Interest and Return on Assets	10,436	9,031	1,405	23
7	3	4	Interest Payable/Receivable	-	-	-	
9	-	9	Taxation	8	-	8	8
10,814	**9,838**	**976**	**Financing & investment income**	**10,444**	**9,031**	**1,413**	
-	219	(219)	European Union Grants	-	262	(262)	
-	11,066	(11,066)	Other Income - Grants applied	-	8,900	(8,900)	
-	357	(357)	- Reserves	-	-	-	
-	101,934	(101,934)	Revenue Support Grant from MITA	-	100,863	(100,863)	
-	**113,576**	**(113,576)**	**Taxation & non specific grant income**	**-**	**110,025**	**(110,025)**	
277,150	**285,173**	**(8,023)**	**(Surplus)/Deficit on Provision of Services**	**275,847**	**277,935**	**(2,088)**	

*Included within the line Pensions: Current costs and Curtailments for 2011/12, is an exceptional item of £2.2m in respect of the transfer of staff from MITA to the Executive via TUPE regulations.

4 **Amounts Reported for Resource Allocation Decisions (Segmental Reporting)** (continued)

2011/12				2012/13			
Gross Expenditure £000's	**Gross Income £000's**	**Net Expenditure £000's**	**MPTE**	**Gross Expenditure £000's**	**Gross Income £000's**	**Net Expenditure £000's**	**Note No**
27,703	10,104	17,599	Bus Services	28,118	9,111	19,007	
98,398	98,611	(213)	Rail Services	97,735	96,380	1,355	
79,336	23,520	55,816	Concessionary Travel	81,828	26,528	55,300	
42,078	31,853	10,225	Other Services	35,443	27,879	7,564	
			Grants to:				
2,655	-	2,655	Mersey Ferries Ltd	3,779	-	3,779	
197	-	197	Mersey Passenger Transport Services Ltd	197	-	197	
(18,347)	(18,347)	-	Inter departmental charges	(16,100)	(16,100)	-	
5,881	-	5,881	Depreciation & Impairment	5,550	-	5,550	
4,887	-	4,887	Pensions: Current service costs & curtailments*	3,168	-	3,168	
242,788	**145,741**	**97,047**	**Highways & Transport Services**	**239,718**	**143,798**	**95,920**	
1,133	-	**1,133**	Transfers to provisions	186	-	186	
2,536	-	**2,536**	Pensions: Special contributions	2,528	-	2,528	23
3,486	-	**3,486**	Revenue expenditure treated as Capital	7,875	-	7,875	11
7,155	**-**	**7,155**	**Non distributed costs**	**10,589**	**-**	**10,589**	
249,943	**145,741**	**104,202**	**Cost of services**	**250,307**	**143,798**	**106,509**	
10,798	9,835	963	Pensions: Net Interest & Return on Assets	10,436	9,031	1,405	23
202	202	-	Interest Payable/Receivable	197	197	-	
9	-	9	Taxation	8	-	8	8
11,009	**10,037**	**972**	**Financing & investment income**	**10,641**	**9,228**	**1,413**	
-	219	(219)	European Union Grants	-	262	(262)	
-	11,066	(11,066)	Other Income - Grants applied	-	8,900	(8,900)	
-	101,934	(101,934)	Revenue Support Grant from MITA	-	100,863	(100,863)	
-	**113,219**	**(113,219)**	**Taxation & non specific grant income**	**-**	**110,025**	**(110,025)**	
260,952	**268,997**	**(8,045)**	**(Surplus)/Deficit on Provision of Services**	**260,948**	**263,051**	**(2,103)**	

*Included within the line Pensions: Current costs and Curtailments for 2011/12, is an exceptional item of £2.2m in respect of the transfer of staff from MITA to the Executive via TUPE regulations.

5. Surplus on the Provision of Services

(a) The surplus for the year has been stated after the following have been charged/(credited):

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Grant income:				
Rail services – Special Rail Grant	89,209	92,275	89,209	92,275
Revenue Grant	100,863	101,934	100,863	101,934
Capital grants	8,900	11,066	8,900	11,066
European grants	262	219	262	219
Depreciation of property, plant and equipment (including impairment)	5,560	5,661	5,560	5,686
Operating leases - minimum lease payments	12,193	12,088	-	-
Auditors' remuneration *	92	148	92	148
Pension costs	4,573	5,850	4,573	5,850

* This includes audit fees for the Executive's subsidiary companies.

(b) **Auditor's remuneration**

Audit fees for the Executive accounts, including grant audit work performed, are estimated to be £65k for 20121/13 (£120k 2011/12).

6. Staff costs and headcount

The number of persons employed by the Executive (expressed as whole time equivalents) as at 31 March was:

	Group		Executive	
	2013 No's	2012 No's	2013 No's	2012 No's
Analysis:- Operations	405	411	268	274
Catering/Retail	44	46	36	38
Management and administration	292	299	263	271
Total	**741**	**756**	**567**	**583**
The aggregate payroll cost for current employees was as follows:-				
Salaries and Wages	18,273	19,041	15,137	15,896
National Insurance	1,445	1,388	1,142	1,170
Superannuation *	1,967	1,882	1,683	1,671
Total	**21,685**	**22,311**	**17,962**	**18,737**

In 2011/12, approximately 200 Authority employees were transferred to the Executive for pension purposes as part of the Harmonisation agreement approved by both the Executive and the ITA. The costs of these staff, (excluding Toll Collection officers who are charged direct to Mersey Tunnels) together with any back pay due to them is included above.

* The Merseyside Pension Fund administers, on the Executive's behalf, a Superannuation scheme that provides for the cost of meeting the future pension liabilities of the Executive's workforce. The contribution rate is determined by the Fund's actuary based on triennial valuations.

6 **Staff costs and headcount** (continued)

The following table sets out the remuneration paid to the Executive's Heads of Service paid in excess of £50k per annum salary (excluding pension contributions). For completeness, all Heads of Service including those paid below £50k have been included. These Heads report to the Directors of Services, who are employed by Merseyside Integrated Transport Authority. Details of the Directors' remuneration are disclosed in that entity's financial statements.

Post Title	Year	Salary £	Allowances £	Compensation for loss of office £	Pension contributions £	Total remuneration £
Head of People & Customer Development	2013	49,660	1,239	-	5,760	56,659
	2012	48,027	1,234	-	5,571	54,832
Head of Corporate Strategy	2013	63,582	-	-	7,375	70,957
	2012	61,728	162		7,160	69,050
Head of Ferries	2013	79,262	2,239	-	9,310	90,811
	2012	76,945	2,239		9,042	88,226
*Head of Hub Development	2013	76,945	-	-	8,926	85,871
	2012	74,722	-	-	8,668	83,390
Rolling Stock Director	2013	64,212	811	-	7,449	72,472
	2012	-	-	-	-	-
**Head of Human Resources	2013	63,582	1,351	-	7,375	72,308
	2012	61,491	1,388	-	7,133	70,012
Head of Integrated Transport	2013	72,545	-	-	8,415	80,960
	2012	63,897		-	7,412	71,309
Head of Customer Delivery	2013	49,393	1,239	-	6,207	56,839
	2012	47,898	1,320	-	5,967	55,185
Head of Finance	2013	49,660	-	-	5,760	55,420
	2012	48,027	-	-	5,571	53,598
Head of Governance	2013	49,660	-	-	5,760	55,420
	2012	48,027	-	-	5,571	53,598
Head of Ticketing	2013	54,260	108	-	-	54,368
	2012	54,260	-	-	5,245	59,505
Head of ICT	2013	72,545	-	-	8,415	80,960
	2012	52,243	139	-	6,060	58,442
Senior Head of Service - Operations	2013	79,262	140	-	9,194	88,596
	2012	76,945	-	-	8,926	85,871
Head of Legal & Admin	2013	63,582	119	-	7,375	71,076
	2012	68,141	-	-	7,904	76,045

