

Strathclyde Partnership for Transport

2022/23 Annual Audit Report



 **AUDIT SCOTLAND**

Prepared for the Members of Strathclyde Partnership for Transport and the Controller of Audit

September 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts are unmodified.
- 2 Two amendments were made to the accounts following the audit totalling £5.7 million. The financial statements and related reports are free from material misstatement.

Best Value

- 3 A formal review should be undertaken and reported to demonstrate how SPT is meeting its Best Value duties.

Financial management and sustainability

- 4 SPT has effective and appropriate arrangements to secure sound financial management. The 2022/23 outturn was £36.3 million in line with budget.
- 5 At the end of the year subway patronage had returned to 95% of pre-Covid levels. Supported bus patronage increased by 28.8% compared to the previous year but remains 10.5% down on pre-Covid levels.
- 6 SPT has significant levels of usable reserves totalling £159.765 million to fund its large improvement projects.
- 7 The General Fund reserves balance has increased by £9.4 million to £109.679 million at 31 March 2023. Significant earmarked reserves are in place to fund the subway modernisation programme.
- 8 There was significant slippage against budgeted 2022/23 capital expenditure. Delivery of the 2023/24 Capital Programme is also expected to be difficult.
- 9 The ambitious Subway Modernisation Programme is progressing but is taking longer than originally planned.

Vision, Leadership and Governance

- 10** The final draft Regional Transport Strategy has been approved by Scottish Ministers.
- 11** Governance arrangements are appropriate and operated effectively.

Use of resources to improve outcomes

- 12** SPT has an established and effective performance management framework in place to report on the performance of its services.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Strathclyde Partnership for Transport (SPT). The scope of the audit was set out in an annual audit plan presented to the 17 February 2023 meeting of the Audit and Standards Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Strathclyde Partnership for Transport's annual accounts
- conclusions on Strathclyde Partnership for Transport's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of Strathclyde Partnership for Transport and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Fiona Mitchell-Knight FCA, have been appointed by the Accounts Commission as auditor of Strathclyde Partnership for Transport for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank the Audit and Standards Committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Strathclyde Partnership for Transport has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Strathclyde Partnership for Transport is also responsible for compliance with legislation, and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of Strathclyde Partnership for Transport from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £85,570 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to Strathclyde Partnership for Transport by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts are unmodified.

Misstatements of £5.7 million were corrected in the accounts following audit findings. The financial statements and related reports are free from material misstatement.

Audit opinions on the annual accounts are unmodified

11. The Partnership approved the annual accounts for Strathclyde Partnership for Transport (SPT) for the year ended 31 March 2023 on 29 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £7.1 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues

may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

| Materiality level | Amount |
|-------------------------|--------------|
| Overall materiality | £7.1 million |
| Performance materiality | £4.6 million |
| Reporting threshold | £70,000 |

14. The overall materiality threshold for the audit of the annual accounts of SPT was set with reference to net assets, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 65% of overall materiality, reflecting factors such as findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

We have significant findings to report on the audited annual accounts

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. We have reported a issues from the work done on the identified risks of material misstatement. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

| Issue | Resolution |
|--|---|
| <p>1. Land at Buchanan Bus Station</p> <p>Land on which Buchanan Bus Station (BBS) is situated was originally leased by City of Glasgow District Council to Scottish Omnibuses Ltd in 1974 for a period of 99 years for £1,000 pa to be used solely as a bus station with a condition that a building for that purpose be erected within 2 years. In the intervening years, the lease was assigned to Scottish Transport Group in 1985 for £1.8 million on the same conditions, before being assigned to SPT in 1993 for £4 million, again on the same conditions. SPT have made significant upgrades to the buildings which has been reflected in their valuations. Land and buildings elements of BBS were revalued separately at 31 March 2023 at Depreciated Replacement Cost. These figures were reflected in SPT's unaudited Balance Sheet. This has been the accounting treatment for BBS for several years. SPT continue to make the £1,000 pa payment to Glasgow City Properties.</p> <p>In our opinion, the land element of BBS, valued at £5.2 million is an operating lease, primarily because title does not pass to the lessee at the end of the lease term. The land valuation should therefore not be reflected in the balance sheet.</p> | <p>The audited accounts have been adjusted to reflect the classification of the land element of BBS as an operating lease. The adjustment has been correctly processed as a disposal. This has resulted in an increase to Net Operating Expenditure of £5.2 million with a corresponding reduction in the value of Property, Plant and Equipment.</p> |
| <p>2. Payroll prepayment</p> <p>The week 52 payroll payment covering the period 12 March to 8 April was made on 4 April. The 8-day period relating to 2023/24 (£0.504 million) was inaccurately categorised as a prepayment at 31 March 2023.</p> | <p>The audited accounts have been adjusted to correct this. Debtors and Creditors have both reduced by £0.504 million. This had no impact on the reported outturn.</p> |

| Issue | Resolution |
|---|------------|
| As a result of our comments, officers accepted that debtors and creditors were both overstated by the prepayment value. | |

