

**Audited Financial Statements 2013/14 and  
Report to Those Charged with Governance on the 2013/14 Audit**

**1 Introduction**

- 1.1 The purpose of this report is to present the audited financial statements for the year ended 31st March, 2014. A copy of the audited accounts is appended to this report (Appendix 1), together with Audit Scotland's Report to Those Charged with Governance on the 2013/14 Audit (Appendix 2).

**2 Main Report**

- 2.1 Audit Scotland, the Partnership's auditor, has concluded the audit of the financial statements for the year ended 31<sup>st</sup> March 2014. There are no qualifications to the audit certificate which appears on pages 46 and 47 of the accounts. The Auditor's opinion states that the financial statements present a true and fair view of the financial position of the Partnership as at 31st March 2014 and its income and expenditure for the year then ended.
- 2.2. The Foreword by the Treasurer on pages 7 to 9 of the accounts highlights key aspects of financial performance during the year.
- 2.3. The audited financial statements were considered at the Performance and Audit Committee meeting of 12<sup>th</sup> September 2014, together with the Audit Scotland report to Those Charged with Governance on the 2013/14 Audit. The Chair of the Performance and Audit Committee will have an opportunity to report to the Board on any issue arising from the Performance and Audit Committee's consideration of these items.

**3 Recommendations**

It is recommended that the partnership Board notes:

- 3.1 the audited accounts and the Auditor's opinion in the audit certificate to the accounts;
- 3.2 the Audit Scotland report to Those Charged with Governance on the 2013/14 Audit.

**HUGH DUNN**  
Treasurer  
26th September 2014

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**Appendices**

1 - Audited Financial Statements 2013/2014

2 - Report to Those Charged with Governance on the 2013/14 Audit

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**The South East of Scotland  
Transport Partnership  
(SESTRAN)**

**Audited  
Financial Statements**

**2013/2014**

# The South East of Scotland Transport Partnership (SESTRAN)

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# The South East of Scotland Transport Partnership (SESTRAN)

## ANNUAL GOVERNANCE STATEMENT 2013/14

### 1. Scope of Responsibility

The South East of Scotland Transport Partnership's aim is to develop a transportation system for South East Scotland, as outlined in the Partnership's Regional Transport Strategy 2008 - 2023.

The Partnership is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for and used economically, efficiently, effectively and ethically. The Partnership also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities, Elected Members and Senior Officers are responsible for implementing proper arrangements for the governance of the Partnership's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Partnership has approved and adopted a Local Code of Corporate Governance which is consistent with appropriate corporate governance principles and is supported by detailed evidence of compliance, which is regularly reviewed.

This statement explains how the Partnership delivers good governance and reviews the effectiveness of these arrangements. It also includes a statement on internal financial control in accordance with proper practice.

### 2. The Partnership's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Partnership is directed and controlled, and its activities through which it accounts to, engages with and influences the community. It enables the Partnership to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance:

- Focusing on the purpose of the Partnership and on outcomes for the community, and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting values for the Partnership and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective;
- Engaging with local people and other stakeholders to ensure robust public accountability.

A significant part of the governance framework is the system of internal control which is based on an ongoing process designed to identify and manage the risks to the achievement of the Partnership's policies, aims and objectives. These are defined in the Partnership's Business Plan, which is updated annually. This will enable the Partnership to manage its key risks efficiently, effectively, economically and ethically.

# The South East of Scotland Transport Partnership (SESTRAN)

## ANNUAL GOVERNANCE STATEMENT 2013/14 (contd.)

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

While the system of internal control is designed to manage risk at 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.

### 3. Determining the Partnership's purpose, its vision for the local area and intended outcomes for the Community

The Partnership aims to develop a transportation system for South East Scotland which will enable business to function effectively and provide everyone living in the Region with improved access to health care, education, public services and employment opportunities. The vision for achieving this is outlined in the Regional Transport Strategy.

The Business Plan defines how to implement the aims of this strategy and the Annual Report provides a report of performance against objectives, targets and performance indicators as outlined in the Regional Transport Strategy.

### 4. Review of Effectiveness

The Partnership has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within the Partnership has been nominated to review the effectiveness of the Local Code and will report annually to the Partnership Board.

The review of the effectiveness of its governance framework including the system of internal financial control is informed by:

- the work of the Internal Auditors and the Head of Internal Audit's Annual Statement on the adequacy and effectiveness of the Partnership's system of internal financial control;
- the Partnership Director's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Partnership managers;
- the External Auditors in their Annual Audit Report and other reports; and
- other inspection agencies comments and reports.

Through the year Elected Members and Officers have responsibility for the development and maintenance of the governance environment. These review mechanisms include:

- **The Partnership Board** provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Partnership's performance.
- **The Performance and Audit Committee** demonstrates the Partnership's commitment to the principles of good governance. It scrutinises the running of the Partnership and suggests improvements.

# The South East of Scotland Transport Partnership (SESTRAN)

## ANNUAL GOVERNANCE STATEMENT 2013/14 (contd.)

### 4. Review of Effectiveness (continued)

- **Internal Audit** provides an independent and objective assurance service to the Partnership by completing a programme of reviews throughout the year, to provide an opinion on the internal control, risk management and governance arrangements of South East of Scotland Transport Partnership.
- **Audit Scotland's Annual Audit Report** is considered by the Partnership Board and the Performance and Audit Committee along with the output from other external audits and inspections.
- **The Risk Management System** requires that risks are regularly reviewed by the Performance and Audit Committee and the Board. This ensures that actions are taken to effectively manage the Partnership's highest risks.
- **The Legal Officer** is responsible to the Partnership for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.

### 5. Certification

In compliance with accounting practice, the Treasurer has provided the Partnership Director with a statement on the adequacy and effectiveness of the Partnership's internal financial control system for the year ended 31<sup>st</sup> March 2014. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control system.

During the year the Chief Internal Auditor reviewed changes to the current corporate governance arrangements and systems of internal control and his findings are included in the Head of Internal Audit's Annual Report.

From this year's review there is evidence that the Code is operating effectively with overall compliance by the Partnership in all significant areas of its corporate governance arrangements.

Chair of Partnership  
Board:

RUSSELL IMRIE

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Date signed:

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Partnership Director:

ALEX MACAULAY

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Date signed:

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Treasurer:

HUGH DUNN, CPFA

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Date signed:

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# The South East of Scotland Transport Partnership (SESTRAN)

## REMUNERATION REPORT

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### 1. Remuneration Policy for Senior Employees

The Partnership's Board determines initial remuneration for the senior employees with reference to the level of responsibility of the post. The Partnership does not operate a Remuneration Committee.

Annual inflationary increases are based on those agreed by the Scottish Joint Negotiating Committee for Chief Officials of Local Authorities (Scotland).

### 2. Remuneration for Senior Councillors

The Partnership does not provide any remuneration to senior councillors.

Expenses paid to Board members are detailed in note 17 to the financial statements.

### 3. Management of Remuneration Arrangements

The remuneration of the Partnership's employees is managed by the City of Edinburgh Council, as part of a service level agreement with the Partnership.

### 4. Officers Remuneration

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2013/14	2012/13
£50,000 - £54,999	0	1
£80,000 - £84,999	0	0
£85,000 - £89,999	1	1

### 5. Senior Employees Remuneration

The remuneration paid to the Partnership's senior employee is as follows:

Name and Post Title	Salary, Fees and Allowances £'000	Total Remuneration 2013/14 £'000	Total Remuneration 2012/13 £'000
Alex Macaulay - Partnership Director	88	88	87
	<hr/>	<hr/>	<hr/>
	88	88	87

The senior employee in the above table has responsibility for management of the Partnership to the extent that he has power to direct or control the major activities of the Partnership (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with other persons.

### 6. Senior Employees Pension Entitlement

The pension entitlement of the Partnership's senior employee is as follows:

Name and Post Title	In-year pension contributions		Accrued pension benefits	
	2013/14 £'000	2012/13 £'000	As at 31 March 2014 £'000	Difference from 31 March 2013 £'000
Alex Macaulay - Partnership Director	20	20	Pension 10	1
			Lump Sum 9	0
	<hr/>	<hr/>		
	20	20		

The senior employee shown in table above is a member of the Local Government Pension Scheme (LGPS).



# The South East of Scotland Transport Partnership (SESTRAN)

## REMUNERATION REPORT (contd.)

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### 6. Senior Employees Pension Entitlement (cont'd.)

THE LGPS is a final salary pension scheme.

This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non manual employees.

The tiers and members contributions rates for 2013-14 are as follows:

On earnings up to and including £19,800 (5.5%), on earnings above £19,800 and up to £24,200 (7.25%), on earnings above £24,200 and up to £33,200 (8.5%), on earnings above £33,200 and up to £44,200 (9.5%) and on earnings above £44,200 (12%).

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as consequence of their total Regional Transport Partnership service.

All information disclosed in the tables at paragraphs 4, 5 and 6 in this Remuneration Report will be audited by Audit Scotland. The other sections of the Remuneration Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

Chair of Partnership  
Board:

RUSSELL IMRIE

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Date signed:

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Partnership Director:

ALEX MACAULAY

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Date signed:

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# The South East of Scotland Transport Partnership (SESTRAN)

## EXPLANATORY FOREWORD BY THE TREASURER

### Introduction

The audited Statement of Accounts presents the financial position and performance of the Partnership for the year to 31 March 2014. This foreword describes briefly the nature and purpose of each of the statements which follow and the principal items of interest or note, which are contained within the accounts.

The South East of Scotland Transport Partnership (SESTRAN) was established under the Regional Transport Partnerships (Establishment, Constitution and Membership) (Scotland) Order 2005. The Partnership came into force on 1st December 2005. Under Section 3 of the Transport (Scotland) Act 2005, the net expenses of SESTRAN, after allowing for government grant and any other income, are met by its constituent councils.

The constituent councils of SESTRAN are the City of Edinburgh, Clackmannanshire, East Lothian, Falkirk, Fife, Midlothian, Scottish Borders and West Lothian. In 2013/14 the Partnership delivered an approved programme of revenue projects.

### Preparation of Accounts

The Partnership prepares its accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. The Code of Practice is based on International Financial Reporting Standards (IFRS).