*Post holder is due to retire 31/5/13
**Post holder is due to retire 31/3/14

The Executive's employees, other than Heads of Service, receiving more than £50,000 remuneration for the year (excluding pension contributions) have been paid the following amounts:

	Group		Executive	
	2013	2012	2013	2012
£50,000 to £54,999	3	4	3	4
£55,000 to £59,999	7	4	7	4
£60,000 to £64,999	1	-	1	-
£70,000 to £74,999	-	1	-	-
£105,000 to £109,999	1	-	-	-

6 **Staff costs and headcount** (continued)

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

PTE Group Exit package cost band	Number of compulsory redundancies		Number of other agreed departures		Total number of exit packages		Total cost of exit packages in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
	No.	No.	No.	No.	No.	No.	£000	£000
£0 -£20,000	-	-	2	5	2	5	17	39
£20,001 - £40,000	-	-	5	2	5	2	153	47
£40,001 - £60,000	-	-	-	3	-	3	-	119
£60,001 -£80,000	-	-	-	-	-	-	-	0
£80,001 - £100,000	-	-	-	-	-	-	-	0
£100,001 - £150,000	-	-	1	-	1	-	115	0
Total	-	-	8	10	8	10	285	205

7. Finance Costs – Interest Payable

	Group		Executive	
	2013	2012	2013	2012
	£000's	£000's	£000's	£000's
On loan capital – other	-	7	-	-
On inter company loan (MITA)	-	-	197	202
On pension scheme	10,436	10,798	10,436	10,798
	10,436	10,805	10,633	11,000

Finance Income – Interest Receivable

	Group		Executive	
	2013	2012	2013	2012
	£000's	£000's	£000's	£000's
From short-term loans and deposits	1	2	-	-
On inter company loan (TBS)	-	-	197	202
On pension scheme	(9,031)	(9,835)	(9,031)	(9,835)
	(9,030)	(9,833)	(8,834)	(9,633)

8. Taxation

Corporation is tax chargeable on interest received and rental income in the year at a rate of 24% for 2012/13 and 26% for 2011/12.

Taxation in the consolidated income and expenditure statement represents taxation paid by the employer for certain employee benefits deemed by HMRC to be taxable, 2012/13 £8k (2011/12£9k).

9. Property, Plant and Equipment

An analysis of the movements within the gross and depreciated or impaired book value of property, plant and equipment by key category is contained in the tables below:

Group	Infrastructure Assets £000's	Freehold Property £000's	Leasehold Property £000's	Plant & Machinery £000's	Vessels £000's	Ancillary Vehicles £000's	Assets Under Construction £000's	Surplus Assets £000's	Total £000's
Cost or valuation:									
At 1 April 2011	72,948	2,100	835	20,876	9,358	26	9,799	680	116,622
Additions	492	-	21	5,019	455	-	3,831	195	10,013
Reclassifications	12,106	-	-	-	-	-	(12,106)	-	-
Disposals	-	-	-	(193)	-	-	-	-	(193)
Assets reclassified	-	(1,800)	-	-	-	-	-	(350)	(2,150)
At 31 March 2012	**85,546**	**300**	**856**	**25,702**	**9,813**	**26**	**1,524**	**525**	**124,292**
Additions	1,066	-	-	3,876	328	-	-	-	5,270
Reclassifications	631	-	-	-	-	-	(631)	-	-
Revaluation	-	-	-	-	-	-	-	19	19
Disposals	-	(300)	-	-	-	-	-	-	(300)
At 31 March 2013	**87,243**	**-**	**856**	**29,578**	**10,141**	**26**	**893**	**544**	**129,281**
Depreciation and impairment:									
At 1 April 2011	4,194	104	132	3,314	1,066	6	-	-	8,816
Depreciation	1,854	46	40	2,335	510	2	-	-	4,787
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	150	-	562	-	-	631	-	1,343
Disposals	-	-	-	(145)	-	-	-	-	(145)
At 31 March 2012	**6,048**	**300**	**172**	**6,066**	**1,576**	**8**	**631**	**-**	**14,801**
Depreciation	2,044	-	39	2,582	507	2	-	-	5,174
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	604	-	-	1,724	-	-	-	25	2,353
Reclassifications	631	-	-	-	-	-	(631)	-	-
Disposals	-	(300)	-	-	-	-	-	-	(300)
At 31 March 2013	**9,327**	**-**	**211**	**10,372**	**2,083**	**10**	**-**	**25**	**22,028**
Net Book Value:									
At 1 April 2011	68,754	1,996	703	17,562	8,292	20	9,799	680	107,806
At 31 March 2012	79,498	-	684	19,636	8,237	18	893	525	109,491
At 31 March 2013	**77,916**	**-**	**645**	**19,206**	**8,058**	**16**	**893**	**519**	**107,253**

The net book value of land and buildings as at 31 March 2013, all comprised long leasehold land and buildings.

Beatles Story memorabilia owned by Mersey Ferries Limited are included as plant and equipment because it is used in day to day operations. Patrick Bowen, an independent valuation expert, re-valued these assets in October 2012 and the valuation showed an impairment of £1.7m on the previously held value of £2.0m.

9 Property, Plant and Equipment(continued)

MPTE	Infrastructure Assets £000's	Freehold Property £000's	Plant & Machinery £000's	Vessels £000's	Ancillary Vehicles £000's	Assets Under Construction £000's	Surplus Assets £000's	Total £000's
Cost or valuation:								
At 1 April 2011	72,778	2,100	17,845	9,358	26	9,799	330	112,236
Additions	492	-	4,807	455	-	3,831	195	9,780
Transfers from Capital Projects	12,106	-	-	-	-	(12,106)	-	-
Assets reclassified to/from assets held for sale	-	(1,800)	-	-	-	-	-	(1,800)
At 31 March 2012	**85,376**	**300**	**22,652**	**9,813**	**26**	**1,524**	**525**	**120,216**
Additions	1,066	-	3,827	328	-	-	-	5,221
Reclassifications	631					(631)		-
Revaluation	-	-	-	-	-	-	19	19
Disposals	-	(300)	-	-	-	-	-	(300)
At 31 March 2013	**87,073**	**-**	**26,479**	**10,141**	**26**	**893**	**544**	**125,156**
Depreciation and impairment:								
At 1 April 2011	4,024	104	2,888	1,066	6	-	-	8,088
Depreciation	1,854	46	2,126	510	2	-	-	4,538
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	-	150	562	-	-	631	-	1,343
At 31 March 2012	**5,878**	**300**	**5,576**	**1,576**	**8**	**631**	**-**	**13,969**
Depreciation	2,044	-	2,388	507	2	-	-	4,941
Impairment losses recognised in the Surplus/Deficit on the Provision of Services	604	-	-	-	-	-	25	629
Reclassifications	631	-	-	-	-	(631)	-	-
Disposals	-	(300)	-	-	-	-	-	(300)
At 31 March 2013	**9,157**	**-**	**7,964**	**2,083**	**10**	**-**	**25**	**19,239**
Net Book Value:								
At 1 April 2011	68,754	1,996	14,957	8,292	20	9,799	330	104,148
At 31 March 2012	79,498	-	17,076	8,237	18	893	525	106,247
At 31 March 2013	**77,916**	**-**	**18,515**	**8,058**	**16**	**893**	**519**	**105,917**

The Directors have reviewed Property, Plant and Equipment for any indicators of impairmentand are not aware of any material change in the value of these assets.