Our audit work responded to the risks of material misstatement we identified in the annual accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

| Audit risk | Audit response | Results and conclusions |
|---|---|---|
| <p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> • We made inquiries of staff. • We undertook detailed substantive testing of journal entries, accruals and invoices. • We evaluated significant transactions outside the normal course of business. • We assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • We substantively tested income and expenditure transactions around the year-end. | <p>Conclusion:</p> <p>No management override of controls was identified.</p> |
| <p>2. Risk of material misstatement caused by fraud in expenditure relating to third party payments</p> | <ul style="list-style-type: none"> • We reviewed the controls in place over accounting for third party payments including procurement procedures. | <p>Conclusion:</p> <p>No fraud was identified in expenditure relating to third party payments.</p> |

| Audit risk | Audit response | Results and conclusions |
|---|--|---|
| <p>In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, auditors should presume there is a risk of material misstatement caused by fraud in expenditure.</p> <p>We have rebutted this risk for all expenditure streams, other than third party payments. SPT's other areas of expenditure, such as staff costs, can be readily forecast on a predictable pattern of spend.</p> <p>Third party payments (£17.887 million in 2021/22), including bus operations payments, are however made primarily to private sector bodies and are subject to more complex procurement arrangements. We have therefore assessed that there is a material misstatement due to the risk of fraud over third party payment expenditure.</p> | <ul style="list-style-type: none"> • We reviewed budget monitoring reports. • We performed analytical procedures on expenditure streams and detailed testing of expenditure transactions • We reviewed progress in investigating National Fraud Initiative (NFI) matches. | |
| <p>3. Estimation and judgement in the valuation of non-current assets</p> <p>There is a significant degree of subjectivity in the valuation of non-current assets. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> | <ul style="list-style-type: none"> • We reviewed the information provided to the external valuer to assess for completeness. • We evaluated the competence, capabilities, and objectivity of the professional valuer. • We reviewed management's involvement in the | <p>Conclusion:</p> <p>No issues were identified in the valuation of non-current assets except for the issue with the land at Buchanan Bus Station reported in Exhibit 2 above.</p> |

| Audit risk | Audit response | Results and conclusions |
|---|--|-------------------------|
| <p>SPT held land and buildings, and investment properties, with a combined net book value of £128.213 million at 31 March 2022. All land and buildings and investment properties are expected to be revalued as at 31 March 2023.</p> | <p>valuation process to ensure appropriate oversight.</p> <ul style="list-style-type: none"> • We tested the reconciliation between the financial ledger and the asset register. • We assessed SPT's disclosures regarding the assumptions in relation to the valuation of non-current assets. | |

SPT applied the statutory override for the accounting for infrastructure assets

21. The Code of Practice for Local Authority Accounting in the United Kingdom (the Code) requires infrastructure assets to be measured using the historical cost measurement basis and carried at depreciated historical cost. Where a component of an asset is replaced, the carrying amount (i.e., net book value) of the old component shall be derecognised to avoid double counting and the new component shall be reflected in the carrying amount of the infrastructure asset.

22. Due to practical difficulties in applying component accounting for the recognition and derecognition of replaced components of infrastructure assets, in large part due to data limitations, the Scottish Government approved a [Statutory Override - Accounting for Infrastructure Assets](#) that is applicable to 31 March 2024. The statutory override is formed of two parts:

- **Statutory Override 1:** For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority body is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- **Statutory Override 2:** For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

23. Infrastructure assets within SPT relate to the subway network and are comprised of the tunnels, track and associated electrical infrastructure. SPT applied both parts of the statutory override in the 2022/23 accounts. As part of our audit, we reviewed the infrastructure assets disclosures and the related notes, including the relevant disclosure in the accounting policies. We are

satisfied that these disclosures reflect the statutory override and adequately explain the approach adopted to the readers of the annual accounts.

