WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

FINANCIAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

TABLE OF CONTENTS

NARRATIVE REPORT OF THE CLERK TO MEMBERS OF THE WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

The Authority present their report and financial statements for the twelve months ended 31 March 2016.

1. Activities

For the financial year ended 31 March 2016 the transport policies for the Metropolitan area have been determined by the West Midlands Integrated Transport Authority (ITA). The West Midlands Passenger Transport Executive (PTE) is the delivery body of the ITA responsible for implementing its policies and decisions and therefore responsible for improving, facilitating and securing the best possible passenger transport services, promoting public transport and ensuring that public transport services meet travel needs.

The ITA comprises the Leaders of each of the seven Metropolitan Authorities of the West Midlands and non-voting representatives from the three Local Enterprise Partnerships (LEPs) of the region.

The ITA is supported by a Members Committee, named the Transport Delivery Committee, acting under a scheme of delegation comprising councillors from the seven West Midlands Metropolitan Districts. It is responsible for ensuring that the PTE delivers the quality standards set by the ITA with regard to ensuring that passengers have the right bus, train and tram services to connect them to the places they need to get to including the use of new technology, Smart Ticketing, real time information and a comprehensive network of infrastructure including bus stations, shelters, stops, Travel Information Centres and a central Customer Services Centre.

On 17 June 2016 the West Midlands Combined Authority came into existence and is the umbrella organisation under which the ITA and PTE were combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA has ceased to exist and all of its functions, property, rights or liabilities have transferred to the Combined Authority as outlined in Note 24, Events after the Balance Sheet Date. Where reconfigurations of this nature take place within the public sector, Government accounting requires that the activities concerned are to be considered as continuing operations, and therefore these accounts have been prepared on a “going concern” basis.

The Combined Authority comprises of the seven existing Metropolitan Authorities as constituent members, together with six adjoining local authorities and three LEPs as non-constituent members. All will work together to move further the devolution agenda, across geographical boundaries and sectors. Work is underway to establish a robust governance framework to deliver the coordinated decision making needed for modern economic governance.

2. Review of the Year

The ITA is directly supported by the Policy and Strategy team who have produced a new Strategic Transport Plan which aligns with the LEPs Strategic Economic Plans, to connect people and places and support economic growth and jobs.

Work on the "Movement for Growth" Strategic Transport Plan includes the development of a 10-year Delivery Plan, a Transport Emissions Framework and an updated Freight Strategy.

In relation to High Speed Two (HS2), the ITA worked collaboratively with LEPs and authorities on the HS2 growth strategy and local connectivity programmes for HS2 infrastructure schemes and in addition assisted the region in developing the West Midlands Devolution deal.

"Midlands Connect" was also developed collaboratively, securing £5m government funding to develop a strategic transport strategy for the Midlands by March 2017.

West Midlands Rail devolution collaborative working arrangements with regional partners and the Department for Transport (DfT) continued to be developed to secure greater control over specification and management of local rail services. In addition, a West Midlands Bus Alliance was agreed to deliver bus policy objectives and unlock £125m of future bus vehicle infrastructure investment. West Midlands standards were also developed and agreed for progression of Sprint-Bus Rapid Transit.

Other work continued around business case developments for strategic transport schemes, policy development for Intelligent Mobility and cycling and walking, along with engagement, communications and advocacy activity throughout the year.

Successful funding bids included securing £40m from the DfT Highway Maintenance Challenge Fund to help invest in urgent road repairs across the Metropolitan area and £0.9m EU "Connecting Europe Facility" towards the development of the optimum transport solution for connectivity between HS2 Interchange, Birmingham Airport and the regional transport network.

3. Achieving Value for Money

The ITA has continued to drive efficiencies and to deliver the maximum value with the available funding. Due to the current economic climate, the transport levy has been reduced by 5% per year for the past three years. During the year a further review was undertaken to ensure that the ITA and the PTE could continue to deliver the ITA policies within the reduced funding levels. A robust monitoring framework measures our performance and gauges how we are doing against the Strategic Transport Plan vision of an effective, sustainable transport system supporting economic development. Measures include successful scheme delivery on time and to budget, patronage, transport operator performance and service quality, customer satisfaction and sustainability and environmental impacts. The ITA regularly monitors both revenue and capital expenditure progress against the approved Business Plan and performance delivery to ensure that costs are being driven down, and opportunities for efficiencies are being taken.

4. Explanation of the Statements

The Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The Statement of Accounts includes:

Comprehensive Income and Expenditure Statement
This statement shows the accounting cost of providing services in the year, according to the Code. An adjustment is required to be made between the accounting basis and the funding basis due to specified statutory provisions for the ITA to meet future capital and revenue expenditure, further details of which are shown in the Movement in Reserves Statement. The loss for the year under the funding basis is £0.051m (2015: surplus £0.153m).

Movement in Reserves Statement
This statement shows the movement of the different reserves in the year. These are analysed between 'usable reserves' (those that can be applied to fund expenditure) and 'unusable reserves' (those allocated for specific purposes). The majority of the unusable reserves is the capital adjustment account which relates to the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

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

Cashflow Statement
The Cashflow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the ITA generates and uses cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

5. Financial Results

The financial results of the ITA for the period are detailed in the financial statements on pages 20 to 37 of this report. These show a contribution from reserves of £0.051m. The Balance Sheet shows significant cash deposits as a result of grants received in advance, and total net liabilities of £191.2m funded primarily by the capital adjustment account and £1.6m in usable reserves.

The Finance, Delivery & Performance Monitoring Committee monitors the actual results compared to budget on a regular basis during the year. This has shown that the combined ITA and PTE has delivered a contribution to reserves of £1.023m compared to a budgeted contribution of £nil. Full details of this income and expenditure can be found in the Finance, Delivery & Performance Monitoring Committee reports which are available on Centro's website (www.centro.org.uk).

6. Financial Risk Management

Given the financial outlook in the public sector, financial risks have been reviewed and where necessary mitigations put in place. The ITA believes that its reserves are sufficient for the organisation given the financial outlook in the public sector. Details of financial risk management are shown in note 21 to the financial statements.

7. Borrowing facilities and sources of funds

The ITA levies an annual charge on the seven Metropolitan Authorities and also receives DfT funding to support the capital programme. This is then passed to either the PTE or district partners as appropriate.

Any borrowing required to meet the capital programme being delivered by the PTE is undertaken by the ITA.

8. Corporate Governance

The Annual Governance Statement can be found on pages 8 to 15.

9. Officers

The following held office in the ITA during 2015/16:

Keith Ireland - Clerk to the West Midlands Integrated Transport Authority
James Aspinall - Treasurer to the West Midlands Integrated Transport Authority

10. Members

Members of the ITA are local elected councillors that are appointed by their districts onto the ITA.

11. Auditors

Grant Thornton (UK) LLP are the auditors of the ITA for 2015/16. Their appointment was made under part 2 of the Audit Commission Act 1998.

On behalf of the West Midlands Integrated Transport Authority

Keith Ireland
Clerk to the West Midlands Combined Authority
(formerly Clerk to the West Midlands Integrated Transport Authority)
Date: 28 July 2016

STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The authority is required to:

(i) 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. These responsibilities are discharged through the Treasurer to the authority which during 2015/16 was James Aspinall.

(ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) Approve the Statement of Accounts.

(iv) Provide policy and guidelines for passenger transport in the West Midlands.

2. The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code.

In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

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

3. Certification of the accounts

I certify that this Statement of Accounts give a true and fair view of the financial position of West Midlands Integrated Transport Authority at the reporting date and of its income and expenditure for the year ended 31 March 2016.

James Aspinall
Director of Corporate Services, West Midlands Combined Authority
(formerly Treasurer to the West Midlands Integrated Transport Authority)
Date: 28 July 2016

4. Approval of the accounts

I certify that the Statement of Accounts covering the period 1 April 2015 to 31 March 2016 has been approved by a resolution of the West Midlands Combined Authority Board Committee on 22 July 2016.

Councillor Roger Lawrence
Member of the West Midlands Combined Authority
(formerly Chairman of the West Midlands Integrated Transport Authority)
Date: 28 July 2016

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

This Annual Governance Statement reflects the close relationship between West Midlands Integrated Transport Authority (ITA) and West Midlands Passenger Transport Executive (PTE).

The ITA is made up of the seven Leaders of the Metropolitan Authorities and takes responsibility for the strategic direction for transport ensuring that it complements the economic and social strategies of the Metropolitan region. The Members Transport Delivery Committee has delegated responsibility to scrutinise the delivery functions of the PTE, with members appointed directly by the districts. The Transport Delivery Committee reports to the ITA and has its own committee.

Both the ITA and the PTE are responsible for ensuring that business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The ITA also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the members of the ITA are responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of functions, and for the management of risk. This includes responsibility, assurance and scrutiny of the PTE and its delivery.

The corporate governance arrangements are consistent with the principles of the CIPFA/SOLACE Framework Delivering *Good Governance in Local Government*. The financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

This statement explains how the ITA has complied with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code and also meets the requirements of regulation 4[2] of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values which underpin the ITA and the PTE and control their activities through which they account to, engage with and lead the community. It enables the monitoring of the achievement of the ITA’s strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the ITA's policies, aims and objectives and the PTE's delivery of the same to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The annual independent audit of the key systems of internal control carried out during the year concluded an adequate level of assurance with no key findings or recommendations requiring management action.

A Governance framework has been in place for the year ended 31 March 2016 and up to the transfer to the West Midlands Combined Authority including the continued existence of a Corporate Governance Officers Group to consider and act upon issues related to governance across the ITA and the PTE and to provide advice to the members and directors respectively as required.

The Assurance Framework

The framework of assurance in place needs to satisfy an organisation that the risks to delivery of its objectives and the risks inherent in undertaking its work have been properly identified and are being managed by controls that are adequately designed and effective in operation. This will typically comprise a variety of sources and not only the work of Internal Audit. Internal Audit can be seen as the 'third line of defence' with the first line being policies, procedures and controls and the second being managers' own checks of the control environment. Internal Audit does however provide an independent source of assurance on all internal controls and works alongside the other assurance roles contained within the Assurance team including gateway assurance, governance services, risk management, business continuity and business improvement.

Internal Audit is able to indicate whether key controls are adequately designed and effectively operated, regardless of the sources of assurance. This role includes responsibility for both assessing the assurance available from other sources and for implementing a plan of internal audit work to obtain the required assurance.

Internal Audit and other assurance reports are presented to the Audit Risk and Governance Committee, which is responsible for assessing the quality of the assurance available and concerns itself with the adequacy and effectiveness of the internal control environment as assessed.

The Chief Audit Executive has provided an end of year report to the Audit Risk and Governance committee on their opinion of the overall adequacy and effectiveness of the control environment and includes reference to the assurance made available by other areas as well as Internal Audit.

The opinion for 2015/16 is summarised below:

The Internal Audit Charter, sets out the range of assurance activity in place. This includes:

- the appointment of a Chief Audit Executive
- the role of Internal Auditor
- access of the Chief Audit Executive and Internal Auditor to the Chair of the Audit Risk and Governance Committee

- the development and delivery of an audit plan
- the issue of a formal audit report at the end of each audit
- the follow up of audit recommendations and reporting of progress
- maintenance of relations with external audit
- maintenance of performance indicators
- maintenance and submission of the National Fraud survey
- independent investigation of theft, fraud and unexplained financial losses in line with associated policies and procedures
- monitoring of projects using PTE's gateway process to ensure projects and programmes are delivered to time and to budget
- facilitation of lessons learned on all projects
- review of business practices to ensure best practice ways of working
- risk management arrangements across all areas of the business and reporting of corporate risks
- monitoring and reporting to Management Boards, Executive and the Audit Risk and Governance Committee against delivery of the Annual Plan

Collaborative working arrangements have now been put in place with the Sandwell/Wolverhampton Internal Audit teams to provide Internal Audit services to the ITA and the PTE. A contract has been agreed with City of Wolverhampton Council to take effect from April 2016. Sandwell/Wolverhampton have undertaken internal audits on behalf of the ITA and the PTE in this last reporting period.

On the basis of all assurance work undertaken during the year, the Chief Audit Executive considers that the ITA and PTE's control environment is adequate.

The programme assurance arrangements have also been strengthened further with a consistent approach to project/programme governance and arrangements being embedded. There is now a clear separation of assurance and approvals in the project/programme management environment. Roles, responsibilities and accountabilities for different stakeholders and boards have also been clarified. A Senior Responsible Owner (SRO) has been appointed to lead each programme. The SRO has ultimate accountability for delivering the programme objectives, with each SRO being a member of the PTE Executive team.

A Corporate Assurance team was formed as part of the organisational review in October 2015. The remit of the Corporate Assurance team includes:

i. Programme Assurance
ii. Corporate Risk
iii. Business Continuity
iv. Insurance
v. Internal Audit

The National Audit Office defines assurance as 'an independent assessment of whether the required elements to deliver projects/programmes are successfully in place and operating effectively.' Assurance should help increase the chance of delivering the required programme outcomes.

To support the strengthening of the programme assurance arrangements, the team has developed a Corporate Assurance Plan 2016/17 which was approved by Audit, Risk & Governance Committee in March 2016. The plan includes a schedule of project and programme assurance reviews for all the new programmes that will be independently undertaken by the Corporate Assurance team on behalf of the PTE Executive Board. This will support the Board in their decision making role by seeing an independent holistic view of all programme activity. A monthly corporate assurance report is produced by the Corporate Assurance Manager for the PTE Executive Board.

The Governance Framework

The ITA and the PTE have finalised a Code of Corporate Governance. The code is built upon the six core principles identified in the CIPFA/SOLACE (2007) guidance. The code provides a framework against which to progress and review the governance arrangements.

The way in which each of the six core principles of good governance is put into practice is set out below:

1. 'Aims to Focus on the Purpose of the Authority and on Outcomes for the Community to Create and Implement a Vision for the Local Area'

The ITA and the PTE's vision is to provide a "*world class public transport system delivered by a best in class organisation*". This is achieved through annually reviewed business priorities which complement the regional Local Transport Plan (LTP) and the strategic policies and aims of the ITA. The LTP3 is a five year joint strategy between the seven West Midlands Metropolitan Authorities to deliver their shared transport objectives.

An Annual Business Plan has been developed corporately and on a team by team basis, which is the first stage of the delivery of the longer term 'Strategic Transport Plan'. It sets a vision in which the needs and expectations of customers and partners are paramount.

2. 'Ensures that Roles and Responsibilities of Members and Officers are Clearly Stated'

The ITA and the PTE's approved committee structures, procedure rules, financial regulations and a member and officer relations protocol are brought together in a single Constitution. The Constitution sets out how the ITA and the PTE operate, how decisions are made and the procedures that are to be followed to ensure these are efficient, transparent and accountable to the local community. Contract Rules to ensure appropriate and authorised execution of agreements are contained within the Constitution along with clear and detailed Financial Regulations that govern delegated levels of authority and spend, captured within a robust procure to pay system set up to reflect the constitutional arrangements.

The Constitution is reviewed annually by the Corporate Governance Officers Group and where necessary changes approved by the ITA. It is currently in the process of being further updated following continued improvements to the management boards and the inception of the programme boards mentioned above.

3. 'Promoting Values for the Authority and Demonstrating the Values of Good Governance through Upholding High Standards of Conduct and Behaviour'

Core values have been adopted and these drive the overarching behaviour of all individuals. The core values are:

Excellence - To be the very best and add value to everything we do
Behaviours:

- We lead by example
- We communicate
- We continuously improve through innovation and challenge
- We externally benchmark our progress
- We look for ways to drive out waste

Professionalism - We are committed to earning the trust and respect of our customers, partners and colleagues by acting with integrity in all that we do
Behaviours:

- We are honest and open
- We deliver our promises
- We take responsibility for our own actions
- We set the standard
- We work collaboratively to maximise everyone's contribution

Customer Focused - We are passionate about meeting the needs and expectations of our customers and partners to deliver the best possible customer experience
Behaviours:

- We identify and understand what is important to our customers
- We use our skills and share our expertise to continually improve the customer experience
- We put ourselves in our customers' place
- We are responsive and flexible to our customers' requirements
- We maximise the use of our resources for our customers and the environment

Outcome Driven - We are clear about what we will achieve and will deliver it
Behaviours:

- We openly and honestly communicate our outcomes and our progress towards them
- We take ownership for our outcomes
- We take responsibility for our contribution
- We have a 'can do' attitude
- We act quickly, positively and decisively

Our People Matter - We are understood and valued
Behaviours:

- We care about and treat each other with dignity and respect
- We embrace our differences and recognise and reward everybody's contribution to our success
- We create a positive environment to work in
- We encourage each other to reach our full potential and be the best we can
- We are proud of what we do

In addition a Code of Conduct is in place for all employees and the management reporting structure ensures that everyone is aware of these values and the importance of maintaining high standards.

4. 'Taking Informed and Transparent Decisions which are Subject to Effective Scrutiny and Managing Risk'

The PTE has a management committee and individual delegations structure that provides clear accountability for decision making and reporting. This ensures that decisions are made at the appropriate level, with the relevant information and in the necessary timeframes.

The monthly reporting ensures that the Executive Committee has overall oversight of these decisions and ensures that they comply with relevant legislation by having dedicated systems and policies in place, including specific identification and management of corporate risks.

