BRITISH TRANSPORT POLICE

Agenda Item 7

REPORT TO:	**Audit Committee**
DATE:	**28 June 2011**
SUBJECT:	**Statement of Accounts 2010-11**
SPONSOR:	**Director of Finance & Corporate Services**
AUTHOR:	**Head of Finance**

1. PURPOSE OF PAPER

1.1 This report presents the statutory Statement of Accounts covering the 2010-11 financial year to the Audit Committee for recommendation to the British Transport Police Authority (BTPA) following the conclusion of the external audit by the National Audit Office (NAO).

2. BACKGROUND

2.1 The Statement of Accounts for 2010-11 is attached at Annex A. It has been produced in accordance with the accounts direction issued by HM Treasury contained in the Government Financial Reporting Manual (FReM) and also in accordance with section 51 of the Railways and Transport Safety Act 2002. All Members were sent drafts of the complete set of financial statements and comments received have been incorporated in the final set presented in the Appendix. It is worth noting that a late adjustment has been made from this set, this is explained in paragraphs 4.3, 7.4 and 7.5 below.

2.3 HM Treasury has set a target for central government accounts to receive an unqualified audit opinion and to be laid in Parliament before the commencement of the summer recess. Scrutiny by this Committee is the first step to ensuring that the BTPA meets this deadline, the next steps are for the Statement of Accounts to be recommended for approval to the BTPA and then to be signed by the Chief Executive (as the Accounting Officer) and then by the Comptroller and Auditor General, before being laid before Parliament.

3. 2010-11 AUDIT

3.1 The audit of the 2010-11 accounts is complete and the Statement of Accounts is presented to this committee for recommendation for approval to the BTPA. The International Standard on Auditing (ISA) 260 requires the NAO to communicate certain aspects of the results of the audit to those charged with responsibility for governance. In accordance with the ISA 260, the BTPA has received a formal opinion from the NAO and their report is elsewhere on the agenda of this meeting.

3.2 There has also been liaison between the NAO and BTPAs internal auditors to ensure that where ever possible reliance can be placed on internal audit's work, and this has reduced the time required by the NAO to complete the year end audit.

4. 2010-11 FINAL OUTTURN

4.1 During 2010/11 there was very close monitoring of expenditure and income to ensure that BTP and BTPA delivered their strategic objectives within the approved budget. This was achieved via reporting and scrutiny of the year to date and full year forecast of expenditure and income against budget at four weekly Finance Review meetings chaired by the Director of Finance and Corporate Services. The position was reported each period internally within BTP through formal reports to Programme Board and the Senior Command Team and then on a quarterly basis throughout the year to the Finance Group and Main Authority of the BTPA.

4.2 On 5 May the provisional out-turn for BTP expenditure excluding the BTPA's own costs was reported to the BTPA as net expenditure of £197,413k (a surplus against budget of £4,764k) – but noting that this was before any further technical accounting adjustments and subject to any changes required by the NAO as a result of the audit. The Authority Finance Director reported the BTPA's own expenditure as an out-turn of £1,892k, an underspend of £25k. In total the underspend for the Authority and the Force was £4,789k.

4.3 As a result of the required entries within the revenue account to comply with the relevant accounting standards (IFRS) and to make some changes required by the NAO, the Statement of Comprehensive Income (Income & Expenditure Account) in the Statement of Accounts shows a surplus of £95,455k. The table below provides a reconciliation of the figures previously reported to the final out-turn for the year.

Table 1 – Reconciliation between Year End Management Accounts and Financial Accounts

	£000	Comment
Underspend reported to BTPA on 5 May	**(4,789)**	
Change from RPI to CPI in pension disclosure (IAS19)	(135,700)	One off financial accounting adjustment required by HM Treasury
Pension adjustment (IAS19)	42,540	This is a financial accounting requirement.
Structural Income gap	2,528	Comprising the difference between budgeted PSA income and the PSA charged as per the charging model. This is funded by the DfT.
Adjustment for JR bad debt	1,430	This is funded by the DfT
Classification of revenue spend as capital for the purpose of Financial Accounts presentation	(2,179)	This comprises various projects financed from revenue, including ITC 50 days of change, the WAN upgrade and video conferencing equipment.
Financial Accounting adjustments	715	This includes an fixed asset indexing adjustment required by central government financial accounting and some minor prior year adjustments and the set aside of a reserve for the purchase of new uniforms
Surplus as per Financial Accounts	**(95,455)**	

5. CHANGE IN ACCOUNTING POLICIES

5.1 The only change in accounting policies for 2010-11 is the decision by HM Treasury to eliminate the requirement to show the cost of capital in the statutory accounts. As this is a disclosure item only in the BTP accounts this change has no affect on the final position.

6. IMPACT OF THE JUDICIAL REVIEW

6.1 During 2010-11 all disputes with PSA holders arising from the JR were settled. As a result the bad debt provision for JR disputes as at 31 March 2011 is zero.