The Financial Statements comprise the following statements, together with accompanying explanatory notes:

- **Annual Governance Statement**  
This sets out the framework and arrangements for governance of the Partnership's affairs, including the management of risk.
- **Remuneration Report**  
The Local Authority Accounts (Scotland) Amendment Regulations 2011 require Regional Transport Partnerships to include a Remuneration Report in the Financial Statements. The Remuneration Report discloses information for each senior employee.
- **Statement of Responsibilities for the Statement of Accounts**  
This statement sets out the respective responsibilities of the Partnership and the Treasurer for the accounts.
- **Movement in Reserves Statement**  
This statement shows the movement in the year on different reserves held by the Partnership. This is analysed into "Usable Reserves" (that is, those that can be applied to fund expenditure) and "Unusable Reserves". The Partnership does not have statutory powers to operate a usable reserve.
- **Comprehensive Income and Expenditure Statement**  
  
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.
- **Balance Sheet**  
The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Partnership. The net assets of the Partnership (assets less liabilities) are matched by reserves held by the Partnership.
- **Cash Flow Statement**  
The Cash Flow Statement shows the changes in cash and cash equivalents of the Partnership during the reporting period. The statement shows how the Partnership generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.
- **Statement of Accounting Policies**  
The Statement of Accounting Policies explains the basis for the recognition, measurement and disclosure of transactions and other events shown in the Financial Statements. Some of the Partnership's accounting policies have been amended to reflect the changes made under IFRS.

# The South East of Scotland Transport Partnership (SESTRAN)

## EXPLANATORY FOREWORD BY THE TREASURER (contd.)

### Revenue Budget Performance

The Partnership is required to present its financial performance as a Comprehensive Income and Expenditure Statement. This can be seen on page 12. However, to show the net position of the Partnership and to allow comparison with the approved revenue budget, it is necessary to adjust the expenditure shown in the Comprehensive Income and Expenditure Statement to take account of a number of items where the statutory accounting requirements differ from the management accounting practice of the Partnership. These adjustments are detailed in Note 18.

The approved Revenue budget of the Partnership in 2013/14 was £1.189m. A comparison of the outturn position with the revised budget is summarised below:

	<b>Revised Budget</b>	<b>Outturn</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Core Service	463	433	(30)
Revenue Projects	501	612	111
Capital Project	222	1,731	1,509
Interest	3	1	(2)
<b>Total Expenditure 2013/14</b>	<b>1,189</b>	<b>2,777</b>	<b>1,588</b>
Government Grant	(782)	(782)	0
Constituent Council Requisitions	(200)	(200)	0
Other Income - Revenue Projects	(207)	(345)	(138)
Other Income - Capital Project	0	(1,450)	(1,450)
<b>Total Income 2013/14</b>	<b>(1,189)</b>	<b>(2,777)</b>	<b>(1,588)</b>

The Partnership incurred core service expenditure of £0.433m which was £30,000 below the revised Core Service revenue budget. Interest paid by the Partnership was £2,000 below budget.

The Partnership incurred net expenditure of £0.267m on the revenue projects which was £27,000 under budget. This underspend comprised of £66,000 on other projects, offset by expenditure incurred in 2013/14 of £39,000 on EU Projects which was originally anticipated in 2014/15.

The Partnership also incurred expenditure of £1.731m on the RTPI capital project, funded principally by the European Regional Development Fund, the Bus Investment Fund and by the Partnership's underspend on the 2012/13 Revenue budget (see below).

Overall the Partnership realised a break even position against the budget in 2013/14.

The Partnership had carried forward a balance of £173,000 from an underspend on the 2012/13 Revenue budget for the RTPI project. On 26th March 2014, the Partnership received £648,000 from the Scottish Government's Bus Investment Fund for the RTPI project. During 2013/14, the Partnership used both these funding contributions towards the project. The Partnership Board approved on 6th December 2013 that any underspend on the 2013/14 Revenue budget be used as a commitment towards developing the regional real-time bus passenger travel information. The Partnership's underspend on the 2013/14 Revenue budget was £14,000.

### Material New Assets

The Partnership spent £1,068,000 on 'vehicles, plant and equipment' in 2013/14 towards operational equipment for the regional real-time bus passenger travel information system.

The Partnership also spent £648,000 on 'assets under construction' in 2013/14 towards developing the regional real-time bus passenger travel information system.

# The South East of Scotland Transport Partnership (SESTRAN)

## EXPLANATORY FOREWORD BY THE TREASURER (contd.)

### IAS 19 - Retirement Benefits

International Accounting Standard (IAS) 19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, rather than when payment actually falls due.

Net cost of services in the Comprehensive Income and Expenditure Statement therefore includes an appropriate amount for the retirement benefits the Partnership has committed to pay, while the effect on the amount to be met from government grant and constituent council requisitions has been offset by the inclusion of pensions interest costs and a transfer to the pensions reserve.

### Net Pension Asset/ Liability

The net pension liability, shown in note 23.3 to the Financial Statements, in accordance with the requirements of IAS 19 (Retirement Benefits), amounts to £332,000. The triennial valuation as at 31 March 2011 considered the appropriate employer's contribution rates and this, together with revenues generated from investments, will be utilised to meet the fund's commitments.

### Financial Instruments

The Code of Practice on Local Authority Accounting stipulates that information required by IAS 32 Financial Instruments: Presentation; IAS 39 Financial Instruments: Recognition and measurement; and FRS 7 Financial Instruments: Disclosures; be disclosed by way of a note in the financial statements.

This information is contained in note 11 which details the make up of financial instruments, the key risks which the Partnership is exposed to in the management of its financial instruments, and how those risks are managed.

### Significant Provisions

The Partnership has no significant provisions.

### Material Events After the Reporting Date

There have been no material events after the reporting date.

### Planned Future Service Delivery

On 21st March 2014, the Partnership's Board agreed a revenue budget for 2014/15, which made provision for £0.466m of core service costs and £1.363m of project expenditure in support of Regional Transport Strategy projects. The budget estimates £0.824m of external funding will be available for projects, of which £0.699m is for EU funded projects.

It is considered appropriate to adopt a going concern basis for the preparation of the financial statements.

### Current Economic Climate

In recognition of the current financial constraints faced by public sector organisations, the 2014-15 budget makes provision for no increase in constituent council requisitions. Council and Scottish Government funding is confirmed for a period of one year. The Partnership is working towards identifying further cashable efficiency savings for 2015-16.

Treasurer: HUGH DUNN, CPFA

Date signed: \_\_\_\_\_

# The South East of Scotland Transport Partnership (SESTRAN)

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Partnership's Responsibilities

The Partnership is required:

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

### The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Partnership'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 Code of Practice, except where stated in the Policies and Notes to the Accounts.

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.

### Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Partnership as at 31st March 2014, and its income and expenditure for the year ended 31st March 2014.

Treasurer: HUGH DUNN, CPFA

Date signed: \_\_\_\_\_

# The South East of Scotland Transport Partnership (SESTRAN)

## MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on different reserves held by the Partnership, analysed into "Usable Reserves" (that is, those that can be applied to fund expenditure) and "Unusable Reserves". The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Partnership'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 before any discretionary transfers to or from earmarked reserves undertaken by the Partnership.

2012/13 - Previous Year Comparative (RESTATED)	Usable Reserves		Unusable Reserves	Total Partnership Reserves
	General Fund Balance	Total Usable Reserves		
	£'000	£'000	£'000	£'000
① Opening Balances at 1 April 2012	0	0	(1,356)	(1,356)
② Movement in reserves during 2012/13				
(Surplus) or Deficit on Provision of Services	(726)	(726)	0	(726)
Other Comprehensive Expenditure and Income	0	0	48	48
<b>Total Comprehensive Expenditure and Income</b>	<b>(726)</b>	<b>(726)</b>	<b>48</b>	<b>(678)</b>
③ Adjustments between accounting basis & funding basis under regulations (Note 6)	726	726	(726)	0
Net increase/decrease before transfers to Earmarked Reserves	0	0	(678)	(678)
④ Transfers to/from Earmarked Reserves	0	0	0	0
Increase/Decrease in 2012/13	0	0	(678)	(678)
Balance at 31 March 2013 carried forward	0	0	(2,034)	(2,034)

Due to changes in IAS 19 some prior year comparative figures have been restated - see Note 26 for details.

2013/14 - Current Financial Year	Usable Reserves		Unusable Reserves	Total Partnership Reserves
	General Fund Balance	Total Usable Reserves		
	£'000	£'000	£'000	£'000
① Opening Balances at 1 April 2013	0	0	(2,034)	(2,034)
② Movement in reserves during 2013/14				
(Surplus) or Deficit on Provision of Services	(1,696)	(1,696)	0	(1,696)
Other Comprehensive Expenditure and Income	0	0	43	43
<b>Total Comprehensive Expenditure and Income</b>	<b>(1,696)</b>	<b>(1,696)</b>	<b>43</b>	<b>(1,653)</b>
③ Adjustments between accounting basis & funding basis under regulations (Note 6)	1,696	1,696	(1,696)	0
Net increase/decrease before transfers to Earmarked Reserves	0	0	(1,653)	(1,653)
④ Transfers to/from Earmarked Reserves	0	0	0	0
Increase/Decrease in 2013/14	0	0	(1,653)	(1,653)
Balance at 31 March 2014 carried forward	0	0	(3,687)	(3,687)

# The South East of Scotland Transport Partnership (SESTRAN)

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT 2013/14

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded by government grant, council requisitions and other income.

2012/13 (RESTATED)

2013/14

Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Services	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
1,403	-1,182	221	Highways and Transport Services	1,229	-1,982	(753)
25	0	25	Corporate and Democratic Core	25	0	25
0	0	0	Non Distributed (Gains) / Costs	0	0	0
<b>1,428</b>	<b>(1,182)</b>	<b>246</b>	<b>Cost Of Services</b>	<b>1,254</b>	<b>(1,982)</b>	<b>(728)</b>
0	0	0	Other Operating Expenditure	0	0	0
63	-53	10	Financing & Investment Income (Note 8)	73	-59	14
0	-982	(982)	Taxation and Non-Specific Grant Income (Note 9)	0	-982	(982)
<b>1,491</b>	<b>(2,217)</b>	<b>(726)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>1,327</b>	<b>(3,023)</b>	<b>(1,696)</b>
			<b>Other Comprehensive Income and Expenditure</b>			
168	0	168	Change in Financial Assumptions	65	0	65
0	(2)	(2)	Other Experience	0	-1	(1)
0	(118)	(118)	Expected Return on Assets	0	-21	(21)
<b>168</b>	<b>(120)</b>	<b>48</b>	<b>Total Other Comprehensive Income and Expenditure</b>	<b>65</b>	<b>(22)</b>	<b>43</b>
<b>1,659</b>	<b>(2,337)</b>	<b>(678)</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>1,392</b>	<b>(3,045)</b>	<b>(1,653)</b>

Due to changes in IAS 19 some prior year comparative figures have been restated - see Note 26 for details.