5. 'Developing the Capacity and Capability of Officers to be Effective'

The PTE regularly assess the skills required by employees and make a commitment to develop those skills to enable roles to be carried out effectively, including a comprehensive assessment programme that identifies existing knowledge and skills gaps.

This is then used to put in place arrangements to develop the skills and performance of employees through their individual Performance Development Plans.

6. 'Engaging with Local People and Other Stakeholders to Ensure Robust Public Accountability'

The ITA and the PTE seek to ensure through the Business Plan, the Annual Governance Statement and the Annual Accounts that it is clear to the community and stakeholders, what they are accountable for and to whom and that the arrangements for engaging with the community are effective.

Review of Effectiveness and Governance Issues

The good governance principles require arrangements for reviewing their effectiveness. The way governance is reviewed is set out below. These comprise a mixture of review as part of everyday business activity, as well as periodic reviews:

- The Executive Committee meets monthly, receiving regular reports from three management boards incorporating financial and operational summaries and key performance indicators.

- The Audit Risk and Governance Committee meets quarterly to review the annual audit plan and receives individual reports to provide an independent opinion on the level of assurance that can be placed upon the internal control environment, and to make recommendations as appropriate. Of the 17 recommendations made by Internal Audit to the Audit, Risk and Governance Committee during the year, five have been completed and eight are in the process of being implemented.

- Service delivery is monitored throughout the year. An Annual Business Plan is produced that sets out the overall goals, priorities and delivery plans. Progress against each priority is reviewed by one of three management boards formed of officers from various disciplines and including Executive Board level membership. The three management boards are:

  - Continuous Improvement Management Board
  - Smart Travel Management Board
  - Passenger Focus Management Board

- These boards report monthly to the Executive Committee. An annual report is published on the activities, achievements, financial position and performance. This is reported to the ITA and the PTE via the appropriate committee.

- In addition to the three management boards, the Corporate Governance Officers Group (which includes Executive Board-level membership) meets as required to have oversight of all governance-related matters and developments as required to supplement the work of Continuous Improvement Management Board.

- The Finance, Delivery & Performance Monitoring Committee monitors financial performance throughout each year against the forecasts made. The PTE's Director of Business Support Services and relevant officers are in attendance at these meetings to present the reports and answer questions from members.

To supplement the management boards which monitor business performance, four new programme boards have also been established. The programme boards have been established to manage the performance of projects contained within each programme. The programme boards are:

- Metro Development
- Business Transformation
- Smart Mobility
- Connected to Growth

All programme boards have been set up with agreed standardised terms of reference to ensure that they operate consistently, and each board is led by a member of the Executive team.

To further strengthen governance, "assurance" and "approvals" activity have been separated. Executive Board are accountable for investment approvals, the programme boards monitor the performance of the projects within their programme and provide assurance. Each programme board reports to the Executive Board on a monthly basis and a separate corporate assurance report is sent to the Executive Board by the Corporate Assurance Manager.

Conclusion

In undertaking the review of internal control and the governance framework, the ITA is satisfied the systems of internal control that facilitate the effective exercise of its functions are in place and that all issues raised through the Audit, Risk and Governance Committee have been appropriately addressed and action taken.

On behalf of the West Midlands Integrated Transport Authority

Keith Ireland
Clerk to the West Midlands Combined Authority
(formerly Clerk to the Authority)
Date: 28 July 2016

Councillor Roger Lawrence
Member of the West Midlands Combined Authority
(formerly Chairman of the West Midlands Integrated Transport Authority)
Date: 28 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS COMBINED AUTHORITY IN RESPECT OF WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

We have audited the financial statements of West Midlands Integrated Transport Authority for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Balance Sheet, the Group Balance Sheet, the Cashflow Statement, the Group Cashflow Statement, and the related notes. 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 2015/16.

This report is made solely to the members of the West Midlands Combined Authority in respect of West Midlands Integrated Transport Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of West Midlands Combined Authority, in respect of West Midlands Integrated Transport Authority, those matters we are required to state to them in an auditor's report in respect of West Midlands Integrated Transport Authority and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than West Midlands Integrated Transport Authority and the members of West Midlands Combined Authority, in respect of West Midlands Integrated Transport Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of Responsibilities - The Treasurer's Responsibilities, the Treasurer 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements of West Midlands Integrated Transport Authority 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 West Midlands Integrated Transport Authority's and its group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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:

- present a true and fair view of the financial position of West Midlands Integrated Transport Authority and Group as at 31 March 2016 and of West Midlands Integrated Transport Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Emphasis of matter – Basis of Preparation

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the basis of preparation of the financial statements. As explained in Note 1 West Midlands Integrated Transport Authority ceased to exist and all of its functions, property, rights or liabilities transferred to the West Midlands Combined Authority on 17 June 2016. The Treasurer is of the opinion that the transfer of services has not impacted on the valuation of the balances as at 31 March 2016 in the financial statements, and in these circumstances the Treasurer in respect of West Midlands Integrated Transport Authority, is required by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 to prepare financial statements on a going concern basis.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or

- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on West Midlands Integrated Transport Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of West Midlands Integrated Transport Authority and auditor

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

We are required under Section 20(1)(c) of the Act to be satisfied that West Midlands Integrated Transport Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of West Midlands Integrated Transport Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of West Midlands Integrated Transport Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether West Midlands Integrated Transport Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects West Midlands Integrated Transport Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects West Midlands Integrated Transport Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of West Midlands Integrated Transport Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2016. As the West Midlands Integrated Transport Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Act and the Code.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for West Midlands Integrated Transport Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the West Midlands Integrated Transport Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Grant B Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

28 July 2016

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (the Local Authority Code of Practice). The West Midlands Integrated Transport Authority (ITA) pays revenue and capital grants to the West Midlands Passenger Transport Executive (PTE) to cover revenue as well as capital expenditure.

2014/15					2015/16		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Highways and transport services				
1,320	(12)	1,308	Operational expenditure	4	1,751	(117)	1,634
37,192	-	37,192	Infrastructure - capital grants	5	24,310	-	24,310
38,512	**(12)**	**38,500**	**Cost of services**		**26,061**	**(117)**	**25,944**
116,546	-	116,546	Other operating expenditure	6	112,701	-	112,701
9,635	(269)	9,366	Financing and investment income and expenditure	7	9,871	(303)	9,568
-	(138,700)	(138,700)	Non-specific grant income	8	-	(136,400)	(136,400)
65,440	(65,440)	-	DfTgrant income and expenditure	9	53,642	(53,642)	-
230,133	**(204,421)**	**25,712**	**Deficit/(surplus) on provision of services**		**202,275**	**(190,462)**	**11,813**
		(26,010)	Adjustments between accounting basis and funding basis*				(11,617)
		145	Transfer to/(from) earmarked reserve				(145)
		(153)	**Deficit/(surplus) for the year under funding basis**				**51**

* Adjustments between accounting basis and funding basis are adjustments that are made to the total comprehensive income and expenditure recognised by the ITA in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the ITA to meet future capital and revenue expenditure. These are detailed in the Movement in Reserves Statement (page 21).

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the ITA, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic costs of providing the ITA's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the general fund balance for levy setting shown in the line "Increase/decrease in year".

		Usable reserves			Unusable reserves	
	Notes	General fund balance £'000	Earmarked reserve £'000	Total usable reserves £'000	Capital adjustment account £'000	Total reserves £'000
Balance at 31 March 2014		**1,525**	**-**	**1,525**	**(155,222)**	**(153,697)**
Movements in reserves during 2014/15						
Deficit on provision of services		(25,712)	-	(25,712)	-	(25,712)
Total comprehensive income and expenditure for the year		(25,712)	-	(25,712)	-	(25,712)
Adjustments between accounting basis and funding basis under regulations						
Capital grant paid to PTE	5	37,192	-	37,192	(37,192)	-
DfT grants received	9	(65,440)	-	(65,440)	65,440	-
DfT grants paid	9	65,440	-	65,440	(65,440)	-
Minimum revenue provision (MRP)	19	(7,738)	-	(7,738)	7,738	-
Debt repayment (Transferred debt)	16	(470)	-	(470)	470	-
Capital expenditure charged to the general fund	5	(2,974)	-	(2,974)	2,974	-
Total adjustments between accounting basis and funding basis under regulations		26,010	-	26,010	(26,010)	-
Net increase/(decrease) before transfers to earmarked reserves		**298**	**-**	**298**	**(26,010)**	**(25,712)**
Transfer to earmarked reserve		(145)	145	-	-	-
(Decrease)/increase in year		**153**	**145**	**298**	**(26,010)**	**(25,712)**
Balance at 31 March 2015		**1,678**	**145**	**1,823**	**(181,232)**	**(179,409)**
Movements in reserves during 2015/16						
Deficit on provision of services		(11,813)	-	(11,813)	-	(11,813)
Total comprehensive income and expenditure for the year		(11,813)	-	(11,813)	-	(11,813)
Adjustments between accounting basis and funding basis under regulations						
Capital grant paid to PTE	5	24,310	-	24,310	(24,310)	-
DfT grants received	9	(53,642)	-	(53,642)	53,642	-
DfT grants paid	9	53,642	-	53,642	(53,642)	-
Revenue grants unapplied	18	(4,563)	4,563	-	-	-
Minimum revenue provision (MRP)	19	(7,156)	-	(7,156)	7,156	-
Debt repayment (Transferred debt)	16	(517)	-	(517)	517	-
Capital expenditure charged to the general fund	5	(457)	-	(457)	457	-
Total adjustments between accounting basis and funding basis under regulations		11,617	4,563	16,180	(16,180)	-
Net increase/(decrease) before transfers to earmarked reserves		**(196)**	**4,563**	**4,367**	**(16,180)**	**(11,813)**
Transfer from earmarked reserve		145	(145)	-	-	-
(Decrease)/increase in year		**(51)**	**4,418**	**4,367**	**(16,180)**	**(11,813)**
Balance at 31 March 2016		**1,627**	**4,563**	**6,190**	**(197,412)**	**(191,222)**

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the ITA. The net liabilities of the ITA (assets less liabilities) are matched by the reserves held by the ITA. Reserves are reported in two categories – usable and unusable. Usable reserves are those that the ITA may use 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 ITA is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences.

31 March 2015 £'000		Notes	31 March 2016 £'000
108	Short-term debtors	10	75
10,000	Short-term investments	11	-
24,878	Cash and cash equivalents	12	24,969
34,986	**Current assets**		25,044
(3,701)	Short-term creditors	13	(5,477)
(2,668)	PWLB	14	(7,672)
(109)	Other loans	15	(109)
(517)	Dudley MBC	16	(569)
(35,322)	Amounts payable to PTE	17	(35,381)
(42,317)	**Current liabilities**		(49,208)
(7,331)	**Net current liabilities**		**(24,164)**
(153,010)	PWLB	14	(147,719)
(10,000)	Other loans	15	(10,000)
(9,068)	Dudley MBC	16	(8,499)
-	Capital grants received in advance	9	(840)
(172,078)	**Long term liabilities**		(167,058)
(179,409)	**Net liabilities**		**(191,222)**
1,678	General fund balance	18	1,627
145	Earmarked reserve	18	4,563
1,823	**Usable reserves**		6,190
(181,232)	Capital adjustment account	18	(197,412)
(181,232)	**Unusable reserves**		(197,412)
(179,409)	**Total reserves**		**(191,222)**

These financial statements replace the unaudited financial statements certified by Linda Horne on 26 May 2016. They were approved for issue by the West Midlands Combined Authority Board Committee on 22 July 2016. Events after the Balance Sheet date have been considered up to the date of approval.

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

CASHFLOW STATEMENT

The Cashflow Statement shows the changes in cash and cash equivalents of the ITA during the reporting period. The statement shows how the ITA 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 ITA are funded by way of long-term borrowing. Investing activities represent the extent to which cash outflows have been made for resources which are held on behalf of the PTE's future service delivery.

31 March 2015 £'000	31 March 2015 £'000		31 March 2016 £'000	31 March 2016 £'000
	(25,712)	**Net (deficit)/surplus on the provision of services**		**(11,813)**
		Adjustments to net surplus or deficit on the provision of services for non-cash movements and non revenue uses		
37,192		Capital grant paid to PTE	24,310	
9,366		Net interest payable	9,568	
		Working capital adjustments:		
(29)		(Increase)/decrease in debtors	33	
(21,267)		(Decrease)/increase in amounts due to PTE	59	
3,327		Increase in short-term creditors	1,776	
	28,589			35,746
(9,470)		Interest paid	(9,878)	
269		Interest received	303	
	(9,201)			(9,575)
	(6,324)	**Net cash flows from operating activities**		**14,358**
		Investing activities		
	(10,000)	(Increase)/decrease in short-term investments		10,000
	(10,000)	**Net cash flows from investing activities**		**10,000**
		Financing activities		
	20,000	New loans		-
	(152)	Repayment of loans		(280)
	(470)	Repayment of principal		(517)
	(65,440)	DfT grant paid		(53,642)
	65,440	DfT grant received		54,482
	(37,192)	Capital grant paid to PTE		(24,310)
	(17,814)	**Net cash flows from financing activities**		**(24,267)**
	(34,138)	**Net (decrease)/increase in cash and cash equivalents**		**91**
	59,016	Cash and cash equivalent 1 April		24,878
	24,878	**Cash and cash equivalents at 31 March** (note 12)		**24,969**

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements have been prepared in accordance with the Accounts and Audit Regulations 2015. Proper practices are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2015/16 Financial Statements are prepared in accordance with the Code.

Income and expenditure is accounted for on an accruals basis (recognised in the period to which they relate) rather than when cash payments are made or received.

On 17 June 2016 the West Midlands Combined Authority came into existence and is the umbrella organisation under which the ITA and the PTE were combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA has ceased to exist and all of its functions, property, rights or liabilities have transferred to the Combined Authority. Where reconfigurations of this nature take place within the public sector, Government accounting requires that the activities concerned are to be considered as continuing operations, and therefore these accounts have been prepared on a "going concern" basis.

2. Significant accounting policies

a) Consolidation

The PTE accounts are not incorporated into the ITA accounts. However, a Group Financial Report is produced which consolidates the accounts of the ITA with the accounts of the PTE (see Appendix 1).

b) Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Irrecoverable VAT on the purchase of assets or services is recognised as an expense in the comprehensive income and expenditure statement.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to the taxation authority is included as part of receivables or payables in the Balance Sheet.

c) ITA levy

Levy income due from the districts is recognised on an accruals basis. It is passed on to the PTE as a revenue grant as and when required for cash flow purposes.

d) Grant income

DfT grants are accounted for on a cash basis and recognised immediately in the Comprehensive Income and Expenditure Statement. The ITA then passes the funding to the PTE or district partners to fund capital programmes.

e) Capital development schemes

The ITA meets the cost of upgrading transport facilities within the seven West Midlands Metropolitan Authorities, via the PTE's capital programme as part of its policy of improving and co-ordinating public transport within the area. These costs are included in Infrastructure as part of the capital grant paid to the PTE.

f) Financial assets

The ITA's financial assets include trade debtors, short-term investments and cash and cash equivalents. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Deposits with original maturities of over three months are classified as short-term investments. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For the purpose of the cash flow statement, bank overdrafts that are repayable on demand and form an integral part of the ITA's cash management are included as a component of cash and cash equivalents.

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

g) Financial liabilities

Financial liabilities include loans and borrowings and trade creditors.

Financial liabilities are recognised initially at cost. Subsequent to initial recognition loans and borrowings are measured at amortised cost using the effective interest method. Trade creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Comprehensive Income and Expenditure Statement in the period in which it is recognised.

h) Impairment

Financial assets (including receivables)

The ITA's financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

i) Contingent liabilities

A contingent liability arises where an event has taken place that gives the ITA 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 ITA. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements in conformity with the Code requires the ITA to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Judgements
In applying the accounting policies set out in note 2, the ITA has had to make certain judgements about complex transactions or those involving uncertainty about future events. The ITA does not consider that there are any complex transactions that are not covered by the accounting policies outlined in note 2, that required any judgements and hence disclosure.

Estimates and assumptions
The financial statements contain no estimated figures that are based on assumptions made by the ITA about the future or that are otherwise uncertain.

4. Operational expenditure

31 March 2015 £'000		31 March 2016 £'000
	Corporate and democratic core	
102	Members - basic allowances	83
95	Members - special responsibility allowances	68
31	Members - other costs	19
216	Democratic services	195
444		365
	Policy, strategy and programmes	
876	Services for Policy and Strategy Unit	844
-	Midlands Connect programme	542
876		1,386
1,320	**Gross expenditure**	1,751
(12)	Recharge to ITA Pension Fund	(12)
-	Midlands Connect contributions	(105)
(12)	**Gross income**	(117)
1,308	**Net expenditure**	**1,634**

During the year, the ITA secured DfT funding of £5m (note 8) for the Midlands Connect programme to develop a strategy for transforming transport connectivity across the region in order to drive economic growth. Programme costs of £0.542m were incurred during the year.

Charges relating to work undertaken by the external auditors

31 March 2015 £'000		31 March 2016 £'000
18	Other services	-
20	Annual statutory audit	20
38	**Total expenditure**	**20**

Chief Officer's salaries
During the year, the ITA paid £8,964 allowances and pension contributions to the Treasurer (2015: £11,791).