Valuation of property, plant and equipment

The Executive carries out revaluations of all Property, Plant and Equipment required to be measured at fair value every five years. These revaluations exclude infrastructure assets that are required to be carried at depreciated historical cost. Valuations of land and buildings were carried out by the independent valuers from the District Valuers Office 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 latest valuation was carried out as at 31 March 2009 by Christopher Smith MRICS, J Kent Tech RICS and JF Russell MRICS, all of whom are with the District Valuer Service.

The majority of properties regarded by the Executive as operational were valued on the basis of depreciated replacement cost as market value could not be assessed. Plant and machinery is included in the valuation of the buildings.

The cumulative revaluation surplus held in the Executive's revaluation reserve at 31 March 2013 was £3,857k (2011/12 £5,360k).The Group position at 31 March 2013was £3,88k (2011/12 £5,385k).

9 Property, Plant and Equipment(continued)

Depreciation

Depreciation is calculated, from the month that an asset becomes operational, on all property plant and equipment with a finite useful life using the reducing balance method over the following asset lives, which were provided by the District Valuer as part of his asset valuation exercise:-

	Years
Infrastructure Assets	5-50
Leasehold Property	23
Plant & Machinery	2-16
Vessels	14-19
Ancillary Vehicles	8

10. Heritage Assets

Group	Statues £000's
At 1 April 2011	-
Reclassification	361
Revaluations	24
At 31 March 2013 and as at 31 March 2012	385

In October 2010, a subsidiary, The Beatles Story was gifted an 18 feet high monumental sculpture to celebrate the life of John Lennon. The statue is sited in front of Liverpool Echo arena offering unlimited public access. In 2012, the monument was valued for insurance purposes at a replacement cost of £385k by Patrick Bowen Fine Art Consultants. This gain on the valuation of £24k was taken to the revaluation reserve. No further valuations were undertaken in 2012/13.

11. Capital Projects

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.

	Group		Executive:	
	2012/13 £000's	2011/12 £000's	2012/13 £000's	2011/12 £000's
Capital Investment				
Property, plant and equipment	5,270	10,013	5,221	9,780
Revenue expenditure treated as capital *	7,875	3,486	7,875	3,486
	13,145	**13,499**	**13,096**	**13,266**
Sources of finance				
Grants receivable in year from ITA	(8,900)	(11,066)	(8,900)	(11,066)
Government grants and other contributions		(243)	-	-
Use of reserves	(4,196)	(2,195)	(4,196)	(2,195)
Use of capital receipts	-	(5)	-	(5)
Total funding	**(13,096)**	**(13,509)**	**(13,096)**	**(13,266)**

* Costs required by statute to be treated as capital but required by accounting standards to be written off principally comprising works carried out on land and buildings in which the Executive does not have an interest (e.g. signage and bus stops). This expenditure is included as other expenses in the segmental analysis in Note 4.

As at 31 March 2013 the Executive was contractually committed to further capital works which amounted to approximately £16.3m(2011/12£12.5m). Details are provided in Note 25.

12. Intangible assets

	Goodwill on Consolidation £000's	Licenses £000's	2012/13 Total £000's	Goodwill on Consolidation £000's	Licenses £000's	2011/12 Total £000's
Cost or valuation:						
Opening balance:						
Gross carrying amount	2,803	20	2,823	2,803	20	2,823
Accumulated amortisation	(1,108)	(17)	(1,125)	(1,108)	(13)	(1,121)
Opening net carrying amount	1,695	3	1,698	1,695	7	1,702
Amortisation and impairment:						
Amortisation	-	(3)	(3)	-	(4)	(4)
Net carrying amount at end of year	**1,695**	**-**	**1,695**	**1,695**	**3**	**1,698**
			-			-
Comprising:						
Gross carrying amount	2,803	20	2,823	2,803	20	2,823
Accumulated amortisation	(1,108)	(20)	(1,128)	(1,108)	(17)	(1,125)
	1,695	**-**	**1,695**	**1,695**	**3**	**1,698**

The Beatles Story Limited is amortising licences over the life of the licences.

Goodwill of £2.8m 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 Executive at which goodwill is monitored for internal management purposes.

The Executive carried out an annual impairment test of goodwill as at 31 March 2013. The recoverable amount of The Beatles Story is determined on a value in use basis using cash flow projections based on financial budgets approved by the board for the next 5 years. The discount rate applied to the cash flows is 6%. The growth rate used to extrapolate the cash flows beyond the 2015/16 year period is 3% (2011: 3%), which is consistent with expected growth rates over previous years in this business area. 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 2012/13.

13. Investments

Executive:

Executive	**Loans £000's**	**Investment in companies £000's**	**Total £000's**
At 1 April 2011	4,137	-	4,137
Additions	-	331	331
Repayments of capital	(112)	-	(112)
Impairments	-	(331)	(331)
At 31 March 2012	4,025	-	4,025
Repayments of capital	(117)	-	(117)
At 31 March 2013	3,908	-	3,908

Loans made by the PTE all relate to a loan to Mersey Ferries to acquire The Beatles Story.

13 **Investments** (continued)

The Executive's principal trading subsidiary undertakings and equity shareholdings in unlisted companies, all of which are incorporated in England, as at 31 March 2013 are shown in the table below.

Name	Immediate parent	Holding	Nature of the business	% equity interest 2013	% equity interest 2012
Mersey Ferries Ltd	Merseyside Passenger Transport Executive	Company limited by guarantee	Passenger Transport	N/A*	N/A*
Merseyside Passenger Transport Service Ltd	Merseyside Passenger Transport Executive	25 £1 Ord. Shares 375 £1 5% Non Cumulative Pref shares	Leasing	100	100
Real Time Information Group Limited	Merseyside Passenger Transport Executive	1 £1 Ord Shares	Real Time Information systems	100	100
Global Smart Media Ltd	Merseyside Passenger Transport Executive	17,648 - 10p Ord Shares	Smartcard	87.9	87.9
Accrington Technologies Ltd	Merseyside Passenger Transport Executive	500 £1 Ord Shares	Smartcard	50.1	50.1
Spaceport Ltd	Mersey Ferries Ltd	1 £1 Ord Shares	Tourism	100	100
U534 Ltd	Mersey Ferries Ltd	1 £1 Ord Shares	Tourism	100	100
The Beatles Story Ltd	Mersey Ferries Ltd	290,000 £1 Ord Shares	Tourism	100	100
Livesmart Ltd	Global Smart Media Ltd	196 £1 Ord Shares 2,020,728 £1 Pref Shares	Smartcard	100	100
Global Smart Media (IPR) Ltd	Livesmart	100 £1 OS	Smartcard	100	100

Livesmart ceased trading in January 2013. All remaining employees were made redundant and the PTE took control of the bank accounts and remaining creditors. The cost of supporting Livesmart during 2012/13 until the close of business amounting to £68k was a charge to the CIES.