6.2 During the year the irrecoverable gap between budget and core PSA charges totalled £2,528k. This has arisen because of using two different models to recover core PSA income. The gap has been authorised by the DfT formally and the shortfall will be met by the DfT as the cash need arises.

6.3 The Loan Agreement with the Department for Transport (DfT) provides appropriate cover for those charges that become irrecoverable as a result of the JR or any further disputes. In 2009-10 £33,500k was received from the DfT of which £20,956k was converted to grant in that year. In 2010-11 the remaining £12,544k loan was converted to grant, and it was agreed with the DfT that in future BTPA would only request further cash assistance if BTPA's cash balances fall to a level where it is forecast that current and future obligations cannot be met. The conversion to grant is explained below:

Table 2 – DfT Cash Loan Conversion to Grant

	£'000
Cash received in 2009-10 from DfT	33,500
Converted to grant in 2009-10	(20,965)
Loan outstanding as at 1 April 2010	**12,535**
Irrecoverable gap 2010-11	(2,528)
GNER settlement	(344)
DB Regio Tyne & Wear settlement	(273)
ATW settlement	(7,915)
DBS settlement	(3,697)
Total amount converted to Grant	**(14,757)**
Amount Financed within BTPA's cash flow	**(2,222)**

6.4 BTPA is financing this shortfall within its cash flow. Cash balances and the forecast cash flow are monitored on a regular basis and requests for cash funding will be made to the DfT as required. This will cover the shortfall above, the 2011-12 irrecoverable gap and funding for Olympics expenditure.

7. IMPACT OF IAS19 (FRS17) ON BTPA's ACCOUNTS

7.1 The purpose of the International Accounting Standard IAS19 is to ensure that financial statements reflect the assets and liabilities arising from the organisation's pension schemes, and that the cost of providing benefits to employees is recognised in the year in which those benefits are earned. The amounts relating to pensions for inclusion in the accounts under this standard are calculated by BTP's Actuary, Mercer. These calculations have to be made as at 31 March each year and are therefore not available until after the year end.

7.2 The effects of FRS 17 are shown in both the income and expenditure account and the Statement of Financial Position (Balance Sheet).

7.3 The income and expenditure account shows the effect of contributions and interest earned offset by payments to members and interest paid on liabilities. The FRS17 deficit has decreased by £266m due to gains on the schemes investments.

7.4 The income and expenditure account also shows the effect of a one off notional credit of £135.7m resulting from the change in indexation of pensions from RPI to CPI. In the UK Budget Statement of 22 June 2010, the Chancellor of the Exchequer announced that, with effect from 1 April 2011, the Government would use the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for the price indexation of benefits and tax credits; and that this would also apply to public service pensions through the statutory link to the indexation of the Second State Pension.

7.5 The British Transport Police Force Superannuation Fund (BTPFSF) and the Railways Pension Scheme (RPS) are private section schemes, however, according to the rules of both arrangements, pensions in payment and benefits in deferment are increased in the same proportion as official pensions are increased under the Pensions (Increase) Act 1971. The Pensions Increase (Review) Order 2011 provided for official pensions which began before 12 April 2010 to be increased by 3.1% on or after 11 April 2011; this was in line with CPI in September 2010. As a result of this Order an increase of 3.1% was made to benefits in the BTPFSF and the British Transport Police Section of the RPS.

7.6 The Balance Sheet shows the notional value of the net assets and accumulated liabilities for the fund as at 31 March 2011 as calculated by BTP's actuary on the basis of the purchase cost of annuities to fund pension entitlements outstanding at the year end.

7.7 In normal circumstances any business with a net liability would be insolvent; however this has been caused solely by the pension disclosure, and is therefore not the case. The Balance Sheet disclosure is an indication of the liability BTP would have to find if the pension funds were wound up at 31 March 2011. This is accepted in the going concern note to the accounts.

7.8 The DfT has confirmed that the BTPA is a going concern despite the large pensions liability as the probability of the BTPA being required to meet this liability is very remote. In the circumstances the fact that the BTPA has sufficient funds to meet its day to day liabilities is of more importance in determining that the BTPA is a going concern. It has been agreed that this will be kept under review and form part of the regular discussions held between the BTPA and DfT over finance issues.

8. THE NEXT STEPS

8.1 Assuming recommendation of approval of the Accounts by the Audit Committee at the meeting today, the BTPA will be asked to approve the accounts at its meeting on 7 July. The next step will be for the Chief Executive as Accounting Officer to sign the accounts, the letter of Representation and they will then be sent to the NAO for the Comptroller and Auditor General to sign off before sending to TSO (publishers) who will publish and file the accounts with Parliament before the summer recess.

9. FINANCIAL IMPLICATIONS

9.1 There are no immediate financial implications associated with the recommendations in this report.

10. RECOMMENDATIONS

10.1 It is recommended that the Committee recommend to the BTPA that the Statement of Accounts for 2010-11 be approved.