5. Infrastructure – capital grants

During the year, capital grants of £24.310m (2015: £37.192m) were made to the PTE in respect of the capital programme and these were financed as follows:

31 March 2015 £'000		31 March 2016 £'000
37,192	**Total capital grant**	**24,310**
	Financed by:	
7,738	Use of MRP	7,156
20,000	Borrowing	-
6,480	Use of short term cash balances	16,697
2,974	Capital expenditure charged to general fund	457
37,192		**24,310**

This capital grant is partly funded by reserves and available short-term cash balances which will eventually need to be replenished by approved borrowing.

6. Amounts reported for resource allocation decisions

The net revenue budget for the year was £131.400m and the outturn was £131.451m as shown below:

31 March 2015 £000		31 March 2016 £000
138,700	Levy on Metropolitan District Councils	131,400
138,700	**Total revenue funding**	**131,400**
116,546	Grant to Executive	112,701
1,308	Administration, Policy and Strategy Unit and programme costs	1,634
-	Midland Connect grant utilised	(437)
17,843	Capital financing charges	17,544
(269)	Investment income	(303)
2,974	Revenue contribution to capital	457
145	Transfer to/(from) earmarked reserve	(145)
138,547	**Total revenue expenditure**	**131,451**
153	ITA comprehensive income and expenditure	(51)
919	PTE comprehensive income and expenditure	1,074
1,072	**Total comprehensive income and expenditure**	**1,023**

The ITA's expenditure includes a grant to the PTE, which funds a significant part of PTE's overall revenue programme.

7. Financing and investment income and expenditure

The expenditure on interest and other charges during the year was as follows:

31 March 2015 £'000		31 March 2016 £'000
	Gross expenditure	
8,989	External interest on borrowing	9,264
646	External interest on transferred debt	607
9,635		9,871
	Gross income	
-	Heritable Bank	(161)
(269)	Investment interest received	(142)
(269)		(303)
9,366	**Net expenditure**	**9,568**

*A deposit of £4m was placed with the Heritable Bank which subsequently went into administration on 8th October 2008. The balance owing as at that date was £4.052m including interest accrued. Total income received to date at 31 March 2016 was £3.971m.

8. ITA levy and non-specific grant income

The ITA exercises control over the PTE in that it sets the policies which the PTE then implements. The ITA receives levy payments from the seven West Midlands Districts which they are required to make following an ITA resolution under the Transport Levying Bodies Regulations 1992.

31 March 2015 £'000		31 March 2016 £'000
	Levy on District Councils	
54,492	Birmingham City Council	51,563
16,223	Coventry City Council	15,569
15,743	Dudley MBC	14,842
15,629	Sandwell MBC	14,837
10,411	Solihull MBC	9,861
13,602	Walsall MBC	12,850
12,600	Wolverhampton City Council	11,878
138,700		**131,400**
	Revenue grants	
-	DfT - Midlands Connect programme	5,000
-		**5,000**
138,700		**136,400**

9. DfT grant income and expenditure

All DfT grant funding is awarded to the ITA as the statutory authorised body. The ITA then passes the funding to the PTE or District partners to fund capital programmes.

2014/2015				2015/2016		
DfT grants paid £'000	DfT grants received £'000	Net Income £'000		DfT grants paid £'000	DfT grants received £'000	Net Income £'000
			Major scheme funding:			
4,510	(4,510)	-	Birmingham Metro Extension	-	-	-
			Minor scheme funding:			
5,000	(5,000)	-	Bilston Road Track Replacement	-	-	-
208	(208)	-	ITSO Smartcard - New Street Rail	410	(410)	-
-	-	-	Local Sustainable Transport Fund	4,741	(4,741)	-
1,880	(1,880)	-	Local Pinch Point Fund	-	-	-
1,792	(1,792)	-	Bus Service Operator Grant	1,792	(1,792)	-
404	(404)	-	Clean Vehicle Technology Fund	486	(486)	-
13,794	(13,794)	-		7,429	(7,429)	-
37,395	(37,395)	-	Integrated transport block	17,617	(17,617)	-
14,251	(14,251)	-	Highways capital maintenance	16,296	(16,296)	-
-	-	-	Highways maintenance - challenge fund	12,300	(13,140)	(840)
65,440	(65,440)	-		53,642	(54,482)	(840)
-	-	-	Transfer to capital grants received in advance	-	840	840
65,440	**(65,440)**	**-**	**Total**	**53,642**	**(53,642)**	**-**

The analysis of DfT grants paid to the PTE and Districts is shown below:

2015/16 movements	Integrated transport block £'000	Highways capital maintenance £'000	Challenge fund/other £'000	Total £'000
Districts				
Birmingham City Council	5,159	-	65	5,224
Coventry City Council	1,558	2,765	350	4,673
Dudley MBC	1,485	3,036	3,795	8,316
Sandwell MBC	1,484	3,209	2,502	7,195
Solihull MBC	987	2,620	3,022	6,629
Walsall MBC	1,286	2,415	1,725	5,426
Wolverhampton City Council	1,188	2,251	841	4,280
	13,147	16,296	12,300	41,743
Executive	4,470	-	7,429	11,899
Total	**17,617**	**16,296**	**19,729**	**53,642**

2014/15 comparatives	Integrated transport block £'000	Highways capital maintenance £'000	Other £'000	Total £'000
Districts				
Birmingham City Council	8,714	-	-	8,714
Coventry City Council	2,594	2,806	-	5,400
Dudley MBC	2,518	2,432	-	4,950
Sandwell MBC	2,499	3,080	-	5,579
Solihull MBC	1,665	2,267	-	3,932
Walsall MBC	2,175	1,822	-	3,997
Wolverhampton City Council	2,015	1,771	-	3,786
	22,180	14,178	-	36,358
Executive	15,215	73	13,794	29,082
Total	**37,395**	**14,251**	**13,794**	**65,440**

10. Short-term debtors

31 March 2015 £'000		31 March 2016 £'000
58	Trade debtors and accrued income	24
50	Other debtors	51
108	**Total**	**75**
	Analysed between the following classes of debtors:	
50	Central government bodies	51
58	Other entities and individuals	24
108	**Total**	**75**

11. Short-term investments

Short-term surplus funds are invested temporarily on the money market, and are used to provide working capital on a day-to-day basis. These funds are placed with financial institutions that are on the ITA's counterparty list, based on selected criteria as set out in the ITA's Treasury Management Strategy.

31 March 2015 £'000		31 March 2016 £'000
10,000	Short-term deposits (original maturity over three months)	-
10,000	**Total**	**-**

12. Cash and cash equivalents

31 March 2015 £'000		31 March 2016 £'000
378	Cash balances held at bank	169
24,500	Short-term deposits (original maturity three months or less)	24,800
24,878	**Total**	**24,969**

13. Short-term creditors

31 March 2015 £'000		31 March 2016 £'000
551	Trade creditors	3,977
3,150	DfT grant due to 3rd parties	1,500
3,701	**Total**	**5,477**
	Analysed between the following classes of creditors:	
-	Other local authorities	3,162
3,701	Other entities and individuals	2,315
3,701	**Total**	**5,477**

Items included within trade creditors are amounts due to local authorities for grant claim returns and accruals for operational expenditure and interest.

14. Public Works Loan Board (PWLB)

The ITA adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the ITA did not undertake any short-term borrowing. The amount of fixed rate debt is 100% (2015: 100%) with no variable rate debt (2015: nil).

International Financial Reporting Standard 13 Fair Values (IFRS 13) was adopted by CIPFA/LASSAC into the 2015/16 Code. IFRS 13 replaces the various definitions of "fair value" in earlier accounting standards with a uniform one that applies whenever other standards permit or require fair values to be disclosed. Fair value is now defined as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date.

The IFRS 13 fair value calculated by the ITA's treasury management advisors for all PWLB loans as at 31 March 2016 is £208.246m (2015: £214.746m). The valuation method used is to discount contractual (or expected) cash flows at the market rate for local authority loans of the same remaining term.

In November 2012 the PWLB introduced the certainty new loan rate (CNLR), allowing authorities to borrow at a reduction of 20 base points (bps) on the standard PWLB rate. The ITA applied for the certainty rate and was acknowledged by PWLB as being on their approved list of authorities who could access the preferential rates.

The table below gives a maturity profile of the PWLB loans:

31 March 2015 £'000		**31 March 2016 £'000**
280	**Repayable within 1 year**	5,291
	Repayable after more than one year	
5,327	Between 1 and 2 years	5,303
33,912	Between 3 and 5 years	33,985
6,842	Between 6 and 10 years	1,915
27,955	Between 11 and 20 years	28,151
9,572	Between 21 and 30 years	9,080
36,818	Between 31 and 40 years	36,881
32,584	Over 41 years	32,404
153,010		147,719
153,290	**Total PWLB loans**	**153,010**

Loan interest that is accrued for the year of £2.381m (2015: £2.388m) and the principal to be repaid in 2016/17 of £5.291m (2015: £0.280m) are shown in current liabilities. The remaining principal is included within long-term liabilities.

15. Other loans

During 2005/06 the ITA entered into a £10.0m LOBO ("Lenders Option Borrowers Option") loan with Barclays Bank Plc at 4.03% repayable in 2055/56.

The bank has the option to raise the interest rate on the debt; however they have not exercised their option to date. If they do exercise their option, the ITA also has the option to repay the debt in full without any financial penalties. There is no certainty that the bank will exercise its option and increase the interest rate on the debt and there is no certainty that the ITA will take the opportunity at that time to repay the debt.

The fair value of this loan (calculated by the ITA's treasury management advisors) as at 31 March 2016 is £14.550m (2015: £14.602m), compared to the carrying value of £10.109m (principal and accrued interest). The valuation method used is to discount contractual (or expected) cash flows at the market rate for local authority loans of the same remaining term and add the value of the lenders option from a market option pricing model.

16. Transferred debt (Dudley MBC)

The loans were inherited from the former West Midlands County Council and are managed by Dudley MBC on behalf of all the West Midlands authorities. When the County Council was disbanded, the loans were nominally distributed amongst the various local government authorities in the West Midlands with the ITA's share of the loan set at 5.495%.
The table below shows the nominal (carrying value) of the debt compared to the fair value.

Nominal Value 31 March 2015 £'000	Fair Value 31 March 2015 £'000		Nominal Value 31 March 2016 £'000	Fair value 31 March 2016 £'000
10,000	13,004	Market debt	10,000	12,484
162,577	198,089	PWLB	151,705	182,933
6,783	8,284	Stock	6,784	7,888
179,360	219,377		168,489	203,305
(4,922)	(4,922)	Other balances	(3,468)	(3,468)
174,438	**214,455**	**Total value of debt**	**165,021**	**199,837**
9,585	11,784	WMITA share of fund as at 31st March	9,068	10,981
5.495%	5.495%	Percentage of overall debt	5.495%	5.495%

The loan is repayable in annual instalments with the last instalment due in 2025/26. The principal repayable within the next 12 months of £0.569m (2015: £0.517m) is shown within short-term creditors; the remaining principal is included within long-term liabilities.

17. Amounts payable to PTE

The ITA undertakes the treasury management function for both the ITA and the PTE. Due to timings of major cash flows the ITA holds and invests cash balances and transfers cash to the PTE as required.

18. Reserves

Movements in the ITA's reserves are detailed in the Movement in Reserves Statement on page 21. The purpose of individual reserves is as follows:

General fund balance
The general fund balance is a statutory fund into which all the receipts of the ITA are required to be paid and out of which all liabilities of the Authority to be met, except where statutory overrides apply, which cover adjustments between accounting basis and funding basis. These represent funds available to the ITA to meet unexpected short-term requirements.

Capital adjustment account
The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is reduced by the MRP, repayment of debt (principal/transferred) and any contributions to meet capital expenditure (revenue contribution) and is offset by the capital grant provided to meet capital expenditure.

Earmarked reserve
This represents unapplied grant income from the DfT for the Midlands Connect programme.

19. Minimum revenue provision (MRP)

During the year, £7.156m (2015: £7.738m) was charged to revenue in compliance with the statutory requirement to set aside MRP for the repayment of external loans.

The ITA is required to provide for the repayment of long-term capital programme borrowing through a revenue charge (MRP).

Capital Finance Regulations require the approval of an MRP Statement setting out the ITA's approach. The approved MRP statement for the year is:-

- “For capital expenditure incurred before 1st April 2009 or which in future will be financed by supported borrowing, the ITA will follow previous practice, with MRP broadly based as being 4% of the underlying Capital Financing Requirement.

- From 1st April 2009 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated life of the asset or a depreciation calculation.”

MRP will commence in the financial year after the asset has become operational.

The approved MRP statement has been amended to state that the MRP will be calculated at 2% of the underlying Capital Financing Requirement for capital expenditure incurred before 1st April 2009. This takes into effect from 2016/17.

20. Financial instruments

The following categories of financial instrument are carried in the Balance Sheet:

31 March 2015					31 March 2016			
Carrying amount			Fair value		Carrying amount			Fair value
Current £'000	Long-term £'000	Total £'000	£'000		Current £'000	Long-term £'000	Total £'000	£'000
				Financial instruments				
				Financial assets: Loans and receivables				
58	-	58	58	Trade debtors (note 10)	24	-	24	24
10,000	-	10,000	10,000	Short-term investments (note 11)	-	-	-	-
24,878	-	24,878	24,878	Cash and cash equivalents (note 12)	24,969	-	24,969	24,969
				Non-financial instruments				
50	-	50	50	Other debtors	51	-	51	51
34,986	**-**	**34,986**	**34,986**	**Total financial assets**	**25,044**	**-**	**25,044**	**25,044**
				Financial instruments				
				Financial liabilities at amortised cost				
3,701	-	3,701	3,701	Short-term creditors (note 13)	5,477	-	5,477	5,477
				Borrowings				
2,668	153,010	155,678	214,746	PWLB (note14)	7,672	147,719	155,391	208,246
109	10,000	10,109	14,602	Other loans (note 15)	109	10,000	10,109	14,550
517	9,068	9,585	11,784	Dudley MBC (note 16)	569	8,499	9,068	10,981
35,322	-	35,322	35,322	Amounts payable to PTE (note 17)	35,381	-	35,381	35,381
				Non-financial instruments				
-	-	-	-	Capital grants received in advance	-	840	840	840
42,317	**172,078**	**214,395**	**280,155**	**Total financial liabilities**	**49,208**	**167,058**	**216,266**	**275,475**

Trade debtors, short-term investments, cash and cash equivalents and short-term creditors approximate to their carrying amounts due to the short-term nature of these instruments. The valuation methodology for borrowings is disclosed in the relevant note. The prior year fair value for PWLB loans has been restated to the IFRS 13 valuation.

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

31 March 2015				31 March 2016		
Financial assets: Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000		Financial assets: Loans and receivables £'000	Financial liabilities at amortised cost £'000	Total £'000
(269)	-	(269)	Interest income (note 7)	(303)	-	(303)
-	9,635	9,635	Interest expense (note 7)	-	9,871	9,871
(269)	**9,635**	**9,366**	**Net loss/(gain) for the year in surplus or deficit on the provision of services**	**(303)**	**9,871**	**9,568**

21. Financial risk management

The ITA's treasury activities expose it to three key areas of risks:

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

Credit risk

Credit risk arises from deposits with banks, other financial institutions and local authorities. The ITA manages this risk by restricting its exposure with financial institutions to those that are on the official lending list as compiled by the ITA's treasury management advisors.

The criteria for these lending lists are set out in the Treasury Management Strategy report and credit ratings monitored constantly through the receipt of credit rating bulletins from its treasury management advisors.

If a financial institution fails to meet the criteria they are removed from the official lending list. The lending list contains financial as well as duration limits to reduce risk.

Liquidity risk

The ITA has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The ITA maintains a sufficient level of liquidity through the use of Money Market Funds/overnight deposits and call accounts. If longer term funding is required, the ITA has ready access to borrowings from the money markets and the Public Works Loans Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the ITA will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates, but effective cash management ensures any borrowing is undertaken at favourable rates.

Market risk

The ITA is exposed to the risk of interest rate movements on its borrowings and investments. It manages those risks as follows:

- New long-term borrowings are only undertaken if required to meet cash flow requirements.
- Debt restructuring is undertaken when financially viable to take account of fluctuating interest rates.
- Limits are set on the proportion of its borrowing limits in accordance with the Treasury Management Strategy.

22. Contingent liabilities

ITA Pension Fund

The ITA Pension Fund is guaranteed by National Express PLC. In the event of the ITA Pension Fund becoming insolvent and National Express PLC not meeting their guarantee, then the ITA would be liable to meet any excess liabilities.

The pension fund was established by Government Regulation on 29th November 1991 and became active on 4th December 1991. The date of the last triennial actuarial valuation was 31 March 2013, the actuarial value was £563m (£28m was offset against this value to allow for market changes after the valuation date). The valuation resulted in a deficit of £86m against the market value of £449m. As at 31 March 2016 the market value of the pension fund was £461m (2015: £476m).

23. Related party transactions

The following table records material transactions with related parties that are not adequately disclosed elsewhere in the accounts. There are no interests requiring disclosure in respect of members and officers. Members' allowances are disclosed in note 4.

31 March 2015 £'000		31 March 2016 £'000
	Recharges from District Councils	
13	Birmingham City Council	7
336	Solihull MBC	367
26	Wolverhampton City Council	10
375		**384**
	Recharges to District Councils	
-	Birmingham City Council	131
-		**131**

24. Events after the balance sheet date

On 17 June 2016 the West Midlands Combined Authority came into existence and is the umbrella organisation under which the ITA and the PTE were combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA has ceased to exist and all of its functions, property, rights or liabilities have transferred to the Combined Authority. Where reconfigurations of this nature take place within the public sector, Government accounting requires that the activities concerned are to be considered as continuing operations, and therefore these accounts have been prepared on a "going concern" basis.

