

## **Note 3 - Accounting Policies**

### **General principles**

The statement of accounts summarises TfN's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. TfN is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act. The accounting convention adopted in the statement of accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### **Going Concern Basis**

TfN accounts for its operations on a going concern basis. This assumes that TfN will continue in operation for the foreseeable future.

TfN is party to a Memorandum of Understanding (MoU) with the Department for Transport that gives it the required comfort that it will continue to receive the necessary funding to discharge its statutory obligations into the future. Furthermore, the MoU commits the Department to an orderly winddown of TfN's affairs should future decisions be made by Government that either end or reduce TfN's funding.

### **Qualitative Characteristics**

The usefulness of financial statements is enhanced if they are comparable between similar organisations and between financial years. The Code of Practice promotes comparability by designating the form and content of the financial statements.

### **Accruals of Income and Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received, rather than when payments are made.

- Interest receivables on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue in financing and investment income and expenditure for the income that might not be collected.

## **Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

## **Prior period adjustments, changes in accounting policies and estimates and errors**

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

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

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

## **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

## **Operating leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a rent-free period at the commencement of the lease).

## **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 the Statement of Accounts is authorised for issue.

Two types of event can be identified:

1. Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts are adjusted to reflect such events.
2. 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 financial statements.

## **Financial Instruments**

### **Financial liabilities**

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at cost and are carried at their amortised cost.

### **Financial assets**

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. TfN holds financial assets measured at amortised cost. TfN's business model is to hold financial assets to collect contractual cash flows. Financial assets are therefore classified as amortised cost.

## **Government Grants & Contributions**

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

- TfN will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to TfN are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution, are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor. Monies advanced as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

When capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. When it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital

Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

## **Overheads and Support Services**

Costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

Principally, programme areas in receipt of permissive discrete grant will be recharged for the incremental costs of support teams on a calculated basis as agreed by the Finance Director.

## **Provisions**

Provisions are made where an event has taken place that gives TfN a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Group becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the obligation is settled.

## **Reserves**

Specific amounts are set aside as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund. When the expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the (Surplus) / Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

Certain reserves are kept to manage the accounting processes for non-current assets and retirement benefits, and do not represent usable resources for TfN.

## **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year.

Where TfN has determined to meet the cost of this expenditure from existing capital resources a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the usable reserves of TfN.

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

TfN neither provides services for consideration nor is able to recover the VAT incurred on expenditure.

Costs are shown gross of VAT within the relevant service lines on the face of the CIES.

## **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by TfN as a result of past events (e.g. software development) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to TfN.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and TfN will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset.

TfN determines a project to be technically feasible when it has passed an outline business case government approval gateway, or another appropriate review point undertaken by suitably qualified professionals.

Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise TfN's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by TfN can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion, and they are therefore carried at amortised cost. Where an intangible asset has an indefinite useful life, it shall not be amortised. Instead, it will be reviewed annually for impairment.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

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

Short term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to TfN.

An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

## **Termination Benefits**

Termination benefits are amounts payable as a result of a decision by TfN to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when TfN can no longer withdraw the offer of those benefits or when TfN recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by TfN to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

## **Post-Employment Benefits**

Employees of TfN are enrolled in the Local Government Pension Scheme (LGPS). TfN pays an employer's contribution into the Greater Manchester Pension Fund, which is a fully funded defined benefit scheme administered by Tameside Metropolitan Borough Council.

The liabilities of the Greater Manchester Pension Fund attributable to TfN are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate advised by the actuary as specified in the defined benefit pension scheme note.

The assets of the Greater Manchester pension fund attributable to the authority are included in the Balance Sheet at their fair value:

1. quoted securities – current bid price
2. unquoted securities – professional estimate
3. unitised securities – current bid price
4. property – market value.

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

- Service cost comprising:
  - o current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked

- o past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement
- o net interest on the net defined benefit liability (asset), ie net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
  - o the return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure – actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the pensions reserve as other comprehensive income and expenditure.
  - o contributions paid to the TfN pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees

### **Discretionary benefits**

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