# The South East of Scotland Transport Partnership (SESTRAN)

## BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Partnership. The net assets of the Partnership (assets less liabilities) are matched by the reserves held by the Partnership. Reserves are reported in two categories. The first category of reserves are usable reserves, that is, those reserves that the Partnership may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The Partnership does not have powers to maintain a usable reserve. The second category of reserves are those that the Partnership is not able to use to provide services. This category of reserves include reserves that hold unrealised gains and losses (for example, the Capital Adjustment Account Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

31 March 2013 £'000		Notes	31 March 2014 £'000
2,311	Property, plant and equipment	10.1	4,027
<b>2,311</b>	<b>Long term assets</b>		<b>4,027</b>
451	Short-term debtors	12	1,193
408	Cash and cash equivalents	13	10
<b>859</b>	<b>Current assets</b>		<b>1,203</b>
(861)	Short-term creditors	14	(1,211)
<b>(861)</b>	<b>Current liabilities</b>		<b>(1,211)</b>
-275	Other long-term liabilities (Pensions)	16.2	(332)
<b>(275)</b>	<b>Long-term liabilities</b>		<b>(332)</b>
<b>2,034</b>	<b>Net assets/ (liabilities)</b>		<b>3,687</b>
	<b>Financed by:</b>		
0	Usable reserves	15	0
-2,034	Unusable reserves	16	(3,687)
<b>(2,034)</b>	<b>Total reserves</b>		<b>(3,687)</b>

The unaudited financial statements were authorised for issue on the 20th June 2014 by the Treasurer to the Board, Hugh Dunn.  
The audited financial statements were authorised for issue by the Treasurer to the Board, Hugh Dunn on 19th September 2014.

Treasurer: HUGH DUNN, CPFA

Date signed: \_\_\_\_\_



# The South East of Scotland Transport Partnership (SESTRAN)

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the Partnership during the reporting period. The statement shows how the Partnership generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flow arising from operating activities is a key indicator of the extent to which the operations of the Partnership are funded by way of government grant income, council requisitions and recipients of services provided by the Partnership. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Partnership's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is, borrowing) to the Partnership.

31 March 2013 £'000	31 March 2013 £'000		31 March 2014 £'000	31 March 2014 £'000
		<b>OPERATING ACTIVITIES</b>		
(782)		Government Grants	(782)	
(200)		Constituent Council Requisitions	(200)	
(3)		Interest paid/ (received)	1	
(1,250)		Other receipts from operating activities	(1,656)	
	<b>(2,235)</b>	<b>Cash inflows generated from operating activities</b>		<b>(2,637)</b>
390		Cash paid to and on behalf of employees	380	
1,915		Cash paid to suppliers of goods and services	939	
	<b>2,305</b>	<b>Cash outflows generated from operating activities</b>		<b>1,319</b>
	<b>70</b>	<b>Net cash flows from operating activities</b>		<b>(1,318)</b>
		<b>INVESTING ACTIVITIES</b>		
729		Purchase of property, plant and equipment	1,716	
	<b>729</b>	<b>Net cash flows from investing activities</b>		<b>1,716</b>
		<b>FINANCING ACTIVITIES</b>		
0		Other receipts from financing activities	0	
	<b>0</b>	<b>Net cash flows from financing activities</b>		<b>0</b>
	<b>799</b>	<b>Net( increase)/ decrease in cash and cash equivalents (Note 13)</b>		<b>398</b>
	<b>1,207</b>	<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>408</b>
	<b>408</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>10</b>

# The South East of Scotland Transport Partnership (SESTRAN)

## 1. STATEMENT OF ACCOUNTING POLICIES

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### 1.1 Accounting Policies

The Statement of Accounts summarises the Partnership's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Partnership is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 1985 in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and CIPFA's Service Reporting Code of Practice 2013/14 (SERCOP), supported by International Financial Reporting Standards (IFRS).

The financial statements have been prepared on an historic cost basis.

### 1.2 Accruals of Expenditure and Income

The revenue account has been prepared on an accruals basis in accordance with the Code of Practice. Amounts estimated to be due to or from the Partnership, which are still outstanding at the year end, are included in the accounts. Government Grants have been accounted for on an accruals basis.

### 1.3 Operating Leases

#### a) *Leased-in assets*

Rental payments under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the lease.

#### b) *Leased-out assets*

The Partnership has not identified any leased-out assets that fall under the definition of operating leases.

### 1.4 Overheads

The cost of service in the Comprehensive Income and Expenditure Statement includes the Partnership's overheads.

### 1.5 Charges to the Comprehensive Income and Expenditure Statement for use of non-current assets

Charges are made to the Comprehensive Income and Expenditure Statement for the use of non-current assets, through depreciation charges. The aggregate charge to individual services is determined on the basis of the assets used in each service.

# The South East of Scotland Transport Partnership (SESTRAN)

## 1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

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### 1.6 Employee Benefits

#### Pensions

The Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund. The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended.

The financial statements have been prepared including pension costs, as determined under International Accounting Standard 19 – Employee Benefits (IAS 19). The cost of service in the Comprehensive Income and Expenditure Statement includes expenditure equivalent to the amount of retirement benefits the Partnership has committed to during the year. Pensions interest cost and the expected return on pension assets have been included in the “Surplus or Deficit on the Provision of Services” within the Comprehensive Income and Expenditure Statement.

The pension costs charged to the Comprehensive Income and Expenditure Statement in respect of employees are not equal to contributions paid to the funded scheme for employees. The amount by which pension costs under IAS19 are different from the contributions due under the pension scheme regulations are disclosed in the Movement in Reserves Statement for the General Fund.

Pension assets have been valued at bid value (purchase price), as required under IAS19.

Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund.

#### Accruals of Holiday Leave

Cost of service includes a charge for annual leave to which employees are entitled, but have not taken as at the Balance Sheet date. The Partnership is not required to raise requisitions on constituent councils to cover the cost of accrued annual leave. These costs are therefore replaced by revenue provision in the Movement in Reserves Statement for the General Fund balance by way of an adjusting transaction with the Accumulated Absence Account.

### 1.7 Non Current Assets

#### a) *Intangible Assets*

Expenditure on assets that have no physical substance but are identifiable and controlled by the Partnership have been capitalised where a benefit of more than one financial year can be established. The balance is depreciated over the economic life of the asset to reflect the pattern of consumption of benefits. Intangible assets have been valued on an historic cost basis.

#### b) *Property, Plant and Equipment*

Property, Plant and Equipment is categorised into the following classes:

- Vehicles, plant and equipment;
- Assets under construction;

#### Recognition:

- Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment has been capitalised on an accruals basis;

# The South East of Scotland Transport Partnership (SESTRAN)

## 1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

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### 1.7 Non Current Assets (contd)

#### *b) Property, Plant and Equipment*

##### **Depreciation:**

- Depreciation is provided on all Property, Plant and Equipment;
- The Partnership does not depreciate its Property, Plant and Equipment in the year of acquisition. Thereafter depreciation is provided on a straight line basis over the expected life of the asset. No depreciation is provided on Assets Under Construction.

##### **Measurement:**

Property, Plant and Equipment are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use, net of depreciation.

### 1.8 Government Grants and Other Contributions

Grants and other contributions relating to non-current assets are credited to a Capital Adjustment Account and written off to the Comprehensive Income and Expenditure Statement in line with the depreciation policy of the related assets.

Where there are conditions attached to capital grants and contributions that have not been met at the Balance Sheet date, the grant or contribution will be recognised as part of the Capital Grants Unapplied Account. Once the condition has been met, the grant or contribution will be transferred from the Capital Grants Unapplied Account and recognised as income in the Comprehensive Income and Expenditure Statement.

### 1.9 Provisions

Provisions are made for liabilities of uncertain timing or amount that have been incurred.

The value of provisions is based upon the Partnership's obligations arising from past events, the probability that a transfer of economic benefit will take place, and a reasonable estimate of the obligation.

### 1.10 Reserves

Reserves held on the Balance Sheet are classified as either usable or unusable. Unusable reserves cannot be applied to fund expenditure. Under the Transport (Scotland) Act 2005, the Partnership does not have the power to operate a General Fund reserve.

The Partnership operates the following unusable reserves:

#### *a) Pension Reserve*

The Partnership operates a Pensions Reserve Fund under the terms of the Local Government Pension Reserve Fund (Scotland) Regulations 2003. The Pension Reserve represents the net monies which the Partnership requires to meet its net pension liability as calculated under IAS 19, Employee Benefits.

# The South East of Scotland Transport Partnership (SESTRAN)

## 1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

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### 1.10 Reserves (contd)

#### b) *Capital Adjustment Account*

The Capital Adjustment Account represents movement in the funding of assets arising either from capital resources such as capital receipts, or capital funded directly from revenue contributions.

#### c) *Accumulated Absences Account*

This represents the net monies which the Partnership requires to meet its short-term compensated absences for employees under IAS19.

### 1.11 Financial Instruments

#### *Financial Assets*

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

Surplus funds held on behalf of the Partnership are managed by the City of Edinburgh Council under a formal management agreement in a pooled investment arrangement.

### 1.12 Cash and Cash Equivalents

Cash and cash equivalents include:

- Credit and debit funds held in banks

### 1.13 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Partnership 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 Partnership.

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

### 1.14 Value Added Tax

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

# The South East of Scotland Transport Partnership (SESTRAN)

## 1. STATEMENT OF ACCOUNTING POLICIES (Contd.)

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### 1.15 Events After the Reporting Period

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

Two types of events can be identified:

i) those that provide evidence of conditions that existed at the end of the reporting period - the Financial Statements are adjusted to reflect such events;

ii) those that are indicative of conditions that arose after the reporting period - the Financial Statements are not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

### 1.16 Short term Debtors and short term Creditors

The revenue transactions of the Partnership are recorded on an accruals basis which means that amounts due to or from the Partnership, but still outstanding at the year end, are included in the accounts. Where there was insufficient information available to provide actual figures, estimates have been included.

### 1.17 Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Partnership's financial position or performance.

Changes in accounting estimates are accounted for prospectively; i.e. in the current and future years affected by the change.

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

## 2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

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The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

This applies to the adoption of the following new or amended standards within the 2014/15 Code:

IFRS 10 - Consolidated Financial Statements (May 2011), IFRS 11 - Joint Arrangements (May 2011), IFRS 12 - Disclosure of Interests in Other Entities (May 2011), IAS 27 - Separate Financial Statements (as amended in May 2011), IAS 28 - Investments in Associates and Joint Ventures (as amended in May 2011), IAS 32 - Financial Instruments: Presentation (as amended in December 2011) and Annual Improvements to IFRS 2009-2011 cycle.

The Code requires implementation from 1 April 2014 and there is therefore no impact on the 2013/14 financial statements.

IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 relate specifically to group accounts which does not affect the Partnership. IFRS improvements are generally minor, principally providing clarification. Overall, these new or amended standards are not expected to have a significant impact on the financial statements.