Appendix 1

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

AND

WEST MIDLANDS PASSENGER TRANSPORT EXECUTIVE

GROUP FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2016

TABLE OF CONTENTS

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices (the Local Authority Code of Practice) rather than the amount to be funded from the levy. The reconciliation from the accounting cost shown in the line "Total comprehensive income and expenditure" to the funding position is shown at the bottom of the statement.

2014/2015				Notes	2015/2016		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
			Contractural expenditure				
75,090	-	75,090	Concessionary fares		70,850	-	70,850
245	-	245	Rail services		526	-	526
9,236	-	9,236	Special needs services		8,519	-	8,519
8,908	(1,082)	7,826	Subsidised services		8,729	(1,276)	7,453
93,479	(1,082)	92,397			88,624	(1,276)	87,348
			Operational expenditure				
21,926	(8,889)	13,037	Infrastructure and other premises		23,132	(9,205)	13,927
6,520	-	6,520	Promotions, information and initiatives		6,385	-	6,385
12,910	(1,360)	11,550	Management costs		14,002	(1,311)	12,691
5,046	-	5,046	Other costs		5,352	-	5,352
24,643	(14,026)	10,617	Capital development and district schemes		9,223	(8,028)	1,195
71,045	(24,275)	46,770			58,094	(18,544)	39,550
164,524	**(25,357)**	**139,167**	**Highways and transport services**		**146,718**	**(19,820)**	**126,898**
2,154	(12)	2,142	Corporate and democratic core		2,490	(117)	2,373
847	-	847	Non-distributed costs		575	-	575
167,525	**(25,369)**	**142,156**	**Cost of services**		**149,783**	**(19,937)**	**129,846**
134	-	134	Other operating expenditure		12,336	-	12,336
12,984	(402)	12,582	Financing and investment income and expenditure	7	12,139	(386)	11,753
5,734	(160,562)	(154,828)	Taxation and non-specific grant income	8	1,952	(163,366)	(161,414)
36,358	(36,358)	-	DfT grant income and expenditure		41,743	(41,743)	-
222,735	**(222,691)**	**44**	**Deficit/(surplus) on provision of services**		**217,953**	**(225,432)**	**(7,479)**
		872	Actuarial losses/(gains) on pension assets/liabilities	21			19,823
		916	**Total comprehensive income and expenditure**				**12,344**
		(872)	Transfer to pension reserve				(19,823)
		(1,261)	Adjustments between accounting basis and funding basis*				6,601
		145	Transfer to earmarked reserve - ITA				(145)
		(1,072)	**Surplus for the year under funding basis**				**(1,023)**

*Adjustments between accounting basis and funding basis are due to the different accounting treatments for capital grants and pension costs, as detailed in the Movements in Reserves Statement on the line "Total adjustments between accounting basis and funding basis under regulations" (page 3).

There were no acquisitions or discontinued operations during the year (2015 – none).

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

GROUP MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the West Midlands Integrated Transport Authority (ITA) and the West Midlands Passenger Transport Executive (PTE), analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and 'unusable reserves' i.e. those allocated for specific purposes.

	Usable reserves			Unusable reserves				
	General fund balance £'000	Earmarked reserve £'000	Capital grants unapplied £'000	Reval-uation reserve £'000	Deferred capital grants account £'000	Capital adjustment account £'000	Pension reserve £'000	Total reserves £'000
Balance at 31 March 2014	**8,238**	**12,704**	**207**	**7,802**	**124,173**	**(85,232)**	**(81,925)**	**(14,033)**
Movements in reserves during 2013/14								
Deficit on provison of services	(44)	-	-	-	-	-	-	(44)
Actuarial losses	-	-	-	-	-	-	(872)	(872)
Total comprehensive income and expenditure for the year	**(44)**	**-**	**-**	**-**	**-**	**-**	**(872)**	**(916)**
Adjustments between accounting basis and funding basis under regulations								
DfT grants received	(52,486)	(84)	(11)	-	16,223	36,358	-	-
DfT grants paid	36,358	-	-	-	-	(36,358)	-	-
Capital grant paid to PTE	10,617	-	-	-	-	(10,617)	-	-
Capital grants released (depreciation and amortisation)	12,868	-	-	-	(6,274)	(6,594)	-	-
Capital grants released (disposals and revaluations)	133	-	-	-	420	(553)	-	-
Minimum revenue provision - MRP	(7,738)	-	-	-	-	7,738	-	-
Debt repayment (Transferred debt)	(470)	-	-	-	-	470	-	-
Capital expenditure charged to the general fund	(2,974)	-	-	-	-	2,974	-	-
Grants applied	7,223	(7,218)	(5)	-	-	-	-	-
Transfer to pension reserve	(2,483)	-	-	-	-	-	2,483	-
Depreciation transfer on land and buildings	213	-	-	(213)	-	-	-	-
Total adjustments between accounting basis and funding basis under regulations	1,261	(7,302)	(16)	(213)	10,369	(6,582)	2,483	-
Increase/(decrease) in year before transfer to earmarked reserves	**1,217**	**(7,302)**	**(16)**	**(213)**	**10,369**	**(6,582)**	**1,611**	**(916)**
Transfers to earmarked reserves	**(5,096)**	**5,096**	**-**	**-**	**-**	**-**	**-**	**-**
Increase/(decrease) in year	**(3,879)**	**(2,206)**	**(16)**	**(213)**	**10,369**	**(6,582)**	**1,611**	**(916)**
Balance at 31 March 2015	**4,359**	**10,498**	**191**	**7,589**	**134,542**	**(91,814)**	**(80,314)**	**(14,949)**
Movements in reserves during 2015/16								
Surplus on provison of services	7,479	-	-	-	-	-	-	7,479
Actuarial losses	-	-	-	-	-	-	(19,823)	(19,823)
Total comprehensive income and expenditure for the year	**7,479**	**-**	**-**	**-**	**-**	**-**	**(19,823)**	**(12,344)**
Adjustments between accounting basis and funding basis under regulations								
DfT grants received	(61,237)	1,516	-	-	17,978	41,743	-	**-**
DfT grants paid	41,743	-	-	-	-	(41,743)	-	**-**
Capital grant paid to PTE	770	-	-	-	-	(770)	-	**-**
Capital grants released (depreciation and amortisation)	14,377	-	-	-	(7,383)	(6,994)	-	**-**
Capital grants released (disposals and revaluations)	12,583	-	-	-	(316)	(12,267)	-	**-**
Minimum revenue provision - MRP	(7,156)	-	-	-	-	7,156	-	**-**
Debt repayment (Transferred debt)	(517)	-	-	-	-	517	-	**-**
Capital expenditure charged to the general fund	(457)	-	-	-	-	457	-	**-**
Grants applied	1,099	(908)	(191)	-	-	-	-	**-**
Grants unapplied	(4,563)	4,563	-	-	-	-	-	**-**
Transfer capital receipts	(247)	-	247	-	-	-	-	**-**
Transfer to pension reserve	(3,208)	-	-	-	-	-	3,208	**-**
Depreciation transfer on land and buildings	212	-	-	(212)	-	-	-	**-**
Total adjustments between accounting basis and funding basis under regulations	(6,601)	5,171	56	(212)	10,279	(11,901)	3,208	-
Increase/(decrease) in year before transfer to earmarked reserves	**878**	**5,171**	**56**	**(212)**	**10,279**	**(11,901)**	**(16,615)**	**(12,344)**
Transfers to earmarked reserves	**(2,715)**	**2,715**	**-**	**-**	**-**	**-**	**-**	**-**
Increase/(decrease) in year	**(1,837)**	**7,886**	**56**	**(212)**	**10,279**	**(11,901)**	**(16,615)**	**(12,344)**
Balance at 31 March 2016	**2,522**	**18,384**	**247**	**7,377**	**144,821**	**(103,715)**	**(96,929)**	**(27,293)**

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY

GROUP BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the ITA and the PTE. The net assets (assets less liabilities) are matched by the reserves held by the ITA and the PTE. Reserves are reported in two categories – usable and unusable. Usable reserves are those that 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 are not able to be used to provide services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences.

31 March 2015 £'000		Notes	31 March 2016 £'000
231,489	Property, plant and equipment	10	245,895
62	Intangible assets	11	-
231,551	**Long term assets**		245,895
32,980	Short-term debtors	13	25,803
10,000	Short-term investments	14	-
27,393	Cash and cash equivalents	15	29,347
70,373	**Current assets**		55,150
(1,610)	Finance lease liabilities	16	(1,647)
(2,668)	PWLB		(7,672)
(109)	Other loans		(109)
(517)	Dudley MBC		(569)
(35,481)	Short-term creditors	17	(38,070)
(5,307)	Provisions	18	(6,297)
(45,692)	**Current liabilities**		(54,364)
24,681	**Net current assets/(liabilities)**		**786**
(1,000)	Provisions	18	(1,000)
(4,324)	Finance lease liabilities	16	(2,677)
(153,010)	PWLB		(147,719)
(10,000)	Other loans		(10,000)
(9,068)	Dudley MBC		(8,499)
(13,465)	Capital grants receipts in advance	19	(13,450)
(80,314)	Employee benefit	21	(90,629)
(271,181)	**Long term liabilities**		(273,974)
(14,949)	**Net liabilities**		**(27,293)**
4,359	General fund balance	20	2,522
10,498	Earmarked reserve	20	18,384
191	Capital grants unapplied reserve	20	247
15,048	**Usable reserves**		21,153
7,589	Revaluation reserve	20	7,377
134,542	Deferred capital grants account	20	144,821
(91,814)	Capital adjustment account	20	(103,715)
(80,314)	Pension reserve	21	(96,929)
(29,997)	**Unusable reserves**		(48,446)
(14,949)	**Total reserves**		**(27,293)**

GROUP CASHFLOW STATEMENT

The Cashflow Statement shows the changes in cash and cash equivalents of the ITA and the PTE during the reporting period. The statement shows how the ITA and the PTE generate and use 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 ITA/PTE are funded by way of grant income or from the recipients of services provided by the PTE. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to future service delivery.

31 March 2015 £'000			31 March 2016 £'000	
	(44)	**Net (deficit)/surplus on the provision of services**		7,479
		Adjustments to net surplus or deficit on the provision of services for non-cash movements		
13,687		Charges for depreciation and impairment of non-current assets	14,529	
421		Amortisation of intangible assets	62	
3,069		Net amounts of non-current assets written off on disposal	12,336	
(2,483)		Change in pension reserve	(3,208)	
		Working capital adjustments:		
(12,902)		(Increase)/decrease in short-term debtors	7,177	
-		Pension prepayment 2016/17	(6,300)	
4,264		Increase in short-term creditors	2,589	
2,655		Increase in provisions	990	
	8,711			28,175
9,366		Net interest payable	9,568	
(9,470)		Interest paid	(9,878)	
269		Interest received	303	
	165			(7)
		Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		
	(52,486)	Capital grants received		(61,237)
	36,358	Capital grants paid		41,743
	(7,296)	**Net cash flows from operating activities**		**16,153**
		Investing activities		
	(45,734)	Purchase of property, plant and equipment		(41,518)
	-	Proceeds for disposal of property, plant and equipment		247
	16,128	Capital grants received for the purchase of property, plant and equipment		19,494
	(10,000)	(Increase)/decrease in short-term investments		10,000
	31	Reduction in investment		-
	(39,575)			**(11,777)**
		Financing activities		
	20,000	New loans		-
	(1,574)	Payment of finance lease liabilities		(1,610)
	(7,301)	(Decrease) in capital grants receipts in advance		(15)
	(152)	PWLB - repayment of loan		(280)
	(470)	Dudley MBC - repayment of principal		(517)
	10,503	**Net cash flows from financing activities**		**(2,422)**
	(36,368)	**Net increase or decrease in cash and cash equivalents**		**1,954**
	63,761	Cash and cash equivalents at 1 April		27,393
	27,393	**Cash and cash equivalents at 31 March (note 15)**		**29,347**

NOTES TO THE GROUP ACCOUNTS

1. Group structure

These accounts consolidate the accounts of the West Midlands Integrated Transport Authority (ITA) with the accounts of the West Midlands Passenger Transport Executive (PTE). The ITA is a Joint Authority of the seven Metropolitan Authorities in the West Midlands, and sets policies and budgets for the public sector transport responsibilities in the area. The policies are implemented by the PTE. As the ITA exerts considerable control over the PTE, a group relationship exists between the organisations.

The ITA is classified as a local authority and the PTE is classified as a 100% owned subsidiary of the ITA. The group accounts are therefore prepared, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), via merger accounting, as opposed to acquisition accounting.

The ITA has no formal relevant interests in any other organisations and consequently these accounts only consolidate the accounts of the ITA and the PTE.

The ITA is liable for any accumulated deficits / losses of the PTE. If these losses could not be met by the use of reserves, the ITA would have to raise a supplementary levy on the Districts. Continuing reviews of areas of risk are undertaken and the PTE / ITA hold reserves which could be used should these risks materialise. As at 31 March 2016 the PTE had net assets of £163.929m (2015: £164.460m). During the year the PTE made a net surplus of £1.074m (2015: £0.919m) to be transferred to the general fund.

2. Basis of preparation

The financial statements have been prepared in accordance with the Accounts and Audit Regulations 2015. Proper practices are set out in the Code.

Income and expenditure is accounted for on an accruals basis (recognised in the period to which they relate) rather than when cash payments are made or received.

3. Significant accounting policies

a) Consolidation

The accounts of Midland Metro Limited, Network West Midlands Limited, Centro Properties Ltd and West Midlands Rail Limited which are wholly owned subsidiaries of the PTE, have not been consolidated with those of the PTE because the companies have never traded and do not hold any assets or liabilities.

b) Alignment of accounting policies

The group accounts have been prepared by applying consistent accounting policies to the ITA and the PTE. This has ensured that consistent accounting policies have been applied during the consolidation of the two sets of accounts. These accounting policies can be found in the individual ITA and PTE accounts.

Notes to the Group Comprehensive Income and Expenditure Statement

4. Consolidation adjustments

The following adjustments were made to the PTE / ITA's Comprehensive Income and Expenditure Statement in order to prepare the combined Group Income and Expenditure Statement.

- Revenue grants of £112.701m (2015: £116.546m) and capital grants of £24.310m (2015: £37.192m) paid by the ITA to the PTE have been removed from surplus/deficit on provision of services.

5. Officers' remuneration

The remuneration paid to the ITA and PTE's senior officers is as follows:

2014/2015					2015/2016			
Salary	Compensation for loss of office	Pension Contributions	Total		Salary	Compensation for loss of office	Pension Contributions	Total
£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000
156	-	19	175	Chief Executive - Geoff Inskip	117	157	14	288
106	-	12	118	Finance Director	122	-	14	136
98	-	11	109	Customer Experience Director	72	-	8	80
-	-	-	-	Director of Integrated Mobility	84	-	10	94
-	-	-	-	Strategic Director for Transport	34	-	4	38
11	-	-	11	Non Executive Director	-	-	-	-
11	-	-	11	Non Executive Director	-	-	-	-

The PTE's other employees receiving more than £50,000 remuneration for the year (excluding pension contributions) were paid the following amounts:

2014/2015 No's		2015/2016 No's
11	£50,000 - £54,999	9
7	£55,000 - £59,999	5
6	£60,000 - £64,999	4
1	£65,000 - £69,999	5
6	£70,000 - £74,999	2
-	£75,000 - £79,999	2

The numbers of exit packages with total cost per band and total cost of the compulsory redundancies as payable during the year are set out in the table below. Exit packages include pension contributions paid to the pension fund.

2014/2015		Exit package cost band	2015/2016	
No's	£'000		No's	£'000
13	161	£0 - £20,000	3	30
6	151	£20,001 - £40,000	1	21
2	91	£40,001 - £60,000	-	-
3	203	£60,001 - £80,000	1	80
1	91	£80,001 - £100,000	-	-
-	-	£100,001 +	2	414
25	**697**	**Total**	**7**	**545**

6. Other costs

Charges relating to work undertaken by external auditors:

2014/2015 £'000		2015/2016 £'000
39	Annual statutory audit - PTE	39
20	Annual statutory audit - ITA	20
36	Other services	17
95	**Total**	**76**

7. Financing and investment income and expenditure

2014/2015 £'000		2015/2016 £'000
	Gross expenditure	
8,989	External interest on borrowing	9,264
646	External interest on transferred debt	607
9,635		9,871
3,349	Net interest cost of pension scheme (note 21)	2,268
12,984		12,139
	Gross income	
-	Heritable Bank	(161)
(269)	Investment interest received	(142)
(13)	Bank interest received	(8)
(120)	Other income	(75)
(402)		(386)
12,582	**Net expenditure**	**11,753**

8. Taxation and non-specific grant income

2014/2015 £'000		2015/2016 £'000
	Revenue grants	
138,700	ITA levy	131,400
-	LSTF - revenue grant	5,467
-	DfT - Midlands Connect programme	5,000
-	Other	53
138,700		**141,920**
	Capital grants	
5,000	DfT - Bilston	-
1,451	Local Growth Fund - accrued grant	-
5,734	Capital grants paid to districts	1,952
23,036	Transfers from capital grants received in advance (note 19)	25,487
35,221		27,439
(13,359)	Grants funding capital development/district schemes	(8,028)
(5,734)	Capital grants paid to districts (note 19)	(1,952)
16,128	Grants funding property, plant and equipment	17,459
-	Ring and Ride vehicles	519
-	Transfers from capital grants received in advance (note 19)	1,516
16,128		**19,494**
154,828	**Total grants**	**161,414**

Notes to the Group Balance Sheet

9. Consolidation adjustments

The following adjustments were made to net off inter-company balances and prepare the Group Balance Sheet:

- Short-term creditors and short-term debtors have been reduced by £35.381m (2015: £35.322m) receivable by the PTE from the ITA.
- The ITA grant element of the PTE’s deferred capital grants account of £93.697m (2015: £89.418m) has been offset against the ITA’s capital adjustment account.