Dormant companies

Merseytravel Ltd, Merseytravel Facilities Management Ltd, and Liverpool South Parkway Ltd are wholly owned subsidiaries that were all dormant in the year ended 31 March 2013.

Merseyside Rapid Transit Ltd and Merseytram 2005 Ltd were dissolved during the year ended 31 March 2012. Merseytravel Commercial Services Ltd was dissolved in the year ended 31 March 2013.

Group

Group accounts consolidate the results of all active subsidiaries.

The investment in the group balance sheet of £Nil (2012 - £1,295k) represents the Smart Transactions Group Limited (STG).The Group Investment is the estimated cost, less any impairment, of the Executive’s investment in 256,068 Ordinary £1 shares of Smart Transactions Group Ltd (11.52% of its equity), through its subsidiary GSM. As Smart Transactions Group has incurred losses in the last two years for which accounts are available, the investment is considered impaired and is carried at £Nil in the financial statements. The impairment charge of £1,295k has been included in the Group CIES.

14. Assets held for sale

	Group		Executive	
	2012	2012	2013	2012
	£000's	£000's	£000's	£000's
Balance outstanding at the start of the year	1,800	-	1,800	-
Assets newly classified as held for sale:				
Former MPTE Headquarters building	-	1,800	-	1,800
Assets sold	(1,800)	-	(1,800)	-
Balance outstanding at the year end	**-**	**1,800**	**-**	**1,800**

The Executive's former headquarters building at 24 Hatton Garden was reclassified as an asset held for sale in the year ended 31 March 2012. The sale of the building during 2012/13 generated a receipt of £1,800k, which was reduced by commission/insurance charges to £1,779k.

Profit on disposal of property, plant and equipment

The reported gain or loss on disposal is calculated as the net sales proceeds less the net carrying value of the assets comprising both the carrying value of the assets sold and any unamortised grant outstanding. For 31 March 2013, this was£21k loss relating to the sale of Hatton Garden.

15. Inventories

	Group		Executive	
	2013	2012	2013	2012
	£000's	£000's	£000's	£000's
Balance outstanding at the start of the year	564	484	42	38
Purchases Recognised as an expense in the year Written off in the year	(106)	80	(15)	4
Balance outstanding at the year end	458	564	27	42

16. Debtors

(a) Amounts falling due within one year:

	Group		Executive	
	2013	2012	2013	2012
	£000's	£000's	£000's	£000's
Central Government Bodies	2,341	1,861	2,322	1,789
Other Local Authorities	29,701	26,540	29,689	26,529
NHS bodies	83	30	83	30
Public Corporations and Trading Funds	-	148	-	148
Other entities and individuals	12,601	8,834	12,101	8,755
Total current trade and other receivables	**44,726**	**37,413**	**44,195**	**37,251**

"Other Local Authorities" includes £29,400k (2012 - £26,200k) provided to MPTE's parent MITA for investment on behalf of the PTE.

Trade receivables are non-interest bearing and are generally on terms of 30days or less. These are shown net of a provision for impairment. For details pertaining to related parties, see note24.

16 Debtors (continued)

At 31 March 2013, Group had trade receivables at a nominal value of £1,880k (2012: £1,559k). PTE trade receivables at 31 March 2013 were £1,611k (2012 £1,230k). Movements in the provision for impairment of receivables were as follows:

Bad debt provision	**Group**		**Executive**	
	2013	**2012**	**2013**	**2012**
	£000's	**£000's**	**£000's**	**£000's**
Opening provision	92	126	92	124
Charge for the year	8	6	2	7
Amounts written off	(49)	(40)	(49)	(39)
Closing provision	**51**	**92**	**45**	**92**

As at 31 March 2013, the group aged analysis of trade debtors was as follows:

	Total	**Neither overdue**	**Past due but not impaired**			
		nor impaired	**29-50 days**	**51-90 days**	**91-185 days**	**>186 days**
	£000	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
31st March 2012	1,466	934	145	337	26	24
31st March 2013	1,564	1,132	151	245	12	24

(b) Long-term Debtors

Loans	**Group**		**Executive**	
	2013	**2012**	**2013**	**2012**
	£000's	**£000's**	**£000's**	**£000's**
Rechargeable works	687	687	687	687
Loan to restaurant	131	148	131	148
Other loans	-	2	3,908	4,025
	818	837	4,726	4,860

The loan to restaurant is to the owners of the Pier Head's Matou Pan Restaurant to assist in the fit-out of the restaurant and is repayable over 10 years. Rechargeable works relate to costs recoverable for the construction of the bus station at Liverpool 1. A provision of £687k has been made, (note 19) should they become irrecoverable. Other loans relates to a loan to Mersey Ferries Limited, (previously classified as an investment on the balance sheet) for the acquisition of the Beatles Story. This is payable in equal instalments of principal and interest until 2032/33. Principal repayments in 2012/13 were £117k (2011/12 £111k).

17. Cash and cash equivalents

	Group		**Executive**	
	2013	**2012**	**2013**	**2012**
	£000's	**£000's**	**£000's**	**£000's**
Cash at bank and in hand	27,110	23,851	26,569	23,644

The Executive deposits surplus cash funds with the Merseyside Integrated Transport Authority, which in turn deposits these for periods between one day and twelve months depending on the immediate cash requirements of the Executive and MITA.MITA earns variable rates of interest, but none is due to MPTE.

18. Short term creditors

	Group		Executive	
	2013	2012	2013	2012
Creditors due within 1 year:	£000's	£000's	£000's	£000's
Central Government Bodies	4,093	1,870	4,001	1,726
Other Local Authorities	1,331	588	1,316	575
NHS Bodies	60	91	60	91
Other Entities and Individuals	18,597	15,757	17,694	13,562
	24,081	**18,306**	**23,071**	**15,954**

Trade payables are non-interest bearing and are generally on terms of 30days or less. The Executive aims to pay undisputed creditors within 30 days. Actual performance is as follows:

	Executive	
	2012/13	2011/12
Total number of invoices paid	18,154	17,880
Invoices paid within 30 days	17,453	17,253
Actual proportion paid within 30 days	96.1%	96.5%
Target	100%	100%

19. (a) Provisions

Provisions are established to meet liabilities or losses which are likely or certain to be incurred, but the amounts or timings are uncertain. Provisions during the year were as follows:

Group	Total	Contractual Obligations	Employment Related	Contracted Maintenance	Taxation
	£000's	£000's	£000's	£000's	£000's
At 1 April 2012 *	3,385	844	1,817	687	37
Arising during the year	703	79	374	250	-
Utilised during the year	(1,109)	(60)	(1,048)	-	(1)
Unused amounts reversed	(31)	-	-	-	(31)
At 31 March 2013	**2,948**	**863**	**1,143**	**937**	**5**
Analysed as:					
Due within one year	**239**	**55**	**134**	**45**	**5**
Due after more than one year	**2,709**	**808**	**1,009**	**892**	**-**