# The South East of Scotland Transport Partnership (SESTRAN)

## 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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In applying the accounting policies set out in Note 1, the Partnership has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is high degree of uncertainty about future levels of funding for local government. The Partnership has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Partnership might be impaired as a result of a need to reduce levels of service provision.

## 4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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The Statement of Accounts contains estimated figures that are based on assumptions made by the Partnership about the future or events 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 Partnership's Balance Sheet at 31 March 2014 for which there is a significant risk of material adjustment in the forth coming financial year are:

### 4.1 Pension Liabilities

#### *Uncertainties*

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. A firm of consulting actuaries is engaged to provide the Partnership with expert advice about the assumptions to be applied.

#### *Effect if Actual Result Differs from Assumptions*

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £175,000.

However, the assumptions interact in complex ways. During 2013/14, the Partnership's actuaries advised that the net pensions liability had increased by £57,000 as a result of lower than expected returns on investment.

## 5. EVENTS AFTER THE BALANCE SHEET DATE

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The figures in the financial statements and notes will have been adjusted in all material respects to reflect the impact of events taking place after the Balance Sheet date.

There were no events which took place after 31st March 2014 which would materially affect the 2013/14 financial statements.

On 27th August 2014, the Partnership received £33,609 in respect of the Dryport Project's final claim. This represented a shortfall of £18,901 from the anticipated level of income which was attributable to common management charges. Adjustments will be made to spend profiles in 2014/15 financial year to accommodate the Dryport common management charges.

## The South East of Scotland Transport Partnership (SESTRAN)

### 6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Partnership in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Partnership to meet future capital and revenue expenditure.

2013/14	Usable Reserves		Unusable Reserves		
	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the <u>Capital Adjustment Account</u></b>					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)					
Contributions credited to the CIES that have been applied to capital financing	1,716	(1,716)			(1,716)
<b>Adjustments primarily involving the <u>Pensions Reserve</u></b>					
Reversal of items relating to retirement benefits debited or credited to the CIES	(67)			67	67
Employer's pension contributions and direct payments to pensioners payable in the year	53			(53)	(53)
<b>Adjustments primarily involving the <u>Accumulated Absence Account</u></b>					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(6)		6		6
<b>Total Adjustments</b>	<b>1,696</b>	<b>(1,716)</b>	<b>6</b>	<b>14</b>	<b>(1,696)</b>



## The South East of Scotland Transport Partnership (SESTRAN)

### 6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS (Contd.)

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Partnership in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Partnership to meet future capital and revenue expenditure.

2012/13 (re-stated)	Usable Reserves		Unusable Reserves		
	General Fund Balance	Capital Adjustment Account	Accumulated Absence Account	Pension Reserve	Movement in Unusable Reserve
	£'000	£'000	£'000	£'000	£'000
<b>Adjustments primarily involving the Capital Adjustment Account</b>					
<b>Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>					
Charges for depreciation and impairment of non-current assets	(2)	2			2
Amortisation of intangible assets	(4)	4			4
<b>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement (CIES)</b>					
Contributions credited to the CIES that have been applied to capital financing	729	(729)			(729)
<b>Adjustments primarily involving the Pensions Reserve</b>					
Reversal of items relating to retirement benefits debited or credited to the CIES	(60)			60	60
Employer's pension contributions and direct payments to pensioners payable in the year	59			(59)	(59)
<b>Adjustments primarily involving the Accumulated Absence Account</b>					
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4		(4)		(4)
<b>Total Adjustments</b>	<b>726</b>	<b>(723)</b>	<b>(4)</b>	<b>1</b>	<b>(726)</b>

# The South East of Scotland Transport Partnership (SESTRAN)

## 7. TRANSFERS TO/FROM EARMARKED RESERVES

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The Partnership does not have powers for an earmarked reserve to be set aside from the General Fund to provide financing for future expenditure plans.

## 8. FINANCING AND INVESTMENT INCOME

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	2013/14 £'000	RESTATED 2012/13 £'000
Interest income on plan assets	(59)	(53)
Pensions interest cost	72	63
Other Interest	1	0
	<hr/> 14	<hr/> 10

## 9. TAXATION AND NON SPECIFIC GRANT INCOMES

---

	2013/14 £'000	2012/13 £'000
Government Grant	-782	-782
Constituent Council Requisitions	-200	-200
	<hr/> -982	<hr/> -982

# The South East of Scotland Transport Partnership (SESTRAN)

## 10. PROPERTY, PLANT AND EQUIPMENT

### 10.1 Movements on balances:

#### Movements in 2013/14

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Property Plant and Equipment £'000
At 1st April 2013	199	2,311	2,510
Additions	1,068	648	1,716
Revaluation increases/(decreases) recognised in Revaluation Reserve	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Other movements	2,311	(2,311)	0
At 31st March 2014	3,578	648	4,226
<b>Accumulated Depreciation</b>			
At 1st April 2013	(199)	0	(199)
Depreciation charge	0	0	0
Depreciation written out to Revaluation Reserve	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
Derecognition - disposals	0	0	0
Other movements in depreciation	0	0	0
At 31st March 2014	(199)	0	(199)
<b>Net Book Value</b>			
· at 31st March 2014	3,379	648	4,027
· at 31st March 2013	0	2,311	2,311

## The South East of Scotland Transport Partnership (SESTRAN)

### 10. PROPERTY, PLANT AND EQUIPMENT (Contd.)

#### 10.2 Movements on balances:

##### Comparative Movements in 2012/13

Cost or Valuation	Vehicles Plant and Equipment £'000	Assets Under Construction £'000	Total Property Plant and Equipment £'000
At 1st April 2012	199	1,582	1,781
Additions	0	729	729
Revaluation increases/(decreases) recognised in Revaluation Reserve	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0
Assets reclassified (to)/from Held for Sale	0	0	0
Other movements	0	0	0
At 31st March 2013	199	2,311	2,510
<b>Accumulated Depreciation</b>			
At 1st April 2012	(197)	0	(197)
Depreciation charge	(2)	0	(2)
Depreciation written out to Revaluation Reserve	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0
Derecognition - disposals	0	0	0
Other movements in depreciation	0	0	0
At 31st March 2013	(199)	0	(199)

#### 10.3 Depreciation

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

- Vehicles, plant and equipment: 4 - 5 years

The Partnership does not depreciate its Property, Plant and Equipment in the year of acquisition.

#### 10.4 Capital Commitments

A bid for £1m to the Scottish Government's Bus Investment Fund was successful to install real time bus passenger information systems across the South East of Scotland region.

Of this bid, there remains a capital commitment of £0.346m in 2014/15.

#### 10.5 Heritage Assets

The Partnership does not have any heritage assets.

# The South East of Scotland Transport Partnership (SESTRAN)

## 11. FINANCIAL INSTRUMENTS

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

	Long-term		Current	
	31st March 2014 £'000	31st March 2013 £'000	31st March 2014 £'000	31st March 2013 £'000
<b>Investments</b>				
Loans and receivables	0	0	862	801
<b>Borrowings</b>				
Financial liabilities at amortised cost	0	0	1,148	606

11.2 The gains and losses recognised in the Comprehensive Income and Expenditure Account in 2013/14 in relation to financial instruments are made up as follows:

### Income, Expenses, Gains and Losses

	Financial Liabilities measured at amortised cost 31st March 2014 £'000	Financial Assets Loans and receivables 31st March 2014 £'000	Total 31st March 2014 £'000	Financial Liabilities measured at amortised cost 31st March 2013 £'000	Financial Assets Loans and receivables 31st March 2013 £'000	Total 31st March 2013 £'000
Interest expense	1	0	1	0	0	0
Interest income	0	0	0	0	0	0
<b>Net gain/(loss) for the year</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>

11.3 Fair Values of Assets and Liabilities

The financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Since all of the Partnership's loans and receivables mature within the next 12 months, the carrying amount has been assumed to approximate to fair value. The fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

	31 March 2014		31 March 2013	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
<b>Financial Liabilities</b>				
Trade creditors	1,148	1,148	606	606
<b>Financial Assets</b>				
Loans and receivables	845	845	796	796
Trade debtors	17	17	5	5
	<b>862</b>	<b>862</b>	<b>801</b>	<b>801</b>

## The South East of Scotland Transport Partnership (SESTRAN)

### 12. DEBTORS

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	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>
Debtors:		
Other local authorities	7	0
HM Customs and Excise - VAT	71	67
Other entities and individuals	1,115	384
	<hr/>	<hr/>
	1,193	451
	<hr/>	<hr/>

### 13. CASH AND CASH EQUIVALENTS

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The balance of cash and cash equivalents is made up of the following elements:

	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>
Cash held by the Partnership	0	0
Bank accounts	10	408
	<hr/>	<hr/>
	10	408
	<hr/>	<hr/>

### 14. CREDITORS

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	<b>31st March 2014 £'000</b>	<b>31st March 2013 £'000</b>
Central government bodies	0	0
Other local authorities	(63)	(255)
Other entities and individuals	(1,140)	(604)
Employee costs	(8)	(2)
	<hr/>	<hr/>
	(1,211)	(861)
	<hr/>	<hr/>

### 15. USABLE RESERVES

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The Partnership does not have statutory powers to operate a usable reserve.

## The South East of Scotland Transport Partnership (SESTRAN)

### 16. UNUSABLE RESERVES

	31st March 2014 £'000	31st March 2013 £'000
16.1 Capital Adjustment Account	(4,027)	(2,311)
16.2 Pension Reserve	332	275
16.3 Accumulated Absence Account	8	2
	<u>(3,687)</u>	<u>(2,034)</u>

#### 16.1 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 debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Partnership as finance for the costs of acquisition, construction and enhancement.

	2013/14 £'000	2012/13 £'000
Balance at 1st April	(2,311)	(1,588)
Reversal of items related to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
· Charges for depreciation and impairment of non-current assets	0	2
· Amortisation of intangible assets	0	4
Net written out amount of the cost of non-current assets consumed in year	<u>(2,311)</u>	<u>(1,582)</u>
Capital financing applied in the year:		
· Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,716)	(729)
Balance at 31st March	<u>(4,027)</u>	<u>(2,311)</u>

#### 16.2 Pension Reserve

The Pension 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 Partnership accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Partnership makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Partnership 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 South East of Scotland Transport Partnership (SESTRAN)

### 16. UNUSABLE RESERVES (Contd.)

#### 16.2 Pension Reserve (Contd.)

	2013/14 £'000	Restated 2012/13 £'000
Balance at 1st April	275	226
Actuarial losses or (gains) on pension assets and liabilities	0	0
Remeasurements of the net defined benefit liability / (asset)	43	48
Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.	67	60
Employer's pension contributions and direct payments to pensioners payable in the year.	(53)	(59)
Balance at 31st March	332	275

#### 16.3 Accumulated Absence Account

The Accumulated Absence Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example, annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the Account.