10. Property, plant and equipment

Other land and buildings include the head office at Summer Lane and non-operational land acquired for the future expansion of park and ride sites and the Midland Metro system.

Assets under construction consists of expenditure on the extension to park and ride facilities and the construction of the Midland Metro extension. Vehicles, plant and equipment include Ring and Ride vehicles with a carrying value of £1.715m (2015: £1.855m), included on the PTE’s Balance Sheet in accordance with IFRIC 4. Additions during the year for Ring and Ride were £0.519 (2015: £nil).

Movements in 2015/16:

	Other land and buildings	Vehicles, plant and equipment	Infrastructure assets: Bus stations, shelters, park and ride sites	Infrastructure assets: Trams	Infrastructure assets: Midland Metro	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
As at 1 April 2015	3,906	36,373	65,717	56,951	158,972	62,602	384,521
Additions - capital programme	-	1,081	1,197	-	1,324	37,397	40,999
Additions - other	-	519	-	-	-	-	519
Transfers	-	724	3,932	2,756	36,245	(43,657)	-
Transfer to provision of services	-	-	-	-	-	(191)	(191)
Disposals	(330)	-	(70)	(20,747)	-	(12,051)	(33,198)
As at 31 March 2016	**3,576**	**38,697**	**70,776**	**38,960**	**196,541**	**44,100**	**392,650**
Accumulated depreciation							
As at 1 April 2015	97	23,059	15,483	21,954	92,439	-	153,032
Charge for the year	98	2,681	2,899	1,300	7,551	-	14,529
Disposals	-	-	(59)	(20,747)	-	-	(20,806)
As at 31 March 2016	**195**	**25,740**	**18,323**	**2,507**	**99,990**	**-**	**146,755**
Net Book Value							
As at 31 March 2016	**3,381**	**12,957**	**52,453**	**36,453**	**96,551**	**44,100**	**245,895**
As at 31 March 2015	3,809	13,314	50,234	34,997	66,533	62,602	231,489

Comparative movements in 2014/15:

	Other land and buildings	Vehicles, plant and equipment	Infrastructure assets: Bus stations, shelters, park and ride sites	Infrastructure assets: Trams	Infrastructure assets: Midland Metro	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
As at 1 April 2014	4,606	34,582	61,229	20,747	141,588	79,659	342,411
Additions - capital programme	-	1,666	3,190	8,476	3,397	29,005	45,734
Transfers	(700)	376	1,735	27,728	13,987	(43,126)	-
Transfer to provision of services	-	-	-	-	-	(2,936)	(2,936)
Disposals	-	(251)	(437)	-	-	-	(688)
As at 31 March 2015	**3,906**	**36,373**	**65,717**	**56,951**	**158,972**	**62,602**	**384,521**
Accumulated depreciation							
As at 1 April 2014	-	20,549	13,146	19,718	86,487	-	139,900
Charge for the year	97	2,750	2,652	2,236	5,952	-	13,687
Disposals	-	(240)	(315)	-	-	-	(555)
As at 31 March 2015	**97**	**23,059**	**15,483**	**21,954**	**92,439**	**-**	**153,032**
Net Book Value							
As at 31 March 2015	**3,809**	**13,314**	**50,234**	**34,997**	**66,533**	**62,602**	**231,489**
As at 31 March 2014	4,606	14,033	48,083	1,029	55,101	79,659	202,511

Revaluations

All other land and buildings are revalued at least every five years at fair value and a valuation was carried out as at 31 March 2014. This valuation was carried out by Bruton Knowles, an accredited independent valuer in accordance with the Practice Statements in the Valuation Standards (The Red Book) published by The Royal Institution of Chartered Surveyors. Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices adjusted for any difference in the nature, location or condition of the asset.

Between valuations, a desktop review is carried out by independent valuers for indications of material changes to values and adjustments are made to the carrying value of assets as appropriate. The desktop review at 31 March 2016 was carried out by Bruton Knowles confirmed that there were no adjustments to be made.

			Infrastructure assets				
	Other land and buildings	Vehicles, plant and equipment	Bus stations, shelters, park and ride sites	Trams	Midland Metro	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	-	38,697	70,776	38,960	196,541	44,100	389,074
Valued at fair value as at:							
31 March 2014	3,576	-	-	-	-	-	3,576
Total cost or valuation	**3,576**	**38,697**	**70,776**	**38,960**	**196,541**	**44,100**	**392,650**

11. Intangible assets

Intangible assets consist of costs incurred in the development and implementation of equipment, systems and services for introducing ITSO-compliant smartcard ticketing in the West Midlands. The costs are fully funded by capital grants.

31 March 2015 £'000		31 March 2016 £'000
	Cost	
13,327	At 1 April	13,327
-	Additions	-
13,327	At 31 March	13,327
	Amortisation	
12,844	At 1 April	13,265
421	Charge for the year	62
13,265	At 31 March	13,327
	Net Book Value	
62	**As at 31 March**	**-**

12. Investments

The PTE owns 100% of the issued shares of the following subsidiaries, which were incorporated in England. The investments were held at 31 March 2015 and 31 March 2016.

	Share capital	Nature of business
Midland Metro Limited	£100	Non - trading
Network West Midlands Limited	£100	Non - trading
Centro Properties Ltd	£100	Non - trading
West Midlands Rail Limited	n/a - limited by guarantee	Non - trading

Midland Metro Ltd was incorporated under the Companies Act 1985 as a private limited company on 16 March 1988.

Network West Midlands Ltd was incorporated under the Companies Act 1985 as a private limited company on 31 July 2000.

Centro Properties Ltd was incorporated under the Companies Act 2006 as a private limited company on 01 December 2009.

West Midlands Rail Ltd was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 10 April 2014. This company is non-trading.

13. Short-term debtors

31 March 2015 £'000		31 March 2016 £'000
10,775	Trade debtors and accrued income	12,362
2,990	Other debtors	2,101
19,215	Prepayments	11,340
32,980	**Total**	**25,803**
	Analysed between the following classes of debtors:	
4,367	Central government bodies	4,831
6,175	Other local authorities	5,822
22,438	Other entities and individuals	15,150
32,980	**Total**	**25,803**

14. Short-term investments

31 March 2015 £'000		31 March 2016 £'000
10,000	Short-term deposits (original maturity over three months)	-
10,000	**Total**	**-**

15. Cash and cash equivalents

31 March 2015 £'000		31 March 2016 £'000
26,600	Short-term deposits (original maturity three months or less)	28,150
2,750	Altram refundable deposits	2,750
793	Cash at bank	1,197
30,143		32,097
(2,750)	Less amount to be repaid to Altram	(2,750)
27,393	**Cash and cash equivalents in the balance sheet**	**29,347**

The PTE holds £2.750m (2015: £2.750m) from Altram, its private sector partner in the Midland Metro Project, as a deposit against unforeseen circumstances. Centro invests this sum short-term with any interest accruing repaid to Altram.

16. Finance lease liabilities

In 1998 the PTE entered into two finance leases with Royal Bank Leasing in connection with the vehicles for Metro Line 1. The first lease covers two vehicles and the second lease covers the remaining 13. The initial cost of all 15 vehicles was £20.747m. The leases are repayable by equal instalments over 20 years based on LIBOR interest rates. The leases are due to terminate in 2018/19. Any monetary fluctuations due to interest rate changes are settled on an annual basis.

These vehicles are no longer operational as they have been replaced by new trams. The cost and accumulated depreciation of £20.747m at 31 March 2015 have been written out of the books during the year (note 10).

Finance lease liabilities are repayable as follows:

31 March 2015			31 March 2016	
Future minimum payments £'000	Finance lease liabilities £'000		Future minimum payments £'000	Finance lease liabilities £'000
1,676	1,610	Within 1 year	1,712	1,647
4,412	4,324	Within 2 - 5 years	2,766	2,677
-	-	More than 5 years	-	-
6,088	5,934	Total minimum lease payments	4,478	4,324
(154)	-	Finance costs payable in future years	(154)	-
5,934	**5,934**	**Present value of minimum lease payments**	**4,324**	**4,324**

17. Short-term creditors

31 March 2015 £'000		31 March 2016 £'000
32,568	Trade creditors and accruals	34,892
285	Taxes and social security	352
2,628	Payments received on account	2,826
35,481	**Total**	**38,070**
	Analysed between the following classes of creditors:	
1,073	Central government bodies	559
7,110	Other local authorities	11,258
27,298	Other entities and individuals	26,253
35,481	**Total**	**38,070**

18. Provisions

2015/16 Provisions	Redundancy £'000	Rail fares and services £'000	Insurance/ other £'000	Buildings maintenance £'000	Transport development £'000	Total £'000
At 1 April 2015	59	520	383	1,330	4,015	6,307
Additional provision	-	216	-	85	1,840	2,141
Amounts used	(59)	-	(5)	(143)	(944)	(1,151)
At 31 March 2016	**-**	**736**	**378**	**1,272**	**4,911**	**7,297**
Current 2016	-	736	378	272	4,911	6,297
Long term 2016	-	-	-	1,000	-	1,000
Total	**-**	**736**	**378**	**1,272**	**4,911**	**7,297**
Current 2015	59	520	383	330	4,015	5,307
Long term 2015	-	-	-	1,000	-	1,000
Total	**59**	**520**	**383**	**1,330**	**4,015**	**6,307**

2014/15 Provisions	Redundancy £'000	Rail fares and services £'000	Insurance/ other £'000	Buildings maintenance £'000	Transport development £'000	Total £'000
At 1 April 2014	771	345	383	1,486	667	3,652
Additional provision	-	175	-	47	4,015	4,237
Amounts used	(712)	-	-	(203)	(667)	(1,582)
At 31 March 2015	**59**	**520**	**383**	**1,330**	**4,015**	**6,307**
Current 2015	59	520	383	330	4,015	5,307
Long term 2015	-	-	-	1,000	-	1,000
Total	**59**	**520**	**383**	**1,330**	**4,015**	**6,307**
Current 2014	771	345	383	486	667	2,652
Long term 2014	-	-	-	1,000	-	1,000
Total	**771**	**345**	**383**	**1,486**	**667**	**3,652**

Rail fares and services
This has been provided in order to meet anticipated future liabilities and risks in relation to local rail services.

Insurance/other
The insurance/other provision provides for various activities including redundancy and the net expected costs of claims outstanding, and their administration, relating to the activities of the PTE as a bus operator prior to 26 October 1986.

Building maintenance
This has been provided to meet contractual obligations in respect of the PTE's properties.

Transport developments
This has been provided to meet the PTE's commitments to the West Midlands regions' transport developments.

19. Capital grants receipts in advance

The ITA and the PTE receive grants which they administer and pass onto 3rd parties (the Department for Transport grants having been passed to the PTE from the ITA). These grants are credited to capital grants receipts in advance on receipt and released to the Comprehensive Income and Expenditure Statement when the expenditure is incurred.

2015/16 movements	**ITB** £'000	**LSTF/ BBAF** £'000	**Joint Initiatives/ Other*** £'000	**Local Growth fund** £'000	**Total** £'000
At 1 April 2015	11,234	1,126	1,105	-	13,465
Grants received/accrued					
DfT - ITB block allocation	4,380	-	90	-	4,470
DfT -other	-	-	896	-	896
Dft - Highways maintenance challenge fund	-	-	840	-	840
Enterprize Zone - BCC	-	-	2,271	-	2,271
Local Growth Fund - GBS LEP	-	-	-	16,400	16,400
Local Growth Fund - BC LEP	-	-	-	3,821	3,821
Other	-	-	953	-	953
	4,380	-	5,050	20,221	29,651
Grants applied to funding capital programme (note 8)	(6,623)	(1,348)	(3,338)	(14,178)	(25,487)
Grants paid out to districts (note 8)	(1,952)	-	-	-	(1,952)
Grants credited to Comprehensive Income and Expenditure Statement	(299)	-	(412)	(1,516)	(2,227)
At 31 March 2016	**6,740**	**(222)**	**2,405**	**4,527**	**13,450**

*Other – Road Safety Fund, Congestion Target Fund, ITSO Smartcard ticketing and DfT Clean Vehicle Technology Funding

20. Reserves

Movements in the group's reserves are detailed in the Movement in Reserves Statement on page 3. The purpose of the individual reserves are as follows:

Usable reserves:

General fund balance
The general fund balance is a statutory fund which represents funds available to the PTE and the ITA to meet unexpected short-term requirements.

Earmarked reserves
The earmarked reserve contains additions in year to provide funding to back capital programme commitments and the revenue grants that the ITA and PTE have received where the expenditure has not been incurred at the Balance Sheet date. These grants are transferred to the general fund via the Movements in Reserves Statement as the expenditure is incurred (see table below).

	LSTF £'000	BBAF £'000	Midlands Connect £'000	European/other schemes £'000	Capital Programme £'000	Total £'000
At 1 April 2014	10,985	1,426	-	438	-	12,849
Utilised revenue	(6,564)	(475)	-	(263)	-	(7,302)
Additions in year	-	-	-	-	4,951	4,951
At 1 April 2015	**4,421**	**951**	**-**	**175**	**4,951**	**10,498**
Received	5,467	-	5,000	53	-	10,520
Utilised revenue	(6,005)	(145)	(437)	(44)	(234)	(6,865)
	(538)	(145)	4,563	9	(234)	3,655
Released in year	-	-	-	(145)	(945)	(1,090)
Additions in year	-	-	-	-	5,321	5,321
	-	-	-	(145)	4,376	4,231
At 31 March 2016	**3,883**	**806**	**4,563**	**39**	**9,093**	**18,384**

Capital grants unapplied reserve
The capital grants unapplied reserve contains the capital grants and receipts that the PTE has received where the expenditure has not been incurred at the Balance Sheet date. These grants will be transferred to the deferred capital grants account via the Movements in Reserves Statement once the expenditure has been incurred.

The PTE has the following unusable reserves:

Revaluation reserve
The revaluation reserve contains the gains made by the PTE arising from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

Deferred capital grants account

The deferred capital grants account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets to the financing of those assets by capital grants.

The account is credited with capital grants that have been applied to finance capital expenditure via the Movements in Reserves Statement. The capital grants are then released to the general fund via the Movement in Reserves Statement to offset the write downs of the historical costs of assets as they are consumed by depreciation and impairment or written off on disposal.

Pension 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 debit balance on the reserve shows the shortfall in the benefits earned by past and current employees and the resources the PTE has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The ITA has the following unusable reserves:

Capital adjustment account

This account sets out the cumulative capital financing costs made to the PTE to support its capital programme. The account is debited with the capital grants which the ITA makes to the PTE via the Movements in Reserves Statement. The account is credited with amounts which the ITA has set aside to finance the expenditure.

21. Defined benefit pension scheme

Employees of the PTE participate in the West Midlands Metropolitan Authorities Pension Fund, a defined benefit average salary statutory scheme administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013.

An actuarial valuation of this fund was carried out by Mercer Limited, an independent firm of actuaries in accordance with the Regulations as at 31 March 2013. Based on the results of the valuation of this fund at 31 March 2013, the actuaries advise that the cost of pensions to be charged to the Comprehensive Income and Expenditure Statement from 1 April 2015 should be 11.7% of the current employees' pensionable pay plus £6.8m per annum to meet 100% of the overall fund liabilities. This pension cost has been determined after allowing for the amortisation of the difference between the assets and the accrued liabilities relating to the PTE over the average remaining service lives of the current members of the fund.

Barnett Waddingham LLP is now the fund's actuary and has performed the valuation at 31 March 2016.

Calculation method

The figures as at 31 March 2016 are based on the 31 March 2013 formal valuation of the fund. Membership data as at 31 March 2013 was used to develop current funding requirements. Liabilities are based on benefit payment and contribution information provided by the fund's administrator as at 31 March 2016. This valuation was carried out by Barnett Waddingham LLP.

Net liability and pension reserve

The net amount recognised on the Balance Sheet at 31 March 2016 is a deficit of £90.629m compared to a deficit of £80.314m at 31 March 2015. The net deficit has been reduced by a prepayment of £6.3m for 2016/17 contributions. As a result the pension liability does not agree to the pension reserve by that amount.