Executive	Total	Contractual Obligations	Employment Related	Contracted Maintenance
	£000's	£000's	£000's	£000's
At 1 April 2012	3,348	844	1,817	687
Arising during the year	674	50	374	250
Utilised during the year	(1,219)	(59)	(1,160)	-
At 31 March 2013	**2,803**	**835**	**1,031**	**937**
Analysed as:				
Due within one year	**184**	**5**	**134**	**45**
Due after more than one year	**2,619**	**830**	**897**	**892**

19 (a) Provisions (continued)

Significant provisions for both Group and Executive as at 31 March 2013were:

- Contractual obligations provisions relate to contingent obligations relating to the Merseytram project, together with Insurance claims;
- Employment related provisions are other employee related provisions regarding pensions and job evaluation claims;
- The Contracted Maintenance provision relates to works rechargeable to a third party that are disputed by that party, together with a new provision for dredging costs in front of the Pier Head landing stage; and
- Taxation provision relates to a tax liability in relation to The Beatles Story Ltd.

Management have estimated likely settlement dates and have analysed provisions based on this assessment as due within one year and due after more than one year.

(b) Contingent Liabilities

Commercial negotiations are in process relating to disputed costs. The information usually required by IAS 37 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of these negotiations.

20. Rail Franchise agreement

Under the franchise agreement in respect of Merseyrail Electrics (MEL), there is an agreement that surpluses above a certain threshold be shared between the franchisee and franchisor (MPTE). The PTE’s share for 2012/13 was £5.5m (2011/12 £4.6m). It was agreed that MPTE’s share is required to be discharged in the form of passenger improvements to the service. For 2012/13 costs of £2.2m (2011/12 £2.0m) and income of £5.5m (2011/12 £4.6m) have been included in PTE income and expenditure.

The balance as at 31 March 2013 is £8.2m(2012 £4.9m) is included in short term debtors and 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 the franchisee to determine the best use and maximum benefits to the travelling public for investing the remaining £8.2m.

21. Financial Instruments

Set out below is a comparison by class of the carrying amounts in the Balance Sheetof the Executive's financial assets and financial liabilities with their fair values:

Group	Carrying Amount 2013 £000's	Carrying Amount 2012 £000's	Fair Value 2013 £000's	Fair Value 2012 £000's
Financial Assets:				
Loans & Receivables				
Long-term loans & receivables	-	-	-	-
Long-term debtors	818	837	818	837
Current loans & receivables	34	40	34	40
Amounts deposited with MITA	29,400	26,200	29,400	26,200
Current Financial assets carried at contract amounts	11,442	7,934	11,442	7,934
	41,694	35,011	41,694	35,011
Unquoted equity investment at cost	-	1,295	-	1,295
	41,694	36,306	41,694	36,306
Financial Liabilities:				
Current trade payables	17,242	12,325	17,242	12,325
Interest bearing loans and borrowings measured at amortised cost:				
Fixed rate borrowings - due within one year	122	117	122	117
Fixed rate borrowings - due after one year	4,083	4,134	4,083	4,025
	21,447	16,576	21,447	16,467

Executive	Carrying Amount 2013 £000's	Carrying Amount 2012 £000's	Fair Value 2013 £000's	Fair Value 2012 £000's
Financial Assets:				
Loans & Receivables				
Long-Term loans & receivables	3,908	4,025	3,908	4,025
Long-Term debtors	818	837	818	837
Current loans & receivables	34	40	34	40
Amounts deposited with MITA	29,400	26,200	29,400	26,200
Current Financial assets carried at contract amounts	11,007	7,461	11,007	7,461
	45,167	38,563	45,167	38,563
Financial Liabilities:				
Current financial liabilities carried at contract costs	15,292	10,033	15,292	10,033
Current financial liability at amortised costs	122	117	122	117
Long term financial liability at amortised costs	3,786	3,908	3,786	3,908
	19,200	14,058	19,200	14,058

21 **Financial Instruments**(continued)

The amounts recognised in the Income and Expenditure Statement and Statement of Other Comprehensive Income can be summarised as follows:

	2013 £000's		2012 £000's	
Group & Executive	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables	Financial Liabilities measured at amortised cost	Financial Assets: Loans and Receivables
Interest expense	(197)	-	(202)	-
Impairment losses (Bad debts)	-	(51)	-	(93)
Total expense in Surplus of Deficit on the Provision of Services	(197)	(51)	(202)	(93)
Interest Income	-	197	-	202
Total income in Surplus or Deficit on the Provision of Services	-	197	-	202
Net gain/(loss) for the year	(197)	146	(202)	109

Fair Values of Assets and Liabilities

Financial liabilities and financial assets represented by loans and receivables and long term debtors and creditors are carried in the Statement of Financial Position at amortised cost.

For loans and borrowings, fair value is determined by calculating the Net Present Value of future cash flows, thus estimating the value of future payments in today's terms. The discount rate used is equal to the current rate for a similar loan from a comparable lender. This will be the market rate applicable on the date of valuation for a loan with the same outstanding period to maturity.

However, it may be unlikely that the future cash flows of a loan will fall in equal time periods from the date of valuation, so adjustments are made to each discount factor in order account for the timing inequality.

The purpose of the fair value disclosure is primarily to provide a comparison with the carrying value, which includes accrued interest as at the balance sheet date. Therefore accrued interest is included in the fair value calculation.

The discount rates used for the evaluation were obtained by MITA on behalf of MPTE from the Public Works Loan Board.

Assumptions used, which do not have a material effect on the fair value evaluation are:

- Interest is calculated using a 365 day basis
- Interest is paid on the maturity date
- No adjustment has been made to the interest value and date, where a relevant date occurs on a non-working day
- Estimated ranges of interest rates at 31 March 2013 of 4.33% to 7.41%
- No early repayment or impairment is recognised
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Long term receivables have been evaluated for collectability. There is a single counterparty to the long term debtor and the Executive's considers that the carrying amount is not impaired at 31 March 2013. Therefore the carrying value approximates fair value.

21 **Financial Instruments**(continued)

Risk Factors

The Executive's activities expose it to a variety of financial risks:-

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

The Executive's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Finance Directorate, under policies approved by the Executive in its treasury management strategy.

(a) Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Executive'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 amounted deposited in the highest rated categories. The Executive on lends surplus monies interest free to the ITA to make investments. These investments are governed by the ITA's Treasury Management policy.

The Executive's potential exposure to credit risk on the other financial assets is set out in note 16.

(b) Liquidity risk

As the Executive has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments. There is a future risk that the Executive 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 MITA amounting to £3,908k payable by instalments until 2032/33

(c) Market risk

Interest rate risk:The Executive 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 impact on the Statement of Income and Expenditureor Movement in Reserves Statement.

Price risk:The Executive 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:The Executive 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: The Executive holds no financial instruments that could be classified as hedging instruments.