	2013/14 £'000	2012/13 £'000
Balance at 1st April	2	6
Settlement or cancellation of accrual made at the end of the preceding year	(2)	(6)
Amounts accrued at the end of the current year	8	2
Balance at 31st March	8	2

### 17. MEMBERS EXPENSES

The Partnership paid the following amounts to members during the year:

	2013/14 £'000	2012/13 £'000
Expenses	1	1
	1	1



## The South East of Scotland Transport Partnership (SESTRAN)

### 18. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by SERCOP.

However decisions about resource allocation are taken by the Partnership's Board on the basis of budget reports analysed across functions. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement),
- the cost of retirement benefits is based on cash flows (payments of employer's pensions contributions) rather than current service cost of benefits accrued in the year,
- expenditure on some support services is budgeted for centrally and not charged to projects

The income and expenditure of the Partnership's principal functions recorded in the budget reports for the year is as follows:

<b>Segmental Income and Expenditure 2013/14</b>	<b>Core Service £'000</b>	<b>Projects £'000</b>	<b>Total £'000</b>
Fees, charges & other service income	0	(1,794)	(1,794)
Interest and investment income	0	0	0
Government grants	(266)	(516)	(782)
Constituent Council requisitions	(200)	0	(200)
<b>Total Income</b>	<b>(466)</b>	<b>(2,310)</b>	<b>(2,776)</b>
Employee expenses	194	0	194
Other service expenses	187	0	187
Support service recharges	52	0	52
Project costs	0	2,343	2,343
<b>Total Expenditure</b>	<b>433</b>	<b>2,343</b>	<b>2,776</b>
<b>Net Expenditure</b>	<b>(33)</b>	<b>33</b>	<b>0</b>
<b>Segmental Income and Expenditure 2012/13</b>	<b>Core Service £'000</b>	<b>Projects £'000</b>	<b>Total £'000</b>
Fees, charges & other service income	0	(1,012)	(1,012)
Interest and investment income	0	0	0
Government grants	(261)	(521)	(782)
Constituent Council requisitions	(200)	0	(200)
<b>Total Income</b>	<b>(461)</b>	<b>(1,533)</b>	<b>(1,994)</b>
Employee expenses	208	0	208
Other service expenses	198	0	198
Support service recharges	54	0	54
Project costs	0	1,534	1,534
<b>Total Expenditure</b>	<b>460</b>	<b>1,534</b>	<b>1,994</b>
<b>Net Expenditure</b>	<b>(1)</b>	<b>1</b>	<b>0</b>

## The South East of Scotland Transport Partnership (SESTRAN)

### 18. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (Contd.)

#### Reconciliation of Segmental Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement

This reconciliation shows how the figures in the analysis of the segmental income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2013/14 £'000	2012/13 £'000
Net expenditure in the Segmental Analysis	0	0
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Segmental Analysis	(1,710)	(736)
Amounts in the Segmental Analysis not included in the Comprehensive Income and Expenditure Statement *	982	982
<b>Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>(728)</b>	<b>246</b>

( \* investment income, government grant and Council requisitions are presented differently in the Comprehensive Income and Expenditure Statement )

#### Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of segmental income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

2013/14	Segmental Analysis £'000	IFRS Gross Up £'000	Not Reported to Mgmt £'000	Not Included in CIES £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
<b>Reconciliation to Subjective Analysis</b>							
Fees, charges & other service income	(1,794)	(187)			(1,981)		(1,981)
Interest and investment income	0			0	0	0	0
Government grants	(782)			782	0	(782)	(782)
Constituent Council requisitions	(200)			200	0	(200)	(200)
Expected return on pensions assets					0	(59)	(59)
	(2,776)	(187)	0	982	(1,981)	(1,041)	(3,022)
Employee expenses	194	187	6		387		387
Other operating expenses	187				187		187
Support services	52				52		52
Project costs	2,343				2,343		2,343
Contributions credited to the CIES that have been applied to capital financing			(1,716)		(1,716)		(1,716)
Depreciation					0		0
Pensions/ Other interest cost			(1)		(1)	73	72
Reversal of employer pension contributions			-53		(53)		(53)
Actuarial valuation of employer pension contributions			54		54		54
	2,776	187	(1,710)	0	1,253	73	1,326
<b>Surplus or Deficit on the provision of service</b>	<b>0</b>	<b>0</b>	<b>(1,710)</b>	<b>982</b>	<b>(728)</b>	<b>(968)</b>	<b>(1,696)</b>

## The South East of Scotland Transport Partnership (SESTRAN)

### 18. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS (Contd.)

<b>2012/13 (RESTATED)</b>	Segmental Analysis £'000	IFRS Gross Up £'000	Not Reported to Mgmt £'000	Not Included in CIES £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
<b>Reconciliation to Subjective Analysis</b>							
Fees, charges & other service income	(1,012)	(170)			(1,182)		(1,182)
Interest and investment income							0
Government grants	(782)			782		(782)	(782)
Constituent Council requisitions	(200)			200		(200)	(200)
Expected return on pensions assets						(53)	(53)
	(1,994)	(170)	0	982	(1,182)	(1,035)	(2,217)
Employee expenses	208	170	(4)		374		374
Other operating expenses	198				198		198
Support services	54				54		54
Project costs	1,534				1,534		1,534
Contributions credited to the CIES that have been applied to capital financing			(729)		(729)		(729)
Depreciation			6		6		6
Pensions interest cost						63	63
Reversal of employer pension contributions			-59		(59)		(59)
Actuarial valuation of employer pension contributions			50		50		50
	1,994	170	(736)	0	1,428	63	1,491
<b>Surplus or Deficit on the provision of service</b>	<b>0</b>	<b>0</b>	<b>(736)</b>	<b>982</b>	<b>246</b>	<b>(972)</b>	<b>(726)</b>

# The South East of Scotland Transport Partnership (SESTRAN)

## 19. EXTERNAL AUDIT COSTS

The Partnership has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims, and statutory inspections and to non-audit services provided by the Partnership's external auditors:

	2013/14 £'000	2012/13 £'000
Fees payable in respect of:		
· external audit services carried out by the appointed auditor for the year	9	9
	9	9

## 20. GRANT INCOME

The Partnership credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2013/14:

	2013/14 £'000	2012/13 £'000
<b>Credited to Taxation and Non Specific Grant Income</b>		
Scottish Government - Revenue Grant	-782	-782
Constituent Council Requisitions (Note 21.3)	-200	-200
	-982	-982
<b>Credited to Services</b>		
EU Grant - Dryport Project	0	-20
EU Grant - Regional Real Time Bus Passenger Information System (RTPI)	-520	-229
EU Grant - Lo Pinod	-62	-24
EU Grant - I Transfer	-21	-55
EU Grant - Foodport	-34	-37
EU Grant - Weastflows	-21	-29
Bus Investment Fund Grant - RTPI	-648	0
Contribution - City of Edinburgh Council	-61	0
Contribution - Midlothian Council	-42	-46
Contribution - West Lothian Council	0	-290
Contribution - East Lothian Council	-22	-34
Contribution - Scottish Borders Council	-5	-25
Contribution - Falkirk Council	-19	-5
Contribution - Kent County Council	-5	0
Contribution - SWESTRAN	0	-100
	-1,460	-894

# The South East of Scotland Transport Partnership (SESTRAN)

## 21. RELATED PARTIES

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The Partnership is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Partnership or to be controlled or influenced by the Partnership. Disclosure of these transactions allows readers to assess the extent to which the Partnership might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Partnership.

### 21.1 Scottish Government

The Partnership receives grant-in-aid revenue funding through the Scottish Government. Grants received from the Scottish Government are set out in the subjective analysis in Note 20.

### 21.2 Members

Members of the Partnership have direct control over the Partnership's financial and operating policies. The total of members' expenses paid by the Partnership in 2013-14 is shown in Note 17.

### 21.3 Other Parties

During the year, the Partnership entered into the following transactions with related parties:

	2013/14 £'000	2012/13 £'000
· Revenue Expenditure - Support Services		
City of Edinburgh Council - Financial Services	27	32
Fife Council - Clerking/ Legal Services	19	22
	<hr/> 46	<hr/> 54
· Revenue Expenditure - Other		
Scottish Government	0	9
City of Edinburgh Council	12	10
Clackmannanshire Council	5	10
East Lothian Council	2	6
Falkirk Council	0	24
Midlothian Council	12	10
West Lothian Council	0	20
	<hr/> 31	<hr/> 89

# The South East of Scotland Transport Partnership (SESTRAN)

## 21. RELATED PARTIES (Contd.)

### 21.3 Other Parties (contd.)

	2013/14 £'000	2012/13 £'000
· Revenue Income - Requisitions		
Clackmannanshire Council	(7)	(7)
East Lothian Council	(13)	(13)
City of Edinburgh Council	(64)	(64)
Falkirk Council	(20)	(20)
Fife Council	(48)	(48)
Midlothian Council	(11)	(11)
Scottish Borders Council	(15)	(15)
West Lothian Council	(22)	(22)
	<u>(200)</u>	<u>(200)</u>
· Revenue Income - Interest on Revenue Balances		
City of Edinburgh Council	1	0
	<u>1</u>	<u>0</u>
· Revenue Income - Other		
Scottish Government	(648)	0
Constituent Councils	(173)	0
City of Edinburgh Council	(61)	0
East Lothian Council	(22)	(34)
Falkirk Council	(19)	(5)
Kent County Council	(5)	0
Midlothian Council	(42)	(46)
Scottish Borders Council	(5)	(25)
West Lothian Council	0	(290)
	<u>(975)</u>	<u>(400)</u>

# The South East of Scotland Transport Partnership (SESTRAN)

## 21. RELATED PARTIES (Contd.)

### 21.4 Other Parties

The following represents amounts due to/ (from) the Partnership at 31 March 2014, with its related parties.

<b>CREDITORS</b>	<b>2013/14</b>	<b>2012/13</b>
	<b>£'000</b>	<b>£'000</b>
· Creditors - Related Parties (Revenue Grants)		
Clackmannanshire Council	(5)	(10)
East Lothian Council	(2)	(6)
Midlothian Council	0	(10)
	<u>(7)</u>	<u>(26)</u>
· Creditors - Related Parties (Other)		
City of Edinburgh Council	(22)	(25)
Falkirk Council	0	(19)
Fife Council	(19)	(11)
Constituent Councils	(14)	(173)
	<u>(55)</u>	<u>(228)</u>
· Creditors - Other Parties	<u>(1,149)</u>	<u>(607)</u>
Total Creditors	<u>(1,211)</u>	<u>(861)</u>
<b>DEBTORS</b>		
· Debtors - Related Parties (Other)		
Fife Council	8	0
	<u>8</u>	<u>0</u>
· Debtors - Other Parties	<u>1,185</u>	<u>451</u>
Total Debtors	<u>1,193</u>	<u>451</u>

# The South East of Scotland Transport Partnership (SESTRAN)

## 22. LEASES

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### Operating Leases

The Partnership leases an office at Claremont House, 130 East Claremont Street, Edinburgh which the Partnership has occupied since 4th May 2011. The Partnership has the option to terminate the lease under no penalty if at least six months notice is given.