Favourable actuarial forecasts have resulted in a pension asset on the balance sheet

24. We identified in our 2022/23 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. The pension asset was identified as an area of audit focus due to the material value and significant assumptions used in its calculation.

25. The net pension asset, as disclosed on the balance sheet, is £1.353 million. This figure represents the difference between the expected future payments to pensioners, and the underlying value of pension fund assets available to meet this liability.

26. Historically there has been considerable volatility year-on-year in the valuation of pension fund assets and liabilities across the public sector. Modest changes in actuarial assumptions can have a significant impact on the calculation of the closing position.

27. SPT is an admitted member of Strathclyde Pension Fund. Valuation of pension fund assets and liabilities is assessed by an independent firm of actuaries (Hymans Robertson LLP). Pension assets and liabilities are calculated annually for each individual member body, by the actuary, for inclusion in the annual accounts. Annual valuations are dependent on a number of external variables, including projected rates of return on assets, projected rates of price and pay inflation, interest rates and mortality estimates. We have reviewed the actuarial assumptions used for the valuation and are satisfied that they appear reasonable and in line with assumptions used by other public sector actuaries over the same period.

Misstatements of £5.7 million were adjusted in the audited accounts

28. Total misstatements identified were £5.7 million. These were adjusted in the audited accounts resulting in an increase in Other Operating Expenditure in the Comprehensive Income and Expenditure Statement of £5.2 million. The overall adjustments decreased net assets in the Balance Sheet by £5.2 million. All adjustments were accounting misstatements which had no impact on SPT's usable reserves. The significant issues are identified in [Exhibit 2](#).

29. We considered the need to revise our audit procedures and approach. We reviewed the nature and causes of these misstatements, with the main issue being the adjustment to reflect the classification of the land element of Buchanan Bus Station as an operating lease. We reviewed all comparable assets as part of our work to determine whether similar arrangements exist.

30. Although these misstatements breached our performance materiality, we concluded that these arose from issues that have been isolated, identified and corrected in their entirety and do not indicate further systemic error.

31. Management have adjusted all identified misstatements above our reporting threshold and there are no unadjusted errors to report.

The unaudited annual accounts were received in line with the agreed audit timetable

32. The unaudited annual accounts were received in line with our agreed audit timetable on 19 June 2023. The audit team received good support from finance staff which helped ensure the final accounts audit process ran smoothly.

Follow up of prior year recommendations

33. There were no improvements actions raised in Azets's 2021/22 Annual Audit Report.

2. Best Value

Local authority bodies have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusion

Whilst there is evidence of SPT demonstrating some aspects of Best Value, a formal process should be in place to demonstrate how Best Value is being achieved.

A formal review should be undertaken to demonstrate how SPT is achieving Best Value

34. The Code of Audit Practice requires us to consider the adequacy of the arrangements in place to demonstrate how SPT meets its Best Value duty to secure continuous improvement in the performance of its functions. We expect bodies to demonstrate that they meet the expectations in the Scottish Government, Local Government in Scotland Act 2003 Best Value: Revised Statutory Guidance 2020.

35. Our work on the four wider scope audit areas financial management, financial sustainability, vision, leadership and governance and the use of resources to improve outcomes provides evidence of how SPT performs in some important areas of Best Value. Whilst there is evidence of elements of Best Value being demonstrated by SPT across a range of areas, the mechanism for formally reviewing and reporting on the arrangements to secure Best Value is not formalised and reported to the Partnership.

Recommendation 1

A formal review of the Best Value assurance framework and an assessment of the partnership's Best Value arrangements should be completed and reported to the Partnership.

Climate change arrangements

36. In 2022/23 auditors were required to gather some information on the arrangements for responding to climate change in all bodies.

- 37.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.
- 38.** The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.
- 39.** SPT has prepared a , setting out the Partnership's long-term vision, objectives, commitments and key targets. The draft Strategy which was presented to the June 2023 Partnership meeting, is focused on areas that are most within SPT's control to directly change. This includes its supply chain, property portfolio, staff and business travel, operations, and the transport services and projects administered, managed and/or funded by SPT. The Partnership is aiming to be a zero-carbon emitter across its property portfolio and operations by 2030 and net zero carbon across its operational boundary by 2045.
- 40.** Work has also commenced to establish a new carbon footprint for SPT following which an options appraisal will be carried out to determine emission reduction pathways for different parts of the business. Priorities and actions will be developed alongside the monitoring and evaluation process. The aim is to complete the strategy along with a supporting action plan by the end of 2023.
- 41.** We will continue to monitor development of SPT's Climate Change Strategy during 2023/24.

3. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

SPT has effective financial management arrangements in place.

The 2022/23 outturn was £36.3 million in line with budget. At the end of the year subway patronage had returned to 95% of pre-Covid levels.

SPT has significant levels of usable reserves totalling £159.765 million to fund its large projects.

The General Fund reserves balance has increased by £9.4 million with a significant upward movement in the level of earmarked reserves.

Capital expenditure increased in 2022/23 but significant slippage against planned expenditure was reported.

SPT's overall spend was in line with its budget in 2022/23

42. SPT prepares two year rolling revenue budgets. The draft 2022/23 budget submitted to the Partnership in March 2021 presented a deficit position. The final 2022/23 revenue budget approved by the Partnership in March 2022 included a number of reductions to expenditure over the original draft. The balanced budget was achieved largely due to removal of a planned £5.2 million contribution to the earmarked Subway Modernisation Fund.

43. SPT achieved a breakeven position in 2022/23. Its revenue budget of £36.3 million was met by requisitions of £35.6 million from the 12 local authority partners in the SPT area and £0.7 million from Scottish Government direct grants.

44. While SPT's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4**Summary of significant under/overspends against budget**

| Area | £m | Reason for variance |
|----------------------------|-------|---|
| Underspends | | |
| Subway | £4.9 | Positive recovery in terms of Subway patronage |
| Interest received | £2.6 | Additional interest received due to increased rates |
| Other third party payments | £2.2 | Unutilised contingencies |
| Overspends | | |
| Contributions to Reserves | £11.4 | Underspends noted above allowed contributions to earmarked reserves |

Source: SPT Final 2022/23 Budget Monitoring Report

Budget processes were appropriate

45. We observed that senior management and members receive regular and accurate financial information on SPT's performance against budgets. The body has appropriate budget setting and monitoring arrangements.

SPT has significant levels of usable reserves totalling £159.765 million to fund its large projects

46. The usable reserves available for use by SPT at 31 March 2023 are detailed in [Exhibit 5](#).

Exhibit 5 Usable Reserves

| | 31 March 2023 £m | 31 March 2022 £m |
|--------------------------|---------------------|---------------------|
| General fund | 109.7 | 100.3 |
| Capital fund | 26.3 | 26.2 |
| Capital grants unapplied | 21.1 | 40.1 |
| Repair and renewal fund | 1.5 | 1.5 |
| Insurance fund | 1.2 | 1.2 |
| Total | 159.8 | 169.4 |

The General Fund reserves balance has increased by £9.4 million

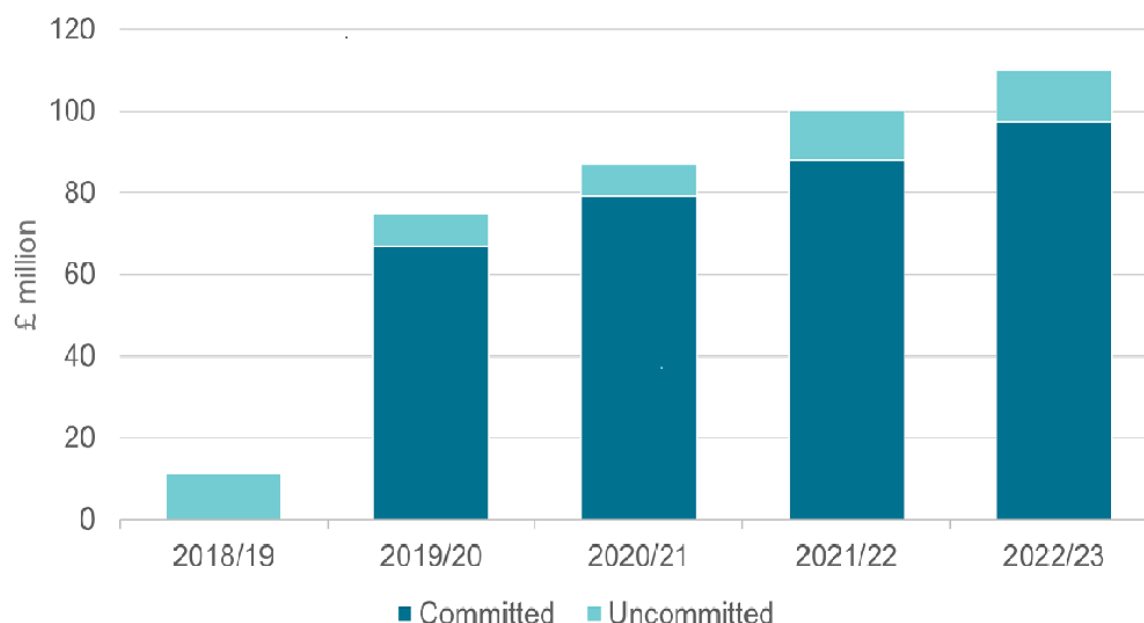
47. The General Fund balance increased from £100.3 million at 31 March 2022 to £109.7 million at 31 March 2023 mainly as a result of transfers to earmarked reserves of £11.4 million. Earmarked reserves represent £97.3 million of the total. This leaves a balance of £12.4 million of unallocated reserves which represents approximately six months of all SPT income and is held as an organisational contingency. This is consistent with SPT's reserves policy, updated and approved by the Partnership in March 2023, to hold a non-earmarked general fund balance at approximately six months of operational income.