22. Reserves

Useable Reserves

An analysis of closing useable reserves is as follows:

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Revenue Reserve	1,561	581	1,739	1,739
Earmarked Reserves	43,632	43,445	43,796	40,533
Total Useable Reserves	45,193	44,026	45,535	42,272

Earmarked Reserves

This note sets out the amounts set aside from reserves in earmarked reserves, to provide finance for future expenditure plans and the amounts posted back from earmarked reserves to meet expenditure in 2012/13. Earmarked reserves can be further analysed into:

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Operational	31,472	28,920	31,636	26,008
Development	12,160	14,525	12,160	14,525
Total Earmarked Reserves	43,632	43,445	43,796	40,533

Operational reserves are service related and have been created to support revenue spending for Bus/Rail operations. In addition there are also reserves created in relation to employee related issues. Development reserves are primarily "capital" related ones and exist to support MPTE's capital programme. The Government's decision to cut public sector spending has already put severe pressure on these budgets. It is expected that approximately £5.5m of these Development reserves will be required to support the capital programme in 2013/14.

Unusable Reserves

An analysis of closing unusable reserves is as follows:

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Pension Reserve	(68,644)	(58,073)	(68,644)	(58,073)
Revaluation Reserve	3,882	5,385	3,857	5,385
Deferred Capital Grants	102,260	102,887	102,260	102,887
Total Unusable Reserves	37,498	50,199	37,473	50,199

22 Reserves (continued)

Deferred capital grants

	Deferred Capital Grants £000's	Capital contributions /receipts £000's	Total £000's
Balance at 1 April 2012	102,887	346	103,233
Revaluation reserve depreciation charge	442	-	-
Grants received MITA	-	8,900	8,900
Grants Applied:			
Property plant and equipment	5,230	(5,230)	-
Deferred charges	-	(7,875)	(7,875)
Transfer from Capital reserves	-	4,196	4,196
Released to Revenue:-			
Disposal of PPE	(1,800)	1,779	(21)
Revaluation reserve adjustment	1,061	-	1,061
Depreciation/Impairment charge	(5,560)	-	(5,560)
Balance at 31 March 2013	102,260	2,116	103,934

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. The Executive 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 the Executive makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the resources the Authority has set aside to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Balance at 1 April	(58,073)	(45,579)	(58,073)	(45,579)
Actuarial gains/(losses) on pension assets / liabilities	(11,541)	(11,640)	(11,541)	(11,640)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(4,573)	(5,850)	(4,573)	(5,850)
Employers Pension Contributions and direct payments to pensioners in the year	5,543	4,996	5,543	4,996
Balance at 31 March	(68,644)	(58,073)	(68,644)	(58,073)

22 Reserves (continued)

Revaluation Reserve

The Revaluation reserve contains the gains made by the Executive arising from increases in the value of its Property, Plant and Equipment. 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
- Disposed of and the gains are realised.

The Group position shows an increase in the value of Heritage assets held by The Beatles Story.

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Balance at 1 April	5,385	5,912	5,360	5,912
Revaluation and impairment charges not charged to the surplus/deficit on the provision of services	(1,503)	25	(1,503)	-
Difference between fair value depreciation and historical cost depreciation	-	(552)	-	(552)
Balance at 31 March	3,882	5,385	3,857	5,360

Subsidiary Undertakings

For subsidiary undertakings, the aggregated amounts for capital and reserves, as at 31 March 2013, were as follows:-

Group	2013 £000's	2012 £000's
Spaceport Ltd	(810)	(623)
U-534 Ltd	198	143
The Beatles Story	164	(59)
Real Time Information Group	(29)	(28)
The Global Smart Media Group	(956)	(888)
	(1,433)	(1,455)

23. Pension Costs

As part of the terms and conditions of employment of its officers and other employees, the Executive offers retirement benefits. The Merseyside Pension Fund administers, on the Executive's behalf, a Local Government Superannuation Scheme that provides for the cost of meeting the future pension liabilities of the Executive's workforce. This is a funded defined benefit final salary scheme, meaning that the Executive and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets. The contribution rate is determined by the Fund's actuary based on triennial actuarial valuations, the last of which was carried out as at 31 March 2010.Under Pension Fund regulations contribution rates are set to meet the estimated overall liabilities of the Fund.

23 **Pension Costs** (continued)

Transactions relating to retirement benefits
The Executive paid an employer's contribution of £5.543m (2012 - £5.807m) to the Pension Fund, representing 16.3% (2012 – 16.3%) of pensionable pay.

The cost of retirement benefits in the net cost of services is recognised when the benefit is earned by an employee, rather than when the benefit is eventually paid as pension. The following transactions have been made in the Income and Expenditure Account and Pension Reserve during the year:-

(i) Income and Expenditure statement

	Group		Executive	
	2013	2012	2013	2012
	£000's	£000's	£000's	£000's
Income and Expenditure Statement:				
Net cost of services:				
Current service cost	3,168	2,565	3,168	2,565
Past service cost/(gain)	-	-	-	-
Settlements and Curtailments	-	2,322	-	2,322
Financing and Investment Income and Expenditure:				
Interest cost	10,436	10,798	10,436	10,798
Expected return on scheme assets	(9,031)	(9,835)	(9,031)	(9,835)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	4,573	5,850	4,573	5,850
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement:-				
Actuarial (gains) and losses	11,541	11,640	11,541	11,640
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	11,541	11,640	11,541	11,640
Movement in Reserves Statement:				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	(10,571)	(12,494)	(10,571)	(12,494)
Total Post Employment Benefits Charged in the year to the Movement in Reserves Statement	(10,571)	(12,494)	(10,571)	(12,494)
Summary of amounts charged to Reserves and Income and Expenditure Statement:				
Employer's contributions payable to the scheme	5,543	4,996	5,543	4,996
Retirement benefits payable to pensioners	10,588	10,179	10,588	10,179

IAS 19 – Employee Benefits has been revised but not yet adopted. The impact of revisions to IAS 19 – Employee benefits applicable to future periods would be that the charge to income and expenditure for current service costs would be £3,245k, the interest cost would be £2,709k, administrative expenses of £72k would be presented separately and re-measurements of assets and liabilities amounting to £10,088 would be charged to Other Comprehensive income instead of Actuarial gains and losses.

23 **Pension Costs** (continued)

(ii) Reconciliation of present value of the scheme's liabilities and assets

Liabilities	Group 2013 £000's	Group 2012 £000's	Executive 2013 £000's	Executive 2012 £000's
Benefit obligations at 1 April	216,127	188,002	216,127	188,002
Current service cost	3,168	2,565	3,168	2,565
Interest on pension liabilities	10,436	10,798	10,436	10,798
Member contributions	1,178	1,035	1,178	1,035
Actuarial (gains)/losses	22,967	5,777	22,967	5,777
Curtailments	-	90	-	90
Benefits/transfers paid	(10,588)	(10,179)	(10,588)	(10,179)
Business contributions	-	18,039	-	18,039
Benefit obligations at 31 March	243,288	216,127	243,288	216,127

Assets	Group 2013 £000's	Group 2012 £000's	Executive 2013 £000's	Executive 2012 £000's
Fair value of plan assets at 1 April	158,054	142,423	158,054	142,423
Expected return on plan assets	9,031	9,835	9,031	9,835
Actuarial gains/(losses)	11,426	(5,863)	11,426	(5,863)
Business combinations	-	15,807	-	15,807
Employer contributions	5,543	4,996	5,543	4,996
Member contributions	1,178	1,035	1,178	1,035
Benefits/transfers paid	(10,588)	(10,179)	(10,588)	(10,179)
Fair value of plan assets at 31 March	174,644	158,054	174,644	158,054

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields at the date of the Statement of Financial Position. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets for the Executive in the year was £20.5m (£3.97m for 2011/12)

The impact of revisions to IAS 19 – Employee benefits applicable to future periods:
Liabilities: current service costs would be £3,245k and interest on pension scheme liabilities would be £10,359k. Actuarial (gains)/losses would be described as re-measurements. There is no impact of the fair value of the plan liabilities.