Transactions relating to post employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the levy is based on the cash payable in the year, so the real cost of post employment benefits is reversed out of the general fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the general fund balance via the Movement in Reserves Statement during the year:

31 March 2015 £'000		31 March 2016 £'000
	Comprehensive income and expenditure statement	
	Cost of services	
1,986	Current service cost	2,497
32	Administration expenses	97
254	Past service cost/curtailments	-
	Financing and investment income and expenditure	
3,349	Net interest cost	2,268
5,621	**Total post employment benefit charged to the surplus or deficit on provision of services**	4,862
	Other post employment benefit charged to the comprehensive income and expenditure statement	
872	Remeasurements (liabilities and assets)	19,823
6,493	**Total post employment benefit charged/(credited) to the comprehensive income and expenditure statement**	**24,685**
	Movement in reserves statement	
(5,621)	Reversal of net charges made to the surplus or deficit on provision of services for post employment benefits in accordance with the Code	(4,862)
	Actual amount charged against the general fund balance for pensions in the year	
8,104	Employer's pension contributions payable to scheme	8,070
2,483		**3,208**

Assets and liabilities in relation to post-employment benefits

31 March 2015 £'000		31 March 2016 £'000
(306,754)	Present value of scheme liabilities	(316,284)
226,440	Fair value of scheme assets	225,655
(80,314)	**Funded status**	**(90,629)**
	Amounts recognised as	
(80,314)	Liabilities	(90,629)

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

31 March 2015 £'000		31 March 2016 £'000
284,687	Opening balance at 1 April	306,754
1,986	Current service costs	2,497
11,919	Interest cost	9,289
788	Contributions by scheme participants	818
22,941	Remeasurements (liabilities)	12,058
(15,821)	Benefits paid	(15,132)
254	Past service costs/curtailments	-
306,754	**Closing balance at 31 March**	**316,284**

Reconciliation of fair value of the scheme assets

31 March 2015 £'000		31 March 2016 £'000
202,762	Opening balance at 1 April	226,440
8,570	Interest on plan assets	7,021
(32)	Administration expenses	(97)
22,069	Remeasurements (assets)	(7,765)
8,104	Employer contributions paid - current year	8,070
-	Employer contributions paid - prepayment for 2016/17	6,300
788	Contributions by scheme participants	818
(15,821)	Benefits paid	(15,132)
226,440	**Closing balance at 31 March**	**225,655**

The plan assets at the year end were as follows:

31 March 2015			31 March 2016	
Plan assets %	Plan assets £'000		Plan assets %	Plan assets £'000
		Asset category		
59.07	133,758	Equities	60.52	136,572
7.87	17,821	Government bonds	7.79	17,583
10.64	24,093	Other bonds	4.66	10,508
8.73	19,768	Property	8.25	18,609
4.09	9,261	Cash/liquidity	4.57	10,307
9.60	21,739	Other	14.21	32,076
100.00	**226,440**	**Total**	**100.00**	**225,655**

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The expected rate of return on plan assets is based on market expectations, at the beginning of the period, for investments returns over the entire life of the related obligation.

31 March 2015		31 March 2016
	Valuation assumptions	
3.1%	Discount rate	2.7%
3.75%	Rate of salary increase	3.75%
2.0%	Rate of pension increase	2.0%
2.0%	Inflation assumption	2.0%
	Future life expectancies from age 65	
	Retiring today:	
23.0	Males	23.0
25.6	Females	25.7
	Retiring in 20 years:	
25.2	Males	25.3
28.0	Females	28.0

It is assumed that 50% of retiring members will take the maximum tax-free lump sum available and 50% will take the standard 3/80ths cash sum.

Five year history

	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000	2015/16 £'000
Present value of liabilities	(285,888)	(317,471)	(284,687)	(306,754)	(316,284)
Fair value of assets in the pension scheme	189,660	208,581	202,762	226,440	225,655
Deficit/(surplus) in the scheme	(96,228)	(108,890)	(81,925)	(80,314)	(90,629)
Difference between the expected and actual return on scheme assets	(7,597)	13,622	(7,523)	22,069	(7,765)
Percentage of scheme assets	-4.0%	6.5%	-3.7%	9.7%	-3.4%
Experience gains and (losses) on scheme liabilities	-	-	4,315	(22,941)	(12,058)
Percentage of scheme liabilities	-	-	1.5%	-7.5%	-3.8%
Changes in actuarial assumptions	(6,580)	(27,574)	29,430	-	-
Percentage of scheme liabilities	-2.3%	-8.7%	10.3%	0.0%	0.0%
Net actuarial gain/(loss) recognised	(14,177)	(13,952)	26,222	(872)	(19,823)
Percentage of scheme liabilities	-5.0%	-4.4%	9.2%	-0.3%	-6.3%
Cumulative actuarial loss recognised	(85,476)	(99,428)	(73,206)	(74,078)	(93,901)

Movement in pension fund liability during the year

31 March 2015 £'000			31 March 2016 £'000	
	81,925	Balance at 1 April		80,314
	(8,104)	Employer's pension contributions payable in the year		
		Current year	(8,070)	
		Prepayment for 2016/17	(6,300)	
				(14,370)
		Post employment benefit charged to the surplus or deficit on provision of services		
1,986		Current service cost	2,497	
254		Past services/curtailment	-	
32		Administration expenses	97	
3,349		Net interest cost	2,268	
	5,621			4,862
	872	Remeasurements (liabilities and assets)		19,823
	80,314	**Balance at 31 March**		**90,629**

Movement in pension reserve during the year

31 March 2015 £'000		31 March 2016 £'000
81,925	Balance at 1 April	80,314
872	Remeasurements (liabilities and assets)	19,823
5,621	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the comprehensive income and expenditure statement	4,862
	Employer's pension contributions payable in the year:	
(8,104)	Current year contributions	(8,070)
80,314	**Balance at 31 March**	**96,929**

Employer’s pension contributions expected to be paid in 2016/17 are estimated at £1.229m (2015/16: £8.075m). This significant reduction is due to the pension prepayment made during the year.

22. Other notes to the accounts

No other disclosures relating to the Group Comprehensive Income and Expenditure or Balance Sheet are considered necessary as adequate disclosures are made elsewhere in the individual ITA and PTE accounts.

23. Capital commitments

The PTE has major committed capital contracts amounting to £14.591m (2015: £16.885m) reflecting outstanding contracts in relation to the Metro extension.

24. Guarantees

The PTE has guarantees with local authorities lodged with the bank in connection with works being undertaken at various car parks as follows:

	£'000
Sandwell MBC (4 guarantees)	147
Birmingham City Council (1 guarantee)	97
HSBC (1 guarantee)	472

25. Related party disclosures

The following table identifies related party transactions during the year:

31 March 2015 £'000		31 March 2016 £'000
	Levy received from:	
54,492	Birmingham City Council	51,563
16,223	Coventry City Council	15,569
15,743	Dudley MBC	14,842
15,629	Sandwell MBC	14,837
10,411	Solihull MBC	9,861
13,602	Walsall MBC	12,850
12,600	Wolverhampton City Council	11,878
138,700		**131,400**
	Central government	
65,440	Capital and revenue grants received	59,482
65,440		**59,482**
	West Midlands Metropolitian Authorities Pension Fund	
8,104	Employers contribution and fixed contribution	**14,370**
	Recharges from District Councils	
13	Birmingham City Council	7
336	Solihull MBC	367
26	Wolverhampton City Council	10
375		**384**

Appointments held by the PTE's current directors include the following:

(i) The Managing Director is a director of Biz 365 Limited and Balsall and Berkswell Football Club Limited and is a board member of Colmore Business Improvement District. There were no financial transactions with these entities during the year or the prior year.

(ii) The Managing Director is a director of the wholly owned subsidiary companies Midland Metro Limited, Centro Properties Ltd and Network West Midlands Limited. These companies are dormant.

(iii) The Director of Integrated Mobility is a Director of West Midlands Transport Services Limited (WMTIS). During the year Centro made payments to WMTIS of £34,927. There was no balance due to/from WMTIS at 31 March 2016. He is also a director of Network West Midland Limited which is dormant.

(iv) The Strategic Director for Transport is a director of Sustainability West Midlands Limited. During the year Centro made payments of £2,460 to this company. There were no other transactions during the year.

There are no comparatives for items (iii) and (iv) as these directors were appointed during the year.

Appointments held by the PTE's directors who retired during the year (up to the date of retirement) include the following:

(i) The Chief Executive is a director of UK Tram. Centro has received £117,700 from UK Tram during the year (2015: £116,423). £28,341 remains payable to Centro at 31 March 2016 (2015: £63,114).

(ii) The Chief Executive is a director and member of GI Consultants Limited. There were no financial transactions with this company (2015: no transactions).

(iii) The Chief Executive was a director of PTEG Limited. During the year Centro made payments to PTEG Limited of £98,262 (2015: £111,098). There was no balance due to/from PTEG Limited as at 31 March 2016 or 31 March 2015.

(iv) The Chief Executive was a director of the wholly owned subsidiary companies Midland Metro Limited, Centro Properties Ltd and Network West Midlands Limited. These companies are dormant.

(v) The Chief Executive was a director of the wholly owned subsidiary West Midlands Rail Limited. This company is non-trading.

(vi) The Chief Executive is a member of Union Internationale des Transports Publics (UITP). During the year, £275 (2015: £1,168) was received for a recharge of flight costs. £nil remained outstanding at 31 March 2016 (2015: £276).

26. Events after the Balance Sheet date

On 17 June 2016 the West Midlands Combined Authority came into existence and is the umbrella organisation under which the ITA and the PTE are combined and the responsibility for transport strategy and delivery now falls within one organisation. The ITA and PTE have ceased to exist and all of their functions, property, rights or liabilities have transferred to the Combined Authority. Where reconfigurations of this nature take place within the public sector, Government accounting requires that the activities concerned are to be considered as continuing operations, and therefore these accounts have been prepared on a "going concern" basis.

Appendix 2

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

FINANCIAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

Pension Scheme Registry (Pensions Regulator) 10175688

TABLE OF CONTENTS

EXPLANATORY FOREWORD AND THE REPORT OF THE TREASURER OF THE WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

Explanatory foreword

The following statements comprise the Financial Report for the West Midlands Integrated Transport Authority ('ITA') Pension Fund ('the Fund'). The accounts cover the financial year from 01 April 2015 to 31 March 2016.

This report has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 published by the Chartered Institute of Public Finance and Accountancy.

The report is set out in the following order:

- **The Treasurer's Report** which provides general information on the background of the Fund, management and advisors and officers of the Fund, and actuarial position.

- **Statement of Responsibilities for the Fund Accounts** which sets out the respective responsibilities of the Authority and the Treasurer for the Fund Accounts.

- **The Investment Report** which provides details of the investment managers, investment principles and custodial arrangements plus a review of investment performance at the year end.

- **Fund Account** which discloses the size and character of financial additions to, withdrawals from and changes to the value of the Fund during the accounting period, analysed between contributions and benefits, and returns on investments.

- **Net Assets Statement** which discloses the size and disposition of the net assets of the scheme at the end of the year.

- **Notes to the Fund Accounts** which gives supporting details and analysis concerning the contents of the financial statements.

- **The Compliance Statement** which gives the tax status of the scheme and pension increases during the year.

- **Statement by the Consulting Actuary –** This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme.

The Treasurer's Report

1. Description of the Fund

The West Midlands Passenger Transport Authority Pension Fund ('the Fund') was established on 29 November 1991 under the Local Government Superannuation (Miscellaneous Provisions) Regulations 1991. The Local Transport Act 2008 changed the names of all English Passenger Transport Authorities to Integrated Transport Authorities. This was effective from the 9th February 2009 under Statutory Instrument 2009 No. 107 (C.08).

The West Midlands Integrated Transport Authority ('ITA') is responsible for the administration of the Fund, but has appointed the City of Wolverhampton Council as agents to administer the Fund on its behalf. The scheme is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:
(i) The Local Government Pension Scheme Regulations 2013 (as amended)
(ii) The Local Government Pension Scheme (Transitional Provisions, Saving and Amendments) Regulations 2014 (as amended)
(iii) The Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

Following the transfer of ownership of West Midlands Travel Limited from local authority to employees' ownership, the West Midlands Passenger Transport Authority entered into an admission agreement with West Midlands Travel Limited whereby 5,556 existing employees of West Midlands Travel Limited transferred on 4 December 1991 from the West Midlands Metropolitan Authorities Pension Fund ('WMPF') to the new Fund. The West Midlands Passenger Transport Authority also entered into an admission agreement with Preston Bus Limited, following their change from local authority to employee ownership. On 31 March 1993, 162 employees of the company were transferred from the Lancashire County Council Pension Fund to the West Midlands Passenger Transport Authority Fund. Preston Bus Limited decided during 2005/06 that it wished to terminate its active membership of the Fund and the Passenger Transport Authority agreed to this request.

Agreement was reached between Preston Bus Limited and 52 of their 56 existing members to terminate their active membership during 2005/2006 in return for a cash lump-sum payment. The 4 active members remaining at 31 March 2006 subsequently agreed to the same offer. There is no provision in the admission agreement for new employees of West Midlands Travel Limited to be admitted to the Fund.

On 17 June 2016, the West Midlands Combined Authority ('WMCA') became responsible for the administration of the Fund. The WMCA was established under Statutory Instrument 2016 No 653 in exercise of the Local Democracy, Economic Development and Construction Act 2009. The effect of the order was that the WMCA is substituted for the ITA as administrator of the fund.

2. Management of the Fund

On 1 April 2015, the strategic management of the assets was transferred from the Finance, Delivery and Performance Monitoring Committee established by the ITA (the administering authority) to the West Midlands Pension Fund Pension Committee. The role of the Committee is to:

- Discharge functions of the administering authority (ITA);
- Put in place and monitor administration of contributions and payment of benefits; and
- Determine and review the provision of resources to discharge the function of the administering authority.

3. Advisors and Officers

Investments and pensions administration are complex areas and the Fund recognises the need for its Committee to receive appropriate and timely advice. The day-to-day oversight of the Fund is delegated to senior pension officers from the WMPF at Wolverhampton City Council.

During the year, the Fund appointed a new actuary, Barnett Waddingham, to replace the outgoing actuary, Mercer Human Resource Consulting.

Against this background its principal advisors are as follows:

HSBC Bank plc	Performance measurement and unitisation
Barnett Waddingham LLP	Actuarial matters
Hymans Robertson LLP	Policy and investment matters relative to liabilities
City of Wolverhampton Council Officers	Investment implementation and administration, oversight of cash flows and pensions administration.
Grant Thornton UK LLP	Scheme auditors

4. Membership

Membership of the Fund at the year end was as follows:

31 March 2015 No		31 March 2016 No
518	Active members	470
3,775	Pensioner members	3,845
887	Deferred members	814
5,180	**Total members**	**5,129**

5. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and

Contributions) Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2016 depending on the level of pay.

Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The latest valuation completed as at 31 March 2013 has set the rates for the period from 1 April 2014 to 31 March 2017. The details of employer's contributions and the actuarial valuation are set out in note 20 to the accounts.

The next valuation will take place as at 31 March 2016.

6. Benefits

With effect from 1 April 2008, new rules were introduced replacing the 1997 scheme. The principal changes were the replacement of 1/80th of pensionable pay for each year of pensionable service plus an automatic lump-sum of three times this amount by one based on 1/60th of pensionable pay for each year of pensionable service with no automatic lump-sum. Part of the annual pension can be commutated for a one-off tax-free lump-sum at a rate of £12 cash for each £1 per annum of pension given up.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. Benefits are index-linked in order to keep pace with inflation. In June 2010, the Government announced that the method of indexation would change from the retail prices index to the consumer prices index. This change took effect from 1 April 2011.

Major changes were introduced to the LGPS from 1 April 2014, in particular the move from basing pensions on final salaries to career-average revalued earnings (CARE), with an accrual rate of 1/49th, and pensions uprated annually in line with the consumer price index. Pension entitlements accrued prior to this date continue to be based on final salary.

7. Bulk annuity insurance arrangement

As an integral part of its risk management and reduction strategy the ITA, in 2011, approved a bulk annuity insurance buy-in and, following a comprehensive procurement process, the policy was put in place on 18th April 2012 with Prudential Retirement Income Limited (Prudential). The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11th August 2011. The insurance provider will pay the cost of the monthly pension payments for current pensioners whilst they or their dependants are entitled to a pension. The initial arrangements do not cover the Preston Bus Company liabilities or future West Midlands Travel Limited pension payments arising from new pensioners or inflation uplifts or pre-October 1986 service.

The financial effect of the buy-in is explained in note 14 to the accounts.

8. Investment strategy

In 2014/15, the ITA Pension Fund's Investment Strategy Panel agreed to change the investment strategy for the Preston Bus Limited section in order to improve its diversification characteristics while West Midlands Travel Limited maintained its original investment strategy. From 1 April 2015, the investments of these companies were unitised to improve reporting and monitoring of the different investment strategies as well as to enable performance information for both employers to be reported separately. Concurrently, HSBC was commissioned to provide the fund accounting platform for these funds.

From July 2015, the Fund elected to receive notional dividend income payment (NDIP) from Legal & General in respect of their UK investments. This decision was made to help maintain a positive cash flow position.

James Aspinall
Director of Corporate Services, West Midlands Combined Authority
(formerly Treasurer to the West Midlands Integrated Transport Authority)

Date: 28 July 2016

STATEMENT OF RESPONSIBILITIES FOR THE PENSION FUND ACCOUNTS

The West Midlands Integrated Transport Authority's responsibilities

The Authority is required:

(i) To make arrangements for the proper administration of the financial affairs of the ITA Pension Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer.

(ii) To manage the affairs of the ITA Pension Fund to secure economic, efficient and effective use of resources and safeguard its assets.