This lease has been accounted for as an operating lease.

The Partnership also has the use of a photocopier under a hire agreement, which has been accounted for as an operating lease. The hire agreement renewal started on 29th August 2013 and is due to expire on 28th August 2014.

The future minimum lease payments due under non-cancellable leases in future years are:

	2013/14 £'000	RESTATED 2012/13 £'000
· Not later than 1 year	7	7
· Later than 1 year not later than 5 years	0	0
· Later than 5 years	0	0
	<hr/>	<hr/>
	7	7
	<hr/>	<hr/>

The Partnership has no other material operational leases.

## 23. DEFINED BENEFIT PENSION SCHEMES

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### 23.1 Participation in Pension Schemes

As part of the terms and conditions of employment of its staff, the Partnership makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until the employees retire, the Partnership has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement. As explained in Accounting Policy 1.6, the Partnership is an admitted body to the Local Government Pension Scheme (LGPS) which is administered by the Lothian Pension Fund.

The Partnership participates in:

- A funded defined benefit final salary scheme. This means that the Partnership and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- An arrangement for the award of discretionary post retirement benefits upon early retirement - this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.



# The South East of Scotland Transport Partnership (SESTRAN)

## 23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

### 23.2 Transactions Relating to Post-employment Benefits

The Partnership recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The 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:

	2013/14 £000	2013/14 £000	2012/13 £000	2012/13 £000
<b>Comprehensive Income and Expenditure Statement</b>				
<i>Cost of services:</i>				
Service cost, comprising:				
Current service costs	54		50	
Past service costs	<u>0</u>		<u>50</u>	
		54		50
<i>Financing and investment income:</i>				
Net interest expense		<u>13</u>		<u>10</u>
<b>Total post employee benefit charged to the surplus on the provision of services</b>		67		60
<i>Other post-employment benefits charges to the Comprehensive Income / Expenditure Statement</i>				
Remeasurement of the net defined liability, comprising:				
Return on plan assets, excluding the amount incl. in the net interest expense above.	-21		-118	
Actuarial gains and (losses) arising on changes in financial assumptions	65		168	
Other experience	<u>-1</u>		<u>-2</u>	
		<u>43</u>		<u>48</u>
<b>Total post-employment benefits charged to the Comprehensive Income / Expenditure Statement</b>		<u>110</u>		<u>108</u>
<b>Movement in Reserves Statement</b>				
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with the Code.		<u>-57</u>		<u>-49</u>
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>				
Employer's contributions payable to the scheme		<u>53</u>		<u>59</u>
		<u>53</u>		<u>59</u>

## The South East of Scotland Transport Partnership (SESTRAN)

### 23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

#### 23.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligations in respect of its defined benefit plan is as follows:

	2013/14 £'000	2012/13 £'000
Fair value of employer assets	1,418	1,297
Present value of funded liabilities	(1,750)	(1,572)
Present value of unfunded liabilities	0	0
	<hr/>	<hr/>
Net liability arising from defined benefit obligation	(332)	(275)
	<hr/>	<hr/>

#### 23.4 Reconciliation of the Movements in the Fair Value of Scheme Assets

	2013/14 £'000	2012/13 £'000
Opening fair value of scheme assets	1,297	1,074
Interest income	59	53
Remeasurement gain / (loss):		
Return on plan assets, excluding the amount included in the net interest expense	21	118
Contributions from employer	53	59
Contributions from employees into the scheme	18	21
Contributions in respect of unfunded benefits		
Benefits paid	(30)	(28)
Unfunded benefits paid		
	<hr/>	<hr/>
Closing fair value of scheme assets	1,418	1,297
	<hr/>	<hr/>

#### Reconciliation of Present Value of the Scheme Liabilities

	2013/14 £'000	2012/13 £'000
Present value of funded liabilities	(1,572)	(1,300)
Present value of unfunded liabilities	0	0
	<hr/>	<hr/>
Opening balance at 1st April	(1,572)	(1,300)
Current service cost	(54)	(50)
Interest cost	(72)	(63)
Contributions from employees into the scheme	(18)	(21)
Remeasurement gain / (loss):		
Change in financial assumptions	(65)	(168)
Other experience	1	2
Past service cost	0	0
Benefits paid	30	28
Unfunded benefits paid	0	0
	<hr/>	<hr/>
Closing balance at 31st March	(1,750)	(1,572)
	<hr/>	<hr/>

## The South East of Scotland Transport Partnership (SESTRAN)

### 23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

#### 23.5 Fair Value of Employer Assets

The following asset values are at bid value as required under IAS19.

	2013/14		2012/13	
	£'000	%	£'000	%
Equity Securities:				
Consumer *	215	15	166	13
Manufacturing *	193	14	160	12
Energy and Utilities *	158	11	94	7
Financial Institutions *	99	7	141	11
Health and Care *	97	7	68	5
Information technology *	92	7	80	6
Other *	63	5	39	3
Sub-total Equity Securities	917		748	
Debt Securities:				
Corporate Bonds (investment grade) *	46	3	50	4
Corporate Bonds (non-investment grade) *	7	0	4	0
UK Government *	48	3	49	4
Other *	1	0	1	0
Sub-total Debt Securities	102		104	
Private Equity:				
All *	12	1	0	0
All	160	11	149	11
Sub-total Private Equity	172		149	
Real Estate:				
UK Property	99	7	90	7
Overseas Property	11	1	12	1
Sub-total Real Estate	110		102	
Investment Funds and Unit Trusts:				
Equities *	15	2	87	7
Equities	5	0	26	2
Bonds	6	0	7	1
Commodities	5	0	8	1
Other	5	0	5	0
Sub-total Investment Funds and Unit Trusts	36		133	
Derivatives:				
Other *	0	0	0	0
Sub-total Derivatives	0		0	
Cash and Cash Equivalents				
All *	81	6	61	5
Sub-total Cash and Cash Equivalents	81		61	
Total Fair Value of Employer Assets	1,418		1,297	

*Scheme assets marked with an asterisk (\*) have quoted prices in active markets.*

# The South East of Scotland Transport Partnership (SESTRAN)

## 23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

### 23.6 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 which are dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries and are based on the latest formal valuation of the scheme as at 31 March 2011.

The principal assumptions used by the actuary have been:

	2013/14	2012/13
Long term expected rate of return on assets in the scheme:		
· Equity investments	6.0%	4.5%
· Bonds	6.0%	4.5%
· Property	6.0%	4.5%
· Cash	6.0%	4.5%
Mortality assumptions - longevity at 65 for current pensioners:		
· Men	20.4 years	20.4 years
· Women	22.8 years	22.8 years
Mortality assumptions - longevity at 65 for future pensioners:		
· Men	22.6 years	22.6 years
· Women	25.4 years	25.4 years
Pension increase rate	2.6%	2.8%
Salary increase rate (see below)	4.9%	5.1%
Discount rate	4.1%	4.5%

Note: The salary increases are assumed to be 1.0% p.a. until 31 March 2015, reverting to the long-term assumption shown thereafter.

Estimation of defined benefit obligations is sensitive to the actuarial assumptions set out above. In order to quantify the impact of a change in the financial assumptions used, the Actuary has calculated and compared the value of the scheme liabilities as at 31 March 2014 on varying bases. The approach taken by the Actuary is consistent with that adopted to derive the IAS19 figures.

For example, to quantify the uncertainty around life expectancy, the Actuary has calculated the difference in cost to the Employer of a one year increase in life expectancy. For sensitivity purposes, this is assumed to be an increase in the cost of benefits of broadly 3%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption and changes in some of the assumptions may be interrelated.

Change in assumptions at 31 March 2014	Approximate % Increase to Employer	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	10.0%	175
1 year increase in member life expectancy	3.0%	53
0.5% increase in the Salary Increase Rate	3.0%	49
0.5% increase in the Pension Increase Rate	7.0%	123

## The South East of Scotland Transport Partnership (SESTRAN)

### 23. DEFINED BENEFIT PENSION SCHEMES (Contd.)

#### 23.7 Analysis of projected amount to be charged to profit or loss for the period to 31 March 2015

	Assets £000	Obligations £000	Net (liability) / asset £000      % of pay	
Current service cost	0	-57	-57	(26.3%)
Past service cost including curtailments	0	0	0	0.0%
Effect of settlements	0	0	0	0.0%
Total Service Cost	<u>0</u>	<u>-57</u>	<u>-57</u>	<u>(26.3%)</u>
Interest income on plan assets	59	0	59	27.3%
Interest cost on defined benefit obligation	0	-73	-73	(33.8%)
Total Net Interest Cost	<u>59</u>	<u>-73</u>	<u>-14</u>	<u>(6.5%)</u>
Total included in Profit or Loss	<u>59</u>	<u>-130</u>	<u>-71</u>	<u>(32.8%)</u>

SESTRAN's estimated contribution to Lothian Pension Fund for 2014/15 is £51,000.

### 24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

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

- Credit risk - the possibility that other parties might fail to pay amounts due to the Partnership.
- Liquidity risk - the possibility that the Partnership might not have funds available to meet its commitments to make payments.
- Re-financing risk - the possibility that the Partnership might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk - the possibility that financial loss might arise for the Partnership as a result of changes in such measures as interest rate movements.
- Price risk - the possibility that fluctuations in equity prices has a significant impact on the value of financial instruments held by the Authority. This is considered immaterial because the Authority does not generally invest in equity shares.
- Foreign exchange risk - the possibility that fluctuations in exchange rates could result in loss to the Partnership.

Treasury Management is carried out on the Partnership's behalf by the City of Edinburgh Council.

The Council's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The Council complies with the CIPFA Prudential Code, and has adopted the CIPFA Treasury Management in the Public Services Code of Practice.

#### **Credit risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Partnership's customers.

The Partnership's surplus funds not immediately required to meet expenditure commitments are held with the City of Edinburgh Council, and the Partnership receives interest on revenue balances on these monies. Since the Partnership's surplus funds are held with the City of Edinburgh Council, the counterparty default exposure is effectively nil.

All Partnership invoices become due for payment on issue, and all trade debtors are overdue less than a month.

Collateral - During the reporting period the Partnership held no collateral as security.