There has been a significant upward movement in the level of earmarked reserves

48. [Exhibit 6](#) provides an analysis of the General Fund reserves balance over the last five years split between earmarked and unearmarked reserves. This shows that the level of earmarked reserves has been rising since 2019/20 primarily due to funds being set aside within Reserves to fund subway modernisation. The Transport (Scotland) Act 2019 enabled Regional Transport Partnerships to hold and contribute to reserves. This resulted in SPT creating earmarked reserves for the first time during 2019/20, predominantly by releasing the balance previously held under Receipts in Advance.

Exhibit 6

Analysis of general fund balance



Source: SPT - Annual Accounts

49. The earmarked element of usable reserves increased in the year from £87.9 million in 2021/22 to £97.3 million in 2022/23. There are four earmarked reserves which SPT has maintained over a number of years which are both capital and revenue in nature. These are the Subway Modernisation Fund, discussed below, (£58.3 million), the Strategic Bus Routes Fund (£5.2 million), the Subway Infrastructure Fund (£21.7 million) and the Transport Future Investment Fund (£12.0 million). The purpose of each of these earmarked reserves is set out at pages 40-41 of the annual accounts.

50. While these funds are substantial, the majority of capital expenditure is being funded from the capital grants unapplied account, see [paragraph 58](#). In addition, as detailed in [Exhibit 4](#), the favourable outturn allowed SPT to make contributions of £5.1 million to the Subway Modernisation Fund (2021/22: £7.8 million), £4.3 million (2021/22: £0 million) to the Subway Infrastructure Fund, and a contribution of £2.0 million (2021/22: £0 million) to The Transport Future Investment Fund.

51. None of the £53 million general fund earmarked balances brought forward from 2021/22 in the subway modernisation fund were used in 2022/23. The plan is that £2.7 million will be used to contribute to funding of the 2023/24 capital programme and £nil in both 2024/25 and 2025/26. The balance is being held to

fund any organisational change costs arising from the re-organisation of both Operations and Maintenance within the Subway, and to fund the overall Subway Modernisation Programme as outlined at [paragraph 75](#).

52. CIPFA Bulletin 13 – Local Authority Reserves and Balances (Updated 2013) says that when considering the level of earmarked reserves, there should be processes which keep the rationale for holding the reserves and the amount of the reserves held under review, consistent with their purposes and their approach to risk management. A detailed review of earmarked reserves is undertaken annually as part of the budget setting process in line with SPT's Reserves Policy.

53. As outlined above, the Movement in General Fund Balance disclosure note in the accounts explains that reserves include earmarked reserves set aside for specific policy purposes and balances which represent resources set aside for general contingencies. SPT currently holds unearmarked reserves at 50% of operational income as a contingency in accordance with their Reserves Policy. While it is for SPT to decide what is an appropriate level of unearmarked reserves, in our experience this is an unusually high level of unearmarked reserves. SPT's next annual review of balances should reflect on the high level of both unearmarked and earmarked reserves discussed at [paragraph 49](#).

Capital expenditure increased in 2022/23 but there has been slippage on projects, particularly on the subway modernisation programme

54. In our audit plan we identified delivery of the capital programme as a wider scope audit risk on which we would focus attention.