The Treasurer's responsibilities

The Treasurer to the Authority is responsible for the preparation of the ITA Pension Fund Statement of Accounts which is required to present fairly the financial position of the ITA Pension Fund at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this Statement of Accounts, the Treasurer has confirmed that:

- suitable accounting policies have been adopted and then applied consistently;
- judgements and accounting estimates have been made which were reasonable and prudent;
- they comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code);
- proper accounting records have been kept and are up to date;
- reasonable steps were taken for the prevention and detection of fraud and other irregularities.

Certification of the Accounts

I certify that the Statement of Accounts presents fairly the position of the West Midlands Integrated Transport Authority Pension Fund at 31 March 2016 and the financial transactions for the year ended 31 March 2016.

James Aspinall
Director of Corporate Services, West Midlands Combined Authority
(formerlyTreasurer to the West Midlands Integrated Transport Authority)
Date: 28 July 2016

Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the West Midlands Combined Authority Board Committee on 22 July 2016.

Councillor Roger Lawrence
Member of the West Midlands Combined Authority
Date: 28 July 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WEST MIDLANDS COMBINED AUTHORITY

We have audited the pension fund financial statements of the West Midlands Integrated Transport Authority for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. 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 2015/16.

This report is made solely to the members of the West Midlands Combined Authority in respect of the West Midlands Integrated Transport Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of West Midlands Combined Authority, in respect of West Midlands Integrated Transport Authority, 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 West Midlands Integrated Transport Authority and the members of West Midlands Combined Authority, in respect of West Midlands Integrated Transport Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the West Midland Integrated Transport Authority's Statement of Accounts, which includes the pension fund 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund 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 pension fund 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the West Midland Integrated Transport Authority's Statement of Accounts 2015/16 to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the West Midland Integrated Transport Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Grant B Patterson
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

28 July 2016

INVESTMENT REPORT

1. Investment managers

During the year, the Fund had investments with three managers: Legal & General Investment Management, Baillie Gifford and BNY Mellon (who manages the Newton Real Return fund). Legal & General manages equities, gilts and corporate bonds whilst Baillie Gifford and BNY Mellon manage diversified growth funds.

As at the year end the values of the funds under management were as follows:

Total market value 31 March 2015 £'m	%		Total market value 31 March 2016 £'m	%
132.0	62%	Legal and General Investment Management	128.4	62%
39.3	19%	Baillie Gifford	38.8	19%
40.1	19%	Newton	40.5	19%
211.4	100%		**207.7**	100%

2. Investment principles

As required by Section 35 of the Pensions Act 1995 a Statement of Investment Principles (SIP) was reviewed in September 2015 and is available on request or can be found within the Investments section of the Fund's website (http://www.wmpfonline.com/Investments). This SIP is reviewed on a regular basis.

3. Review of investment performance

With the exception of corporate bonds, Legal & General manage their investments on a passive basis with the expectation of making market returns. Corporate bonds are managed on an active basis with the expectation of producing returns above the market using the manager's skills to outperform. In respect of Newton and Baillie Gifford, unlike traditional portfolios, diversified growth funds do not measure their performance against market indices. Instead they aim to earn a consistent return above cash.

Over the last five years the Fund's returns, relative to the bespoke benchmark*, are as follows:

	Year ending 31 March 2012	2013	2014	2015	2016
Fund	+6.5%	+12.6%	+3.0%	+12.7%	-0.7%
Benchmark	+6.8%	+12.3%	+3.8%	+11.5%	+0.9%
Relative	-0.3%	+0.3%	-0.8%	+1.2%	-1.6%

* The bespoke benchmark is a pro-rated combination of the different indices used by the above mentioned managers.

The annualised performance of the Fund over 1, 3, 5 and 10 years is detailed below:

	1 Year	3 Years	5 Years	10 Years
Fund	-0.7%	4.8%	6.7%	5.9%
Benchmark	0.9%	5.3%	7.0%	6.0%
Relative	-1.6%	-0.4%	-0.3%	-0.1%

During the year to 31 March 2016, the Fund underperformed the benchmark by 1.6%. Most of this underperformance was attributable to the diversified growth funds which returned -0.1% against a target of 4.3% for the 12-month period. The equity portfolio matched its benchmark returning -2.4%. The fixed income sector produced a positive return of 1.2% outperforming its benchmark of 1.1%.

The performance of the Fund is reviewed by an independent measurer, HSBC Securities Services. Investment returns are based on bid-point valuations.

4. Custodial arrangements

The ITA Pension Fund currently holds all of its investments in pooled investment vehicles managed by FCA regulated fund managers with administrative and custody arrangements in place to support them. The Fund owns units in investment vehicles (rather than the underlying assets) and obtains and reviews reporting accountants' reports on internal controls from the relevant investment managers to ensure control arrangements are suitable and risks are effectively managed.

Where direct investments are held by the ITA Pension Fund these will be held by our Custodian, HSBC.

Custodian: HSBC Bank plc
HSBC Securities Services, 8 Canada Square, London, E14 5HQ

Assets will be held in the name of: HSBC Global Custody Nominee (UK) Ltd

The Custodian is authorised and regulated by the Financial Conduct Authority (FCA) and the Custodian shall take all reasonable steps to ensure the protection of the Client's assets in accordance with the FCA rules.

WEST MIDLANDS INTEGRATED TRANSPORT AUTHORITY PENSION FUND

FUND ACCOUNT

2014/15 £'000		Notes	2015/16 £'000
	Dealings with members, employers and others directly involved in the fund		
(10,125)	Contributions	5	(10,482)
(4)	Transfers in from other pension funds	6	(65)
(1,991)	Other employer contributions	7	(2,766)
(12,120)			(13,313)
28,364	Benefits	8	28,829
34	Payments to and on account of leavers	9	457
4	Other payments	10	6
872	Management expenses	11	917
29,274			30,209
17,154	**Net withdrawals from dealing with members**		**16,896**
	Returns on investments		
(17,267)	Investment income	12	(18,161)
(24,113)	(Profits) and losses on disposal of investments and changes in the market value of investments	13	2,440
(18,900)	(Increase)/decrease in value of bulk annuity insurance buy-in	14	12,846
(60,280)	**Net return on investments**		**(2,875)**
(43,126)	**Net (increase)/decrease in the net assets available for benefits during the year**		**14,021**
431,760	Net assets of the fund brought forward		474,886
474,886	**Net assets of the fund carried forward**		**460,865**

NET ASSETS STATEMENT

31 March 2015 £'000		Notes	31 March 2016 £'000
211,418	Investment assets	13	207,731
263,720	Bulk annuity insurance buy-in	14	250,874
1,027	Current assets	15	2,746
(1,279)	Current liabilities	16	(486)
474,886	**Net assets of the fund available to fund benefits at the period end**		**460,865**

These financial statements replaced the unaudited financial statements certified by Linda Horne on 27 May 2016. They were approved for issue by the West Midlands Combined Authority Board Committee on 22 July 2016. Events after the balance sheet have been considered up to the date of approval.

NOTES TO THE ACCOUNTS

1. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2015/16 financial year and its position at the year end as at 31 March 2016. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis is disclosed in note 21 of these accounts.

2. Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.

c) Investment income

(i) Interest income
Interest income is recognised in the Fund Account as it accrues, using the effective rate of the financial instrument as at the date of acquisition or origination.

(ii) Distributions from pooled funds
Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

(iii) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

(iv) Benefits underwritten
The annuity purchased (see note 14) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the fund as investment income on an accruals basis.

(v) Dividend income
Dividend income is recognised on the date of the cancellation of units at the mid price in the pooled UK investments held with investment fund managers.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

(i) Value Added Tax
The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

(ii) Income Tax
The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted.

f) Administration expenses

All administration expenses are accounted for on an accruals basis.

The pension administration recharge from Wolverhampton City Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment management expenses

All investment management expenses are accounted for gross on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The costs of the in-house fund management team are recharged to the Fund by Wolverhampton City Council on the same basis as the administration expenses recharge.

h) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. The costs include actuarial fees and professional fees relating to the unitisation exercise.

Net assets statement

i) Financial assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable it is written off to the fund account in the period in which it is recognised.

Investment assets are recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.

The values of investments and the insurance buy-in as shown in the Net Assets Statement have been determined as follows:

Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published. In the case of pooled investment vehicles that are accumulation funds, changes in market value are based on the difference between holding value at the beginning of the year or purchase price to the year end. Income that is reinvested in the fund is net of applicable withholding tax, and is treated as a purchase, with changes in the market value of the investment based on any increment or reduction from the date of purchase.

Diversified growth funds invest in a variety of liquid assets. The value of the underlying assets are derived from several sources including the use of quoted market prices and valuation techniques used by external managers based on significantly observable market data.

The Fund's actuary provides a valuation of the bulk annuity insurance buy-in based on the original value 'rolled forward' subject to actuarial assumptions being applied. On a triennial basis, the value of the buy-in will be revised based upon the detailed outcomes of the actuarial valuation exercise, with the value being ‘rolled forward’ in the intervening years.

The value of the buy-in is derived by mapping projected cashflows to a yield curve (based on market returns on UK government gilt stocks and other instruments of varying durations) in order to determine a market consistent gilt yield for the profile and duration of the buy-in beneficiaries, alongside other demographic assumptions consistent with the 2013 valuation of the Fund.

j) Financial liabilities

Financial liabilities include amounts due for benefits and management expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the fund account in the period in which it is recognised.

k) Foreign currency transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (note 21).

m) Additional voluntary contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (note 17).

3. Critical judgements in applying accounting policies

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 20. This estimate is subject to significant variances based on changes to the underlying assumptions.

4. Assumptions made about the future and other major sources of estimation and uncertainty

The financial statements contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Pension fund liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects on the net pension liability and funding level of changes in individual assumptions have been measured by the Fund's actuaries. The assumptions used are as follows:

Assumptions used	31 March 2016
Discount rate	3.1%
Salary increases	2.0%
Pensions increases	2.0%

The effect on the pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2016	Approx % increase in liabilities	Approx monetary value £m
0.5% p.a. decrease in discount rate	6%	35
One- year increase in member life expectancy	3%	19
0.5% p.a. increase in salary increase rate	1%	3
0.5% p.a. increase in CPI inflation	6%	32

Bulk annuity insurance buy-in:

As detailed in note 14, a bulk annuity insurance buy-in was put in place during 2012/13. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midland Travel Limited pensioners on the pension payroll at 11 August 2011 in return for the payment of a one-off premium.

The value of the buy-in is recalculated at each year end by the consulting actuary. The value as at 31 March 2016 is based on the roll-forward of the actuarial valuation as at 31 March 2013 and adjusted for estimated pension payments and discount rate.

The key underlying inputs for the buy-in valuation are the discount rate and life expectancy. The impact of changes in these is shown below:

Change in assumptions - year ended 31 March 2016	**Approx % increase in liabilities**	**Approx monetary value £m**
0.5% decrease in discount rate	5%	12
One-year increase in member life expectancy	4%	9

5. Contributions receivable

2014/15 £'000		**2015/16 £'000**
	Employers	
3,232	Normal contributions	3,057
5,850	Deficit funding	5,850
43	Early retirement costs	624
9,125		9,531
	Members	
996	Normal contributions	947
4	Additional contributions	4
1,000		951
10,125	**Total by category**	**10,482**
	Analysed by member body:	
10,125	Admitted bodies	10,482
10,125	**Total by authority**	**10,482**

Following the 31 March 2013 valuation, employers' contributions for the period from 1 April 2014 to 31 March 2017 have been set at 21.5% (normal contributions) plus £5,500,000 deficit funding for West Midlands Travel Limited and £350,000 deficit funding for Preston Bus Limited (see note 20 for details).

6. Transfer in from other pension funds

2014/15 £'000		2015/16 £'000
	Transfers in	
4	Individual transfers	65
4	**Total**	**65**

7. Other employer contributions

Pre-October 1986 pension increase liablities are the responsibility of the West Midlands Passenger Transport Executive ('PTE'). The PTE makes monthly payments to the West Midlands Pension Fund who then transfers the payments into the Fund. During the year, payments of £2.766m (2015: £2.957m) were made.

In 2014/15, the payments were offset by £966k after a trueing-up exercise conducted by the Fund's actuary following a review of payments made, resulting in net other employer contributions of £1.991m.

8. Benefits payable

2014/15 £'000		2015/16 £'000
	Pensions	
22,356	Retirement pensions	22,833
1,709	Widows' pensions	1,865
16	Children's pensions	13
17	Widowers' pensions	18
24,098		24,729
3,917	Commutation and lump-sum retirement benefits	3,922
358	Lump-sum death benefits	213
(9)	Benefits recharged	(35)
28,364	**Total by category**	**28,829**
	Analysed by member body:	
28,364	Admitted bodies	28,829
28,364	**Total by authority**	**28,829**

9. Payments to and on account of leavers

2014/15 £'000		2015/16 £'000
	Transfers out	
34	Individual transfers out to other schemes and personal pensions	457
34	**Total**	**457**

10. Other payments

2014/15 £'000		2015/16 £'000
4	Interest on late payments	6
4	**Total**	**6**

11. Management expenses

2014/15 £'000		2015/16 £'000
	Administration expenses	
120	Administration - City of Wolverhampton Council	120
120		120
	Investment management expenses	
567	Management fees - external	615
30	Management fees - internal	30
597		645
	Oversight and governance costs	
33	Administration and accountancy - ITA	41
8	Subscriptions	9
14	Actuarial fees	1
19	Audit fees	21
10	Performance monitoring service	15
5	Legal fees	12
64	Professional advisors' fees	51
2	Bank charges and interest	2
155		152
872	**Total**	**917**

Administrative expenses of £194k and investment management expenses of £678k for 2014/15 have been re-analysed under the three separate headings in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Costs.

12. Investment income

2014/15 £'000		2015/16 £'000
-	Interest on cash deposits	4
17,267	Benefits underwritten	17,076
-	Dividend income	1,081
17,267	**Total**	**18,161**

Benefits underwritten relates to income received from the insurance contract with Prudential meeting the liabilities relating to West Midlands Travel Limited pensioners.

Dividend income relates to the notional dividend income payment (NDIP) which enables a policyholder to draw a regular income from the investment funds. The NDIP is based on the underlying yields from UK investments held by the relevant investment funds and is made available through cancellation of units of the investment funds at the mid price.

13. Investments

Reconciliation of movements in investments:

Movements during 2015/16	Market value 1 April 2015 £'000	Purchases during the year £'000	Sales during the year £'000	Management fees deducted £'000	Change in market value during the year £'000	Market value 31 March 2016 £'000
Pooled investment vehicles						
Unquoted:						
UK - unitised insurance policies	56,244	-	(990)	-	(844)	54,410
Overseas - unitised insurance policies	75,789	-	-	-	(1,756)	74,033
Quoted:						
Diversified growth funds	79,385	38,216	(38,216)	(257)	160	79,288
Total investments	**211,418**	**38,216**	**(39,206)**	**(257)**	**(2,440)**	**207,731**

Prior year comparatives:

Movements during 2014/15	Market value 1 April 2014 £'000	Purchases during the year £'000	Sales during the year £'000	Management fees deducted £'000	Change in market value during the year £'000	Market value 31 March 2015 £'000
Pooled investment vehicles						
Unquoted:						
UK - unitised insurance policies	52,472	7,325	(7,299)	-	3,746	56,244
Overseas - unitised insurance policies	64,567	5,350	(8,869)	-	14,741	75,789
Quoted:						
Diversified growth funds	66,280	43,600	(35,906)	(215)	5,626	79,385
Total investments	**183,319**	**56,275**	**(52,074)**	**(215)**	**24,113**	**211,418**

Purchases include transfers in of investments, corporate actions, increases in cash deposits and increases in net settlements due. Sales proceeds include all receipts from sales of investments, transfers out of investments, corporate actions, reductions in cash deposits and reductions in net settlements due. The change in market value of investments during the year comprises all increases and decreases in the market value of investments held including profits and losses realised on sales of investments during the year.

Investments analysed by fund manager:

31 March 2015			31 March 2016	
Market value £'000	% of total fund		Market value £'000	% of total fund
132,033	62%	Legal and General Investment Management	128,442	62%
39,288	19%	Baillie Gifford	38,838	19%
40,097	19%	BNY Mellon	40,451	19%
211,418	100%		**207,731**	100%

Investments analysed by security:

31 March 2015			31 March 2016	
Market value £'000	% of total fund		Market value £'000	% of total fund
		UK equities		
8,153	4%	UK Equity Index	7,635	4%
8,153	4%		7,635	4%
		Overseas equities		
21,149	10%	Europe (ex UK) Equity Index	20,257	10%
25,412	12%	North America Equity Index	26,326	13%
9,106	4%	Japan Equity Index	8,825	4%
12,005	6%	World Emerging Markets Equity Index	10,943	5%
8,117	4%	Asia Pacific (ex Japan) Dev Equity Index	7,682	4%
75,789	36%		74,033	36%
		Gilts and bonds		
24,402	12%	All Stocks Index-Linked Gilts	23,663	11%
23,689	11%	Active Corporate Bond - All Stocks	23,111	11%
-	0%	All Stocks Gilts Index	-	0%
48,091	22%		46,774	22%
		Diversified growth funds*		
39,288	19%	Baillie Gifford	38,838	19%
40,097	19%	Newton	40,451	19%
79,385	38%		79,289	38%
211,418	**100%**	**Total market value**	**207,731**	**100%**

*Diversified growth funds are multi-asset portfolios that are designed to provide equity type returns but with less volatility than an equity fund. All tactical asset allocation decisions are undertaken by the manager to suit the prevailing market conditions.

As part of its risk management arrangements, the Fund uses pooled investment vehicles and has no direct shareholding in companies.

14. Bulk annuity insurance buy-in

As an integral part of its risk management and reduction strategy, the ITA, in 2011, approved a bulk annuity insurance buy-in and, following a comprehensive procurement process, the policy was put in place on 18 April 2012 with Prudential Retirement Income Limited (Prudential). The insurance cover provides that the insurer underwrites the risk for meeting the liabilities relating to West Midlands Travel Limited pensioners on the pension payroll at 11 August 2011.

Benefits recharged to Prudential during the year have been credited to the Fund account and the buy-in recognised in the net assets statement as follows:

31 March 2015 £'000		31 March 2016 £'000
244,820	Opening market value of buy-in contract	263,720
18,900	Increase/(decrease) in value	(12,846)
263,720	**Closing market value**	**250,874**

The main reason for the reduction in the valuation of the buy-in asset from 31 March 2015 to 31 March 2016 is the payment of pensions due under the policy. In isolation, this led to a reduction in the value of the buy-in asset of approximately £17m. Otherwise, market conditions used to value the buy-in asset have remained at a similar level to last year.

15. Current Assets

31 March 2015 £'000		31 March 2016 £'000
	Debtors	
151	Contributions due - employers	232
47	Contributions due - members	73
50	Sundry debtors	93
248		398
779	Cash balances	2,348
1,027	**Total**	**2,746**
	Analysis of debtors:	
19	Other local authorities and pension funds	63
229	Other entities and individuals	335
248	**Total**	**398**

Included within cash balances is £2.07m (2015: £nil) placed in West Midlands Pension Fund's RBS Corporate Cash Manager account.

16. Current liabilities

31 March 2015 £'000		31 March 2016 £'000
10	Benefits payable	65
1,269	Sundry creditors	421
1,279	**Total**	**486**
	Analysis of creditors:	
238	Central government bodies	246
859	Other local authorities and pension funds	64
182	Other entities and individuals	176
1,279	**Total**	**486**

Within sundry creditors is an amount of £nil (2015: £966k) due to West Midlands Pension Fund following the pre-86 recharge true-up exercise carried out (see note 7).

17. Additional voluntary contributions

As well as joining the Fund, scheme members can pay into an additional voluntary contribution (AVC) scheme run by two AVC providers. Contributions are paid directly from scheme members to the AVC providers.

The contributions and the investments are not included within the Fund accounts, in line with regulation 4 (2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009. The table below shows the activity for each AVC provider in the year.

2014/15			2015/16	
Equitable Life £'000	Prudential £'000		Equitable Life £'000	Prudential £'000
159	670	**Opening value of the fund**	165	719
1	125	Income	1	109
(4)	(145)	Expenditure	(11)	(135)
9	69	Change in market value	2	3
165	**719**	**Closing value of the fund**	**157**	**696**

18. Financial instruments

The following table analyses the carrying amounts of financial assets and liabilities by category and Net Aassets Statement heading, together with a comparison to their fair value. No financial assets were reclassified during the accounting period.

31 March 2015					31 March 2016			
Carrying amount £'000	Amortised cost £'000	Fair value £'000	Gains and losses/ interest income £'000		Carrying amount £'000	Amortised cost £'000	Fair value £'000	Gains and losses/ interest income £'000
				Financial assets				
				Designated at fair value through profit and loss:				
211,418	-	211,418	24,113	Investment assets	207,731	-	207,731	(2,440)
263,720	-	263,720	18,900	Bulk annuity insurance - buy in	250,874	-	250,874	(12,846)
475,138	-	475,138	43,013		458,605	-	458,605	(15,286)
				Loans and receivables:				
248	248	-	-	Debtors	398	398	-	-
779	779	-	-	Cash balances	2,348	2,348	-	-
1,027	1,027	-	-		2,746	2,746	-	-
476,165	**1,027**	**475,138**	**43,013**	**Total financial assets**	**461,351**	**2,746**	**458,605**	**(15,286)**
				Financial liabilities				
(1,279)	(1,279)	-	-	Creditors	(486)	(486)	-	-
(1,279)	**(1,279)**	**-**	**-**	**Total financial liabilities**	**(486)**	**(486)**	**-**	**-**

The following methods and assumptions were used to estimate fair values:

Debtors, cash balances and creditors approximate to their carrying amounts due to the short-term nature of these instruments. Investment assets are carried in the Net Assets Statement at fair value. These all consist of pooled investment vehicles valued by the respective fund managers based on the bid market quotation of the relevant stock exchange of the individual investments making up the fund portfolio.

The Fund's actuary provides a valuation of the bulk annuity insurance buy-in based on the original value 'rolled forward' subject to actuarial assumptions being applied. On a triennial basis, the value of the buy-in will be revised based upon the detailed outcomes of the actuarial valuation exercise, with the value being 'rolled forward' in the intervening years. The next valuation will take place as at 31 March 2016.

Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not

considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2016	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	128,442	79,289	250,874	458,605
Total financial assets	**128,442**	**79,289**	**250,874**	**458,605**

Values at 31 March 2015	Quoted market price Level 1 £'000	Using observable inputs Level 2 £'000	With significant unobservable inputs Level 3 £'000	Total £'000
Financial assets				
Financial assets at fair value through profit and loss	132,033	79,385	263,720	475,138
Total financial assets	**132,033**	**79,385**	**263,720**	**475,138**

19. Pension fund risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall pension fund risk management programme which focuses on the unpredictability of financial markets, and seeks to minimise potential adverse effects on the resources available to fund services.

Responsibility for the Fund's risk management strategy rests with the West Midlands Pension Fund Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's activities. Policies are reviewed regularly to reflect changes in activity and in market conditions. Policies covering specific areas relating to the ITA Pension Fund are as follows:

Investment risk

In order to achieve its statutory obligations to pay pensions, the Fund invests its assets, including employer and employee contributions, in a way that allows it to meet its liabilities as they fall due for payment. It does this by matching assets to liabilities through the triennial actuarial valuation and an appropriate asset allocation.

During the year, excluding the bulk annuity buy-in, the Fund targeted a 73-79% exposure to equities as ‘growth’ assets and 21-27% to ‘matching’ assets, such as UK bonds or gilts which provide the best match for liabilities, i.e. payments of benefits to members in future years. Risks in growth assets include market risk (the greatest risk), issuer risk and volatility, which are mitigated by diversification across asset classes, markets and sectors. Mitigating interest rate risk and inflation risk points to significant investment in bonds, but doing so at the expense of ‘growth’ assets may increase the costs of funding. ‘Matching assets’ backed by the UK Government are considered low risk, with corporate bonds carrying some additional issuer risk.

Counterparty risk

In deciding to effect any transaction for the Fund, considerable steps are taken to ensure that the counterparty is suitable and reliable, that the transaction is in line with the Fund’s strategy and that the terms and circumstances of the transaction are the best available in the relevant market at the time. Comprehensive due diligence processes are in place to ensure that any potential counterparty is authorised and regulated, competent to deal in investments of the type and size contemplated and has appropriate administration arrangements with regard to independent auditors, robust administration and accounting, relevant legal structure and experienced staff.

Legal agreements are implemented and continuous monitoring of counterparties is undertaken by fund officers in relation to suitability and performance, in addition to compliance with regulatory and Fund-specific requirements.

Credit risk

The Fund’s deposits with financial institutions as at 1 April 2015 or the 31 March 2016 are disclosed in note 15. The Fund’s surplus cash may be placed with an approved financial institution on a short-term basis and in accordance with the cash management policy and restrictions set out in the Compliance Manual. The policy specifies the cash deposit limit with each approved counterparty, as determined by a comprehensive scoring exercise undertaken by fund officers using specialist rating and market research data, which is reviewed on a regular basis.

Liquidity risk

The Fund has a comprehensive daily cash flow management procedure which seeks to ensure that cash is available as needed. When additional deposits are required to meet future pension payrolls, cash is provided by one of the investment managers (in accordance with the asset allocation) who will liquidate a small proportion of assets under management as instructed by the Fund. Due to the cash flow management procedures and the liquidity of the assets held, there is no significant risk that the Fund will be unable to raise cash in order to meet its liabilities.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Even though the Fund has no financial assets denominated in foreign currencies, it is exposed to currency risk on its overseas equity portfolio as the movement in value takes account of changes in exchange rates of the underlying investments.

The aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level.

Price risk sensitivity analysis

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Fund's asset allocations. In consultation with the Fund's performance advisors, the Fund has determined that the following future movements in market price risk are reasonably possible based on 2015/16 closing values:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	7,635	17.1%	8,941	6,329
Overseas equities	74,033	19.6%	88,543	59,523
Total bonds	23,111	8.0%	24,960	21,262
Index linked	23,663	8.0%	25,556	21,770
Diversified growth funds	79,288	12.0%	88,803	69,773
Cash	2,349	0.0%	2,349	2,349
Total assets	**210,079**		**239,152**	**181,006**

The potential price changes on the 2014/2015 closing values are shown below for comparison purposes:

Asset type	Value £'000	% Change	Value on increase £'000	Value on decrease £'000
UK equities	8,153	17.2%	9,555	6,751
Overseas equities	75,789	17.2%	88,825	62,753
Total bonds	23,689	3.6%	24,542	22,836
Index linked	24,402	8.4%	26,452	22,352
Diversified growth funds	79,385	11.6%	88,594	70,176
Cash	779	4.5%	814	744
Total assets	**212,197**		**238,782**	**185,612**

Interest rate risk and sensitivity analysis

The Fund’s investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Carrying amount as at 31 March 2015 £'000	Change in year in the net assets available to pay benefits £'000	£'000	Asset type	Carrying amount as at 31 March 2016 £'000	Change in year in the net assets available to pay benefits £'000	£'000
	+100BPS*	-100BPS*			+100BPS*	-100BPS*
779	8	(8)	Cash and cash equivalents	2,348	23	(23)
48,091	481	(481)	Fixed interest securities	46,774	468	(468)
48,870	**489**	**(489)**	**Total change in assets**	**49,122**	**491**	**(491)**

***BPS – basis points

Regulatory risk

These include any changes to pension regulations e.g. more favourable benefits packages and/or HMRC rules. In order to manage this risk, changes to regulations are continuously monitored.

20. Funding arrangements

In line with the Local Government Pension Scheme Regulations 2013, the Fund’s actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2013. As a result, employers’ contributions have been adjusted from 1 April 2014.

The key elements of the funding policy are:

- to ensure the long-term solvency of the fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so
- to use reasonable measures to reduce the risk to other employers and, ultimately, to the council tax payer from an employer defaulting on its pension obligations.

The results of the valuation as at 31 March 2010 and 31 March 2013 and the actuarial assumptions used are shown below.

Valuation results	**31 March 2013 Valuation**	**31 March 2010 Valuation**
Funding target as % of existing and prospective liabilities	100%	100%
Common rate of employer's contributions (calculated using the attained age method)	21.5%	18.4%
Market value of the fund	£449m	£382m
Actuarial value of the fund	£563m	£453m
Funding level in relation to past service liabilities	84%	84%
Offset to allow for market changes after the valuation date*	(£28m)	n/a
Deficit in relation to past service	(£86m)	(£71m)

*allows for impact on assets and liabilities

Valuation assumptions	2013 valuation	2010 valuation
	Funding target	Funding target
Investment return pre-retirement	5.5% p.a.	7.0% p.a.
Investment return post-retirement (non-retired members)	3.5% p.a.	5.0% p.a.
Investment return (retired members - non buy-in)	3.5% p.a.	4.5% p.a.
Investment return (retired members - buy-in)	3.0% p.a.	n/a
Salary increases	2.6% p.a.	4.5% p.a.
Pension increases in payment	2.6% p.a.	3.0% p.a.
Retired members' mortality - base tables	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments	CMI self administered pensions schemes (SAPS) tables with scheme and member category specific adjustments
Retired members' mortality - future improvements	CMI 2013 model methodology with 1.25%p.a. long-term trend	CMI 2009 model methodology with 1.0%p.a. long-term trend
Commutation assumption	50% of retiring members will take the maximum tax-free lump available and 50% will take the standard 3/80ths cash sum	

Following the 31 March 2013 valuation, employers' contribution rates for the period from 1 April 2014 to 31 March 2017 have been set at 21.5% plus £5,500,000 per annum for West Midlands Travel Limited. This is conditional on the provision of suitable guarantee arrangements being put in place relating to its participation in the fund. These arrangements were approved by the Pension Fund Committee in May 2011 and continue to apply.

A rate of 0% plus £350,000 per annum was determined as the appropriate rate for Preston Bus Limited following the 31 March 2013 valuation. This followed the decision by Preston Bus Limited to opt out of the scheme in February 2006. The annual lump-sum only payment will continue to be paid in order to cover the past service default that has accrued.

If non ill-health retirements exceed those provided for in the valuation, it may be necessary to review the employers' contribution rate. The funding method adopted is known as the ‘attained age method’ which is consistent with the funding objective and appropriate as the fund is closed to new members and has an ageing membership profile.

The Fund’s assets at 31 March 2016 valuation was £461m, of this £251m was in respect of the buy-in asset value with the remaining representing the Fund’s invested assets.

21. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see note 20). The actuary has also used valued ill health and death benefits in line with IAS 19. Demographic assumptions are the same as those used for funding purposes.

The actuarial present value of promised retirement benefits at 31 March 2016 was £560.6m (2015: £562m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2013 triennial funding valuation (see note 20) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

31 March 2015	Assumptions used	31 March 2016
3.2%	Discount rate	3.1%
2.0%	Salary increases	2.0%
2.0%	Pensions increases	2.0%

22. Related party transactions

West Midlands Passenger Transport Executive recharges administrative costs incurred to the Pension Fund. The recharges for the year ended 31 March 2016 are £41,000 (2015: £33,000), as detailed in note 11. There are no other related party disclosures, as none of the members of the West Midlands Pension Fund Pension Committee or the employees of the Fund's advisors and officers who hold key positions are members of the Fund.

THE COMPLIANCE STATEMENT

1. Tax status of the scheme

The scheme is a registered scheme and, to the trustee's knowledge, there is no reason why such registration should be prejudiced or withdrawn.

2. Pension increases

There was a 1.2% increase in pensions during the year in line with legislative requirements and no further discretionary increases were applied.

3. Calculation of transfers

Transfer values quoted and subsequently paid by the Fund includes monetary amounts where relevant, to represent any discretionary benefits awarded by an employer or otherwise.

Where awarded, discretionary benefits are in the form of service which is included within the total service used to calculate a cash equivalent transfer value which represent the monetary value of the members pension rights.

STATEMENT BY THE CONSULTING ACTUARY

Introduction

The last full triennial valuation of the West Midlands Pension Fund was carried out as at 31 March 2013 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

Asset value and funding level

The market value of the Fund's assets as at 31 March 2013 including the value of the insurance policy held with Prudential in relation to certain pension payments from the Fund was £449m. The value of the Fund's accrued liabilities was £563m at that date, allowing for future increases in pay and pensions in payment, resulting in a deficit of £114m. An allowance for significant changes in financial markets following the valuation date reduced the deficit to £86m and a funding level of 84%.

The deficit of £86m was taken into account when considering the deficit contribution requirements for employers (alongside any previous arrangements with employers regarding contribution rates that were in place).

2013 valuation results

The valuation also showed that a common rate of contribution of 21.5% of pensionable pay p.a. was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allowed for the new LGPS benefit structure which became effective from 1 April 2014.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2014.

In addition to the certified contributions, payments to cover additional liabilities arising from early retirements (both ill health and non-ill health retirements) will be made to the Fund by the employers.

Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Assumptions

The assumptions used to value the benefits at 31 March 2013 are summarised below (split between the two employers):

Assumption	31 March 2013
Discount rate (West Midlands Travel Ltd)	Pre-retirement (non-pensioners) – 5.5% p.a. Post-retirement (non-pensioners) – 3.5% p.a. Post-retirement (non-buy-in pensioners) – 3.5% p.a. Post-retirement (buy-in pensioners) – 3.0% p.a. Buy-in asset valuation – 2.5% p.a.
Discount rate (Preston Bus Ltd)	Pre-retirement – 5.0% p.a. Post-retirement – 3.0% p.a.
Pension increases	2.6% p.a.
Salary increases	2.6% p.a.
Mortality	S1PA tables with a multiplier of 111% for males and 103% for females with projected improvements in line with the 2013 CMI model allowing for a long term rate of improvement of 1.25% p.a.
Retirement	For those members who are entitled to receive their accrued benefits (or part of those benefits) prior to the Fund's normal pension age, a proportion of the active membership is assumed to retire in normal health prior to age 65
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Further details regarding the assumptions, and the allowance for changes in post valuation date market conditions are contained in the formal report on the actuarial valuation dated 31 March 2014.

The Fund's invested assets were assessed at market value. The buy-in asset valuation was derived based on the assumptions set out in the report which are consistent with the assumptions to calculate the liabilities allowing for the profile of payments expected from the buy-in asset.

Updated position since the 2013 valuation

Since March 2013, the financial position of the Fund is likely to have deteriorated, mainly due to a decrease in the real discount rates underlying the valuation funding model.

The next actuarial valuation is due as at 31 March 2016 and the resulting contribution rates required by the employers will take effect from 1 April 2017. We will continue to monitor the financial position of the Fund on a regular basis.

Graeme D Muir FFA
Partner
Barnett Waddingham LLP