## The South East of Scotland Transport Partnership (SESTRAN)

### 24. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS (Contd.)

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#### **Liquidity risk**

The Partnership is also required by statute to provide a balanced budget, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The arrangement with the City of Edinburgh Council ensures sufficient liquidity is available for the Partnership's day to day cash flow needs.

The Council manages the Partnership's liquidity position through the risk management procedures above as well as through cash flow management procedures required by the Code of Practice.

#### **Refinancing risk**

The Partnership has only a small level of surplus funds and no long term debt. The refinancing risk to the Partnership relates to managing the exposure to replacing financial instruments as they mature. As such, the Partnership has no refinancing risk on its liabilities.

The Partnership has no investments with a maturity greater than one year.

#### **Market risk**

##### **Interest rate risk**

The Partnership is exposed to interest rate movements on its investments. Movements in interest rates have a complex impact on an organisation, depending on how variable and fixed interest rates move across differing financial instrument periods.

For instance, a rise in variable and fixed interest rates would have the following effects:

- borrowings at variable rates - the interest expense charged to the Surplus or Deficit on the Provision of Services will rise;
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall;
- investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise; and
- investments at fixed rates - the fair value of the assets will fall.

The Partnership currently has no borrowings. Changes in interest receivable on variable rate investments will be posted to the Surplus or Deficit on the Provision of Services and affect the General Fund Balance. However, all investments currently have a maturity of less than one year and the fair value has therefore been approximated by the outstanding principal.

The Partnership's surplus funds are held with the City of Edinburgh Council.

The Council's Treasury Management Team continue to monitor market and forecast interest rates during the year and adjust investment policies accordingly.

##### **Price risk**

The Partnership does not invest in equity shares

##### **Foreign exchange risk**

As at 31 March 2014, the Partnership had financial assets of £203,000 subject to foreign exchange risk. The foreign exchange loss or gain on these financial assets cannot be determined until 2014/15, when the Partnership is in receipt of the related grant income from the European Regional Development Fund. The Partnership has no financial liabilities denominated in foreign currencies.

### 25. SESTRAN Limited

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The Partnership incorporated a wholly-owned limited company - SESTRAN Limited - on 22 January 2010. The company has yet to commence the provision of services and there are no transactions to record for the purposes of preparing Group Accounts.

# The South East of Scotland Transport Partnership (SESTRAN)

## 26. PRIOR PERIOD ADJUSTMENTS

Changes in IAS 19 came in the effect for the financial year to 31st March 2014. The changes are adopted retrospectively for the prior period 2012/13, in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors. The key change relates to the replacement of the expected return on assets with an equivalent figure using the discount rate. The effect of the change to IAS 19 on the Comprehensive Income and Expenditure Statement is an increase of £11,000. The changes have been summarised in Notes 26.1 to 26.5.

### 26.1 Movement in Reserves Statement

	<u>Usable Reserves</u>			<u>Unusable Reserves (Pension Fund)</u>		
	31st March 2013 (Audited)	31st March 2013 (Restated)	Movement	31st March 2013 (Audited)	31st March 2013 (Restated)	Movement
	£'000	£'000	£'000	£'000	£'000	£'000
- (Surplus) or deficit on provision of services	(737)	(726)	11	0	0	0
- Other Comprehensive Expenditure and Income	0	0	0	1	(10)	(11)
<b><u>Adjustments between accounting basis &amp; funding basis under regulations</u></b>						
- Adjustments primarily involving the pensions reserve	1	(10)	(11)	(10)	1	11

### 26.2 Comprehensive Income and Expenditure Statement

	31st March 2013 (Audited)	31st March 2013 (Restated)	Movement
	£'000	£'000	£'000
<b><u>Cost Of Services</u></b>	<b>246</b>	<b>246</b>	<b>0</b>
<b><u>Financing &amp; Investment Income:</u></b>			
Interest & Investment income	0	0	0
Pensions interest cost & expected return on pensions assets	(1)	0	(1)
Interest Cost on Defined Benefit Obligation	0	63	(63)
Interest Income on Plan Assets	0	(53)	53
<b>Total Financing &amp; Investment Income</b>	<b>(1)</b>	<b>10</b>	<b>(11)</b>
<b>Total Taxation and Non-Specific Grant Income</b>	<b>(982)</b>	<b>(982)</b>	<b>0</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>(737)</b>	<b>(726)</b>	<b>(11)</b>
<b><u>Other Comprehensive Income and Expenditure</u></b>			
Change in Financial Assumptions	0	168	(168)
Other Experience	0	(2)	2
Expected Return on Plan Assets	0	(118)	118
Actuarial gains / losses on pension assets / liabilities	59	0	59
<b>Total Other Comprehensive Income and Expenditure</b>	<b>59</b>	<b>48</b>	<b>11</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>(678)</b>	<b>(678)</b>	<b>0</b>

# The South East of Scotland Transport Partnership (SESTRAN)

## 26 PRIOR PERIOD ADJUSTMENTS (Contd.)

26.3 <u>Note 6 - Adjustments between accounting basis and funding basis under regulations</u>	31st March 2013 (Audited) £'000	31st March 2013 (Restated) £'000	Movement £'000
<b>Usable Reserves - Balance at 1st April *</b>	<b>1</b>	<b>(10)</b>	<b>(11)</b>
<b>Employer's pension contributions and direct payments to pensioners</b>			
Employer Contribution	(59)	(59)	0
Contributions in respect of unfunded Benefits	0	0	0
	<b>(59)</b>	<b>(59)</b>	<b>0</b>
<b>Reversal of items relating to retirement benefits debited or credited to the CIES</b>			
Current Service Cost	50	50	0
Interest Income on Plan Assets	(64)	(53)	(11)
Interest Cost on defined benefit obligation	63	63	0
	<b>49</b>	<b>60</b>	<b>(11)</b>

\* Unusable reserves (pension reserve) the opposite effect.

26.4 <u>Note 16.2 - Pension Reserve</u>	31st March 2013 (Audited) £'000	31st March 2013 (Restated) £'000
<b>Balance at 1st April</b>		<b>226</b>
Actuarial gains or losses on pension assets and liabilities		59
Remeasurements of the net defined benefit liability / (asset)		0
Reversals of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.		49
Employer's pension contributions and direct payments to pensioners payable in the year.		(59)
<b>Balance at 31st March</b>		<b>275</b>

26.5 <u>Note 18 - Amounts reported for resource allocation decisions</u>	31st March 2013 £'000
<b>(Surplus) or Deficit on the provision of service (Audited)</b>	<b>(737)</b>
<b>IAS 19 adjustments:</b>	
<b>Remove:</b>	
Interest (receipts) / cost (pension interest)	1
<b>Insert:</b>	
Interest Income on Plan Assets	(53)
Interest Cost on Defined Benefit Obligation	63
<b>Interest (receipts) / cost</b>	<b>10</b>
<b>(Surplus) or Deficit on the Provision of Service (Restated)</b>	<b>(726)</b>



# INDEPENDENT AUDITOR'S REPORT

## **Independent auditor's report to the members of South East of Scotland Transport Partnership and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of South East of Scotland Transport Partnership for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Partnership'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, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view, in accordance with applicable law and the 2013/14 Code of the state of the affairs of the Partnership as at 31 March 2014 and of the income and expenditure of the Partnership for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

# INDEPENDENT AUDITOR'S REPORT

## Opinion on other prescribed matters

In my opinion:

- the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen O'Hagan  
Senior Audit Manager  
Audit Scotland  
4th Floor South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

September 2014

## Report to those charged with governance on the 2013/14 audit

Audited Body:	South East of Scotland Transport Partnership
Committee:	South East of Scotland Transport Partnership Performance and Audit Committee
Date:	12 September 2014

### Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the South East of Scotland Transport Partnership's ('the Partnership') consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.
3. We also present for your consideration our draft annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at Appendix C and will be issued in final form after the financial statements have been certified.

### Status of the work

4. We have completed the audit of the South East of Scotland Transport Partnership's accounts. The issues arising from the financial statements audit were included in a matters arising schedule issued to and discussed with the Finance Manager during the fieldwork in July 2014.

### Fraud

5. In presenting this report to the Partnership, we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

### Audit opinion and representations

6. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified

auditor's report by the end of September (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.

7. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
8. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. There are no unadjusted misstatements to bring to your attention.
9. As part of the completion of our audit we seek written assurances from the Treasurer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix B. This should be signed and returned by the Treasurer with the signed financial statements prior to the independent auditor's opinion being certified.

### Significant findings and key judgements

10. During the course of the audit we identified one issue regarding the potential effect on the financial statements of any uncertainties. Paragraph 10 headed 'significant findings' in the attached draft annual audit report set out the issue we regard as requiring to be reported.

### Outstanding matters

11. **ISA 580 Letter of representation:** The letter of representation is required prior to the auditor's certification of the financial statements.
12. **Revised set of financial statements:** A set of updated accounts is to be provided to the auditors for review prior to auditor's certification of the financial statements.

# APPENDIX A: Proposed Independent Auditor's Report

## **Independent auditor's report to the members of South East of Scotland Transport Partnership and the Accounts Commission for Scotland**

I certify that I have audited the financial statements of South East of Scotland Transport Partnership for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

whether the accounting policies are appropriate to the Partnership'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, I read all the financial and non-financial information in the annual report and accounts 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 me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the Partnership as at 31 March 2014 and of the income and expenditure of the Partnership for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or

- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen O'Hagan  
Senior Audit Manager  
Audit Scotland  
4th Floor South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

September 2014

# Appendix B: ISA 580 - Letter of Representation

Stephen O'Hagan  
Senior Audit Manager  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

Dear Stephen

## **South East of Scotland Transport Partnership (SEStran) Annual Accounts 2013/14**

This representation letter is provided in connection with your audit of the financial statements of South East of Scotland Transport Partnership ('the Partnership') for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Partnership, as at 31 March 2014 and its comprehensive net expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Partnership Director and the Council's finance officers, the following representations given to you in connection with your audit of the Partnership for the year ended 31 March 2014.

### **General**

I acknowledge my responsibility and that of the Partnership for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Partnership have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

The information given in the Annual Report to the financial statements, including the Explanatory Foreword and Remuneration Report, presents a balanced picture of the Partnership and is consistent with the financial statements.

I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected



misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

### **Financial Reporting Framework**

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and in accordance with the requirements of Local Government (Scotland) Act 1973 including all relevant presentation and disclosure requirements.

Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Partnership for the year ended 31 March 2014.

### **Accounting Policies & Estimates**

All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

### **Going Concern**

I have assessed the Partnership's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

### **Related Party Transactions**

All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **Events Subsequent to the Balance Sheet Date**

There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

Since the date of the Balance Sheet one transaction has occurred which, though properly excluded from the financial statements, is of such importance that it should be brought to your notice.