55. Total capital expenditure in 2022/23 was £37.1 million (2021/22: £25.8 million) of which £23.2 million related to subway operations and modernisation, £11.6 million related to grant funding to the other local authorities to fund capital transport projects and £2.3 million related to other projects (principally bus operations). This was against a revised total budget of £47.5 million (including £31.7 million for subway operations and modernisation and £13.0 million for grant funding to the other local authorities) resulting in a total slippage of almost 22%.

56. The main area of slippage (£7.7 million) related to subway modernisation and the purchase of rolling stock. However by June 2023, the Director of Subway reported to the SPT Board that the Factory Acceptance Tests of all trains up to unit 15 have been completed and these trains had now also arrived in Glasgow. The Factory Acceptance Tests for the final two trains were scheduled for June 2023 in Switzerland and would be delivered to Glasgow shortly thereafter, marking the completion of the train manufacturing and delivery phase.

57. The 2022/23 programme was funded by £15.9 million capital grants, £19.1 million from the Unapplied Capital Grants reserve and £2.1 million from the Subway Infrastructure Fund.

58. SPT has a specific Programme Office for monitoring and supporting internal projects. There is internal 4 weekly reporting on performance against expenditure to all budget managers and the Strategy Group and regular reporting on the capital programme to the Strategy and Programmes Committee. SPT has identified that supply chain insecurity and associated financial pressures have been a recurring issue, through the initial impact of COVID, the UK exit from the EU and increased global demand for materials.

Funding is in place to deliver the subway modernisation programme

59. In 2011, SPT initiated its ambitious subway modernisation programme. The total budget for the subway modernisation programme has been set at £288.7 million, with the Scottish Government agreeing to contribute up to £246 million through Transport Scotland by way of grant allocation. At 31 March 2023 £11.488 million (£30.605 million at 31 March 2022) is included in SPT's reserves relating to capital funding received from Transport Scotland in advance of payments on the programme.

60. In accordance with the Scottish Public Finance Manual, Transport Scotland are not permitted to provide grant funding in advance of need. In recognition of the unspent balances in SPT for the project, the proposed grant allocation for 2022/23 was not paid on the basis that SPT had sufficient funds for the project to be drawn down from their Unapplied Capital Grants reserve.

61. Estimated spend on the project for the period 2023/24 to 2025/26 is based on eliminating the Unapplied Capital Grants reserve balance before receiving any further future grants. The overall grant requested from Transport Scotland falls short of the up to £246 million previously agreed, however they have confirmed that the remaining funds will be held as a project contingency and can be drawn down if required.

62. Progress on the subway modernisation programme is considered at [paragraphs 80 to 87](#).

Cash and investments have reduced by £11.4 million

63. At 31 March 2023, SPT's cash and cash equivalents and short term investments held had a combined value of £164.2 million (2021/22: £175.6 million). The decrease arose as a result of usable reserves being used to fund new capital expenditure as outlined above.

64. The large cash and investments balances have arisen due to timing issues between capital funding previously received from Scottish Government and

payments being made to suppliers due to slippages in meeting pre-agreed milestones in the Subway Modernisation programme.

65. Cash and investments are managed in line with SPT's Treasury Management Strategy. SPT has no external debt.

SPT has appropriate financial control arrangements in place

66. As part of our audit, we develop an understanding of the partnership's control environment in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that SPT has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature.

67. No material weaknesses or areas of concern were identified from this work which would have caused us to alter the planned approach as documented in our 2022/23 Annual Audit Plan.

4. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

The 2023/24 budget is based on a significant increase in income generation and no additions to reserves.

SPT has effective financial planning arrangements. The Long-Term Financial Strategy is aligned with the new Regional Transport Strategy.

As in 2022/23, delivery of the 2023/24 Capital Programme will be difficult. Capital programme slippage was 22% in 2022/23.

The Subway Modernisation Programme is taking longer than originally planned.

68. In our audit plan we identified financial sustainability as a wider scope audit risk on which we would focus attention.

The 2023/24 budget is based on a significant increase in income generation and no additions to reserves

69. A balanced revenue budget of £37.0 million for 2023/24 was approved by the Partnership at its meeting on 17 March 2023. The budget was prepared on the assumption that Subway passenger numbers will be sustained at the current level and, together with an average increase in Subway fares of just over 3% from January 2024, this will generate an increase in income of almost 30% compared with the 2022/23 budget.

70. The budget includes an estimated increase of £3.8 million in interest received compared with the 2022/23 budget based on increases in interest rates and projected cash balances. There is also a 1.95% overall increase in council requisitions. Salary costs and electricity