Assets:“ Interest on plan assets” of £7,650 would be included instead of “Expected return on plan assets”. Actuarial gains/(losses) would be described as re-measurements and would amount to £12,879k. Administration expenses of £72k would be shown separately. There is no impact of the fair value of the plan assets.

23 **Pension Costs** (continued)

(iii) Scheme history

Executive & Group	2008/09	2009/10	2010/11	2011/12	2012/13
	£000's	£000's	£000's	£000's	£000's
Present value of scheme liabilities	(161,157)	(205,621)	(188,002)	(216,127)	(243,288)
Fair value of scheme assets	114,219	147,472	142,423	158,054	174,644
Surplus/deficit in the scheme	(46,938)	(58,149)	(45,579)	(58,073)	(68,644)

The statutory arrangements for funding the above deficits mean that the financial position of the Executive remains healthy (i.e. the deficit on the Merseyside Pension Scheme will be made good by increased contributions over the remaining working life of employees as assessed by the Scheme Actuary).

(iv) Pension costs 2013/14

The total contributions expected to be made to the Merseyside Pension Scheme by the Executive in the year to 31 March 2014 is:

	£'000
11.6% of Pensionable pay (£18.1m)	2,097
Expected Employer Contribution	1,553
Unfunded element re Added Years	816
	4,466

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis by Mercer Ltd, an independent firm of actuaries, using the projected unit method, which is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels. It is based on the latest full valuation of the scheme as at 31 March 2010. The principal assumptions used by the actuary were:

(i) Expected rate of return on assets in the scheme:

	Group and Executive			
	2012/13		2011/12	
	Expected Rate of Return on Assets %	Split of Assets between Investment Categories %	Expected Rate of Return on Assets %	Split of Assets between Investment Categories %
Equity investments	7.0	60.6	7.0	59.1
Government bonds	2.8	15.7	3.1	15.7
Other bonds	3.9	3.6	4.1	4.0
Property	5.7	8.3	6.0	9.3
Cash/liquidity	0.5	2.3	0.5	2.2
Other	6.8	9.5	*	9.7
	5.7	100.0		100

*Dependent on type of asset

23 **Pension Costs** (continued)

(ii) Other assumptions

	Group		Executive	
	2012/13	2011/12	2012/13	2011/12
Mortality assumptions:				
Longevity at 65 for current pensioners :				
Men (years)	21.8	21.5	21.8	21.5
Women (years)	24.7	24.2	24.7	24.2
Longevity at 65 for future pensioners :				
Men (years)	23.7	22.8	23.7	22.8
Women (years)	26.6	25.8	26.6	25.8
Rate of Inflation (CPI)	0.024	2.50%	2.40%	2.50%
Rate of increase in salaries	0.039	4.00%	3.90%	4.00%
Rate of increase in pensions	0.024	2.50%	2.40%	2.50%
Rate for discounting scheme/liabilities	0.042	4.90%	4.20%	4.90%
Take-up of option to convert annual pension into retirement lump sum	50% max	50% max	50% max	50% max
	50% 3/80	50% 3/80	50% 3/80	50% 3/80

History of gains and losses

Group	2008/09		2009/10		2010/11		2011/12		2012/13	
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on assets	(34,709)	(30.4)	30,537	20.7	(7,870)	(5.5)	(5,863)	(3.7)	11,426	6.5
Changes in demographic and financial assumptions used to estimate scheme liabilities	33,521	20.8	(41,142)	(20.0)	10,021	5.3	(5,777)	(2.7)	(22,967)	(9.4)
Total	(1,188)		(10,605)		2,151		(11,640)		(11,541)	
Discount Rate		0.7		5.2		(1.1)		(5.4)		(2.9)

Executive	2008/09		2009/10		2010/11		2011/12		2012/13	
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on assets	(34,709)	(30.4)	30,537	20.7	(7,870)	(5.5)	(5,863)	(3.7)	11,426	6.5
Changes in demographic and financial assumptions used to estimate scheme liabilities	33,521	20.8	(41,142)	(20.0)	10,021	5.3	(5,777)	(2.7)	(22,967)	(9.4)
Total	(1,188)		(10,605)		2,151		(11,640)		(11,541)	
Discount Rate		0.7		5.2		(1.1)		(5.4)		(2.9)

23 Pension Costs (continued)

The actuary has carried out average age of the membership investigations as part of the 2010actuarial valuation. Assumptions made in these figures are derived from the 2010valuation exercise.

Pensions – Cumulative Actuarial gains/losses

Cumulative actuarial losses at 31 March 2013 written off to the Comprehensive Income and Expenditure Account were £34,784k(31 March 2012 - £23,243k).

The Accounts and Audit Regulations 2006 (SI 2006 No 564) allows the Executive to charge the general fund with employers pension contributions with the remainder charged to the Pension Reserve.

24. Related party disclosures

The Group statements include the results of the MPTE and its subsidiaries -see Note13.

The Executive is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Executive or to be controlled or influenced by the Executive. As well as the group companies, the directors regard the following as related parties:

(a) Merseyside Integrated Transport Authority (MITA)

The Executive is required by statute to implement and administer transport policies determined by the Authority which means that the Authority is the executive's parent and ultimate controlling party. The Authority provided Revenue grants and Capital grants as set out in note 5. The Revenue Grant funded by ITA's levy on the 5 district councils in Merseyside to meet its own expenditure. The Executive's rail franchise payments and grants, used to improve bus services in rural areas where there would be no commercial bus service provision, are funded through the MITA which receives Special Rail Grants and Bus Grants from Central Government.

As explained in note 17, group banking arrangements with MITA are in place. At 31 March, the following balances were outstanding:

	2013 £000's	2012 £000's
Short term deposits with MITA	29,400	26,200

Balances receivable are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received. No impairment of receivables has occurred during the year.

(b) Directors and ITA members

Directors' emoluments and member allowances are met in full by the ITA. Directors have a dual role as chief officers of both the Executive and Authority. The Chief Executive/Director General and the Director of Resources are the only officers who hold statutory roles in both the Executive and the Authority. There were no other transactions with Directors and officers other than reimbursement of expenses.

(c) Directors of Subsidiary Companies

Certain Executive's directors are also directors to subsidiary companies, whose objectives the subsidiary companies are consistent with the objectives of the Executive. Remuneration made by the Executive for such roles is disclosed in note 6.