SEStran accounts include a debtor balance of £52,500 at 31 March 2014. SEStrans received

payment of £34,500 in August 2014. The variance relates to a management charge deducted from the payment. The remaining debtor balance will be written back in 2014/15. A statement has been included in the accounts to note this position.

### **Corporate Governance**

I acknowledge as Treasurer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2014, which require disclosure

### **Fraud**

I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

### **Assets**

The assets shown in the Balance Sheet at 31 March 2014 were owned by the Partnership, other than assets which have been purchased under operating leases. Assets under construction reflect purchases for the Bus Investment Fund (BIF) which is an extension of the real time passenger information (RTPI) system which went live in 2013/14.

### **Liabilities**

All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014.

### **Carrying Value of Assets and Liabilities**

The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. There are no plans or intentions that are likely to affect the carrying value or classification of the assets within the financial statements.

Yours sincerely

**Hugh Dunn**  
**Treasurer**

# Appendix C

# South East of Scotland Transport Partnership

## Draft Annual report on the 2013/14 audit



Prepared for Members of South East of Scotland Transport Partnership and the Controller of Audit  
September 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key Messages

## 2013/14

We have given an unqualified opinion that the financial statements of South East of Scotland Transport Partnership ('the Partnership') for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The audit of the financial statements progressed satisfactorily. The accounts and working papers were presented for audit on 23 June 2014, ahead of the agreed timetable, and the audit work was completed by the end of July 2014. A number of presentational amendments were made as a result of our audit work.

Overall, the Partnership's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the Partnership's systems of internal control are operating effectively.

## Outlook

We confirm the financial sustainability of the Partnership on the basis of its financial position at present, but going forward this will continue to be challenging with no increase in the funding from constituent councils and a 'flat cash' grant from the Scottish Government for 2014/15 coupled with increasing cost pressures. The Partnership continues to attract additional funding such as that from the Scottish Government's Bus Investment Fund of £1 million which the Partnership is using to extend the coverage of the Real Time Passenger Information (RTPI) system.

Financial sustainability is a major challenge for the Partnership and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. The significant financial challenges will make maintaining or improving on the performance targets set by the Scottish Government even more challenging.

# Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of South East of Scotland Transport Partnership ('the Partnership'). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Partnership and no responsibility to any third party is accepted.
3. Appendix A sets out the key audit risks identified at the planning stage and details how we addressed this risk in arriving at our opinion on the financial statements.
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Partnership understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
5. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Partnership Board.

## Financial statements

### Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Performance and Audit Committee on 7 March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

### Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of the Partnership for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on xx September 2014.
9. We received the unaudited financial statements on 23 June 2014 which was ahead of the agreed timetable. The working papers were of a good standard and the staff provided support to the audit team which allowed us to complete our on-site fieldwork on 31 July 2014. The Partnership is required to follow the code of practice on local authority accounting in the United Kingdom Code 2013/14 ('the Code') and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

### Significant findings and key judgements (ISA260)

10. During the course of the audit we identified one issue regarding the potential effect on the financial statements of any uncertainties.
11. **European Funding receipt for Dryport project:** The Partnership has a debtor balance of £52,500 in the 2013/14 financial statements in relation to this project. Settlement of this debt was made by the EU in August 2014. The money received by the Partnership for the project was £34,500 (after conversion from Euros), the variance between the debt held and payment being SEStran's share of common management costs, which were deducted from the payment. The remaining debtor balance in the accounts will need to be written off in the 2014/15 financial statements. A post balance sheet event disclosure was included in the accounts.
12. The Partnership is involved in seven other European grant claims (excluding RTP1) in the process of being settled as at 31 March 2014, with a total value of £0.158 million. There is a risk that future settlements from Europe may also include significant common management costs which will impact on the levels of projected income at a time when financial sustainability is a major challenge for the Partnership.



## Refer Action Point no.1

## Financial position

### 2013/14 Outturn

13. The main financial objective for the Partnership is to ensure that the financial outturn for the year is within the resource budget allocated.
14. The Partnership operated within the resource budget for 2013/14 as detailed in Table 1 below which also shows the budget changes that occurred during the financial year.

**Table 1: Resource Budget**

	Final Budget (£'000)	Actual Outturn (£'000)	(Under) / Over spend
Core Services	463	433	(30)
Revenue Projects	501	612	111
Capital Projects	222	1,731	1,509
Interest	3	1	(2)
<b>Total Expenditure</b>	<b>1,189</b>	<b>2,777</b>	<b>1,588</b>
Government Grant	(782)	(782)	0
Constituent Councils Requisitions	(200)	(200)	0
Other Income - Revenue Projects	(207)	(345)	(138)
Other Income - Capital Projects	0	(1,450)	(1,450)
<b>Total Income 2013/14</b>	<b>(1,189)</b>	<b>(2,777)</b>	<b>(1,588)</b>

Source: SEStran audited financial statements 2013/14

15. The Partnership realised one of its main targets in 2013/14 by achieving a breakeven position against budget. Expenditure of £1.731 million was incurred on the RTPI project. This expenditure was funded primarily through the European Regional Development Fund although the Partnership also used an underspend from the 2012/13 revenue budget which was carried forward.

### 2013/14 Financial position

16. In the 2013/14 financial year, there has been a substantial rise in the value of the Property, Plant and Equipment. This represents additions to the Real Time Passenger Information (RTPI) project during the year and further spending on a follow up project entitled the 'Bus Investment Fund' (BIF) which will extend the coverage of RTPI. The expenditure on the BIF

has been included under Assets under Construction as this element of the project had not been completed at year end.

17. The Partnership had increased levels of debtors and creditors at 31 March 2014. These represent timing differences with regards to the funding and payment of the RTPPI costs close to the year end.
18. The Partnership's cash flow is maintained through a 'holding account' with the City of Edinburgh Council which the Partnership can call upon when awaiting receipt of funds such as those for Dryport. The holding account stood at £325,000 at 31 March 2014 which was money due to City of Edinburgh Council. City of Edinburgh Council charge the interest rate from the Loans Fund on any balances due to them by the Partnership. Interest paid by the Partnership during 2013/14 was £1,000. There is a risk that interest rates increase during 2014/15 and future years which would expose the partnership to greater borrowing costs than it currently incurs which would apply additional pressure to already tight Partnership budgeting in 2014/15 and beyond.

### **Refer Action Point no.2**

19. The Partnership has no usable reserves at year end as they hold no statutory powers to operate this type of reserve. Unusable reserves increased by £1.716 million due to an adjustment through the Capital Adjustment Account to reflect the expenditure on the RTPPI project that been financed from revenue.

## **Financial planning**

20. On the 21 March 2014, the Partnership agreed a balanced budget for 2014/15. In the current economic climate and with the financial constraints faced by the public sector, the 2014/15 budget makes no provision for increase in constituent council requisitions, and flat funding levels from the Scottish Government have been confirmed for a period of one year. For 2014/15, £0.346 million of additional funding will be received from the Scottish Government through the Bus Investment Fund.

## **Corporate governance and systems of internal control**

### **Overall governance arrangements**

21. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Partnership had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.
22. In previous years we have raised an issue with regards to the Performance and Audit Committee (PAC) achieving a quorate for meetings. We note that all PAC meetings took place in the previous 12 months. We will continue to monitor the situation going forward.

## Accounting and internal control systems

23. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
24. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
25. Internal audit is an important element of the Partnership's governance structure. Our review established that the work of internal audit is of a good quality allowing us to place reliance on a number of areas including corporate governance and their systems of internal control. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

## Prevention and detection of fraud and irregularity

26. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Partnership's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## Standards of conduct and arrangements for the prevention and detection of corruption

27. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

## Best value

### Best value and performance

28. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
29. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.

30. We also have a responsibility to review and report on the arrangements that the Partnership has to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
31. The regional transport strategy for 2008-2023 sets out four high level objectives:
  - economy
  - accessibility
  - environment
  - safety and health.
32. These are supported by seventeen more specific sub-objectives, each with defined targets and a means to monitor progress towards the targets. The Partnership produces an annual report each year which sets out the progress being made. The 2012/13 annual report was considered by the Partnership Board in October 2013, and the 2013/14 report will be considered later this calendar year.

## Acknowledgements

33. We would like to express our thanks to the staff of the Partnership for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# Appendix A: Key Audit Risks

## Key Audit Risks and Associated Audit Work

Audit Risk	Overview of the scope of audit work to address the risks
<p><b>Assets Under Construction</b></p> <p>SEStran had a significant balance held under assets under construction within their 2012/13 financial statements. These relate to the Real Time Passenger Information system which is due for rollout into the bus network. Our expectation is that these assets will be moved into Property, Plant and Equipment for the 2013/14 financial statements.</p> <p>We note that a second phase of the RTPI project (Scottish Government Bus Improvement scheme) has commenced and any assets associated with this new phase will remain in assets under construction for 2013/14.</p> <p>There is a risk that the assets are misclassified in the financial statements.</p>	<p>Reviewed the asset register movements as part of the final accounts work and confirmed appropriate adjustment made.</p> <p>This indicated that RTPI AUC costs had been moved across into PPE which was appropriate as these assets were being utilised.</p>
<p><b>Asset useful lives</b></p> <p>At 31 March 2013 all assets on the entity's asset register had been fully depreciated, although they all remain in use by the partnership. During 2013/14 an IT refresh occurred with new computer equipment introduced.</p> <p>There is a risk that depreciated assets lives do not properly reflect planned usage of asset.</p>	<p>Officers have deferred the review of assets lives until 2014/15.</p> <p>There is no impact on the 2013/14 financial statement.</p>

# Appendix B: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	12	<p>The Partnership has a debtor balance of £52,500 in the 2013/14 financial statements for the EU funding that was received in August 2014. The money received by the Partnership for the project was £34,500 (after conversion from Euros), the variance between the debt held and payment being SEStran's share of common management costs, which were deducted from the payment. The Partnership is involved in a number of other projects with varying levels of EU funding.</p> <p>There is a risk that budgets will not be achieved if future settlements from Europe include significant common management costs which have not been provided for within the budget.</p>	<p>Adjustments will be made to spend profiles in 2014/15 financial year to accommodate the Dryport central management costs. With regard to ongoing EU funded projects a review of central management costs will be carried out prior to finalisation of the projects.</p>	SEStran Partnership Director	31st March 2015
2.	18	<p>The Partnership maintains a holding account with City of Edinburgh council which the Partnership can call upon as necessary.</p> <p>There is a risk that budgets are not achieved due to increased borrowing costs</p>	<p>Impact of interest rate fluctuations has been included in the SEStran risk register, found to be insignificant and reported to the P&amp;A committee. This will be reviewed as necessary.</p>	SEStran Partnership Director	Ongoing

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		arising from the Partnership's exposure to interest rate increases during 2014/15 and future years.			