In the case of the active subsidiaries, four members of the Authority served on the Mersey ferries board at various times during 2012/13. Total payments made amounted to £10k

24 Related party disclosures (continued)

(d) Subsidiary Companies

The table below summarises the balances and transactions with subsidiary undertakings.

	2013 £000's	2012 £000's
Loans from Executive to:		
GSM	-	2,021
ATL	438	438
Mersey Ferries Limited	(56)	(1,673)
Merseyside Passenger Transport Services Limited	1,033	1,005
The Beatles Story	-	68
Revenue support grant from Executive to:		
Mersey Ferries Limited	3,779	2,655
Merseyside Passenger Transport Services Limited	197	197
Contribution to Beatles Story operational costs	49	136

(e) Merseyside Pension Fund

Transactions and balances with Merseyside Pension Fund are set in note 23. For 2012/13 the Executive paid an employer's contribution equivalent to 16.3% of pensionable pay along with a fixed contribution of £1.5minto the Merseyside Pension Fund (2011 £1.3m).Outstanding contributions payable at 31 March 2013 were £65k (2012: £65k).

(g) Bus & Rail Companies

Services procured under the Transport Act 1985 and the Railways Act 1993, along with payments for Merseytravel's concessionary and prepaid travel schemes, resulted in payments of £99.9m and £89.9m to rail and bus companies respectively in 2012/13 (£103m and £82m to rail and bus companies respectively in 2011/12).

Other than statutory requirements upon the Executive, there are no controlling influences by Bus and Rail Companies.

25. Commitments

Capital Commitments

As at 31 March 2013 the Executive was contractually committed to further capital works which amounted to approximately £10.2m (2012 -£12.5m). Major contracts included the following schemes:-

	Group 2013 £000's Budget	Executive 2013 £000's Budget	Group 2013 £000's Committed	Executive 2013 £000's Committed
Smartcard Development	984	984	984	984
Better Bus programme	3,867	3,867	-	-
Ferry Terminal/Vessel Improvements	1,112	1,112	1,112	1,112
Transport Planning	1,772	1,772	244	244
HQ Building Project	608	608	608	608
ICT	1,108	1,108	1,108	1,108
Wirral Park & Ride schemes	3,526	3,526	3,526	3,526
Other Schemes	3,369	3,369	2,619	2,619
Total Capital Commitments	16,346	16,346	10,201	10,201

Lease commitments

Total commitments payable under non-cancellable operating leases are as follows:

	Group		Executive	
	2013 £000's	2012 £000's	2013 £000's	2012 £000's
Operating leases commitments:				
Within 1 year	12,192	12,088	-	-
Within 2 to 5 years	12,165	23,782	-	-
Over 5 years	-	-	-	-

The Executives subsidiary company MPTS has two operating leases, one for the rental of Beetham Court for office accommodation and another for the operating rental of the Merseyrail Rolling Stock. The latter has a back to back lease with Merseyrail Electrics who fully reimburse the cost of this lease. In the unlikely event that Merseyrail Electrics default in its payment the Executive would guarantee the lease payments to the Lessor, Angel Trains, until a replacement franchise operator was appointed.

The Executive relocated its headquarters to Mann Island in March 2012, transferring the staff previously based at Beetham Court and Hatton Garden. The lease for Beetham Court expires in May 2013.

The lease with Angel Trains expires in March 2015. However, negotiations have commenced to extend this lease until new rolling stock becomes available or the existing fleet undergoes a major refurbishment. The lease costs in the above table reflects the existing position of expiry in March 2015.

The Executive has no assets held under finance leases.

25 **Commitments** (continued)

Lessor Commitments

The Executive holds several operating leases with external parties, leasing out various properties under operating leases for the provision of community services, operational reasons and income generation. These include interchange sites and ferry terminals in the Merseyside area. These leases have remaining terms of between 5 and 24 years.

Future minimum payments receivable under non-cancellable operating leases are:

	Group		Executive	
	2013	2012	2013	2012
	£000's	£000's	£000's	£000's
Operating leases which will expire:				
Within 1 year	413	394	39	23
Within 2 to 5 years	1,626	-	144	-
Over 5 years	3,295	1,970	111	113

Departure/Facility fees charged to bus operators for the use Executive bus stations are not included in the above table. For 2012/13 the Executive received £1,032k (2011/12 £1,077k) for these fees, which are included within Note 4 (Segmental reporting) "Other Services - fees, charges and service income".

26. Post balance sheet events

The Executive has considered events from the date of the Balance Sheet up to the time of the authorisation of the Statement of Accounts.

27. Cash flow

(a) Reconciliation of net cash flow to movement in net debt

	Group		Executive	
	2012/13	2011/12	2012/13	2011/12
	£000's	£000's	£000's	£000's
Increase/(decrease) in cash at 31 March	3,259	(224)	2,925	(110)
Cash used to manage liquid resources	-	5,400	-	5,400
Change in net Funds	3,259	5,176	2,925	5,290
Net funds brought forward at 1 April	23,851	18,675	23,644	18,354
Net funds carried forward at 31 March	27,110	23,851	26,569	23,644
Represented by:-				
Cash in hand (including Petty Cash)	27,110	23,851	26,569	23,644

27 **Cash flow** (continued)

(b) Analysis of the balances of cash and cash equivalents

2011/12			Group	2012/13		
Opening Balance £000's	Closing Balance £000's	Movement During Year £000's		Opening Balance £000's	Closing Balance £000's	Movement During Year £000's
18,643	23,822	5,179	Cash in hand	23,822	27,071	3,249
32	29	(3)	Petty Cash	29	39	10
18,675	23,851	5,176		23,851	27,110	3,259

2011/12			Executive	2012/13		
Opening Balance £000's	Closing Balance £000's	Movement During Year £000's		Opening Balance £000's	Closing Balance £000's	Movement During Year £000's
18,337	23,615	5,278	Cash in hand	23,615	26,550	2,935
17	29	12	Petty Cash	29	19	(10)
18,354	23,644	5,290		23,644	26,569	2,925

Glossary of Acronyms used in these Accounts

(M)ITA	(Merseyside) Integrated Transport Authority
(M)PTE	(Merseyside) Passenger Transport Executive
ATL	Accrington Technologies Ltd
CIES	Comprehensive Income & Expenditure statements
CIPFA	Chartered Institute of Public Finance Accountants
CODE	CIFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom
CPI	Consumer Prices Index
DfT	Department for Transport
GSM	Global Smart Media Ltd
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IT	Information Technology
ITSO	Integrated Transport Smartcard Organisation
LGPS	Local Government Pension scheme
LSTF	Local Sustainable Transport Fund
LTP	Local Transport Plan
MEL	Merseyrail Electrics Ltd
MFL	Mersey Ferries Ltd
MPTS	Merseyside Passenger Transport Services Ltd
MRP	Minimum Repayment of Principal
OTOF	One Team, One Family (Organisation Development Initiative)
PTEG	Passenger Transport Executives Group
PWLB	Public Works Loan Board
RPI	Retail Prices Index
SERCOP	Service Reporting Code of Practice
SNR	Serco Ned Rail
SOLACE	Society of Local Authority Chief Executives
TBS	The Beatles Story
TUPE	Transfer of Undertakings (Protection of Employment)
TWA	Transport and Works Act
VFM	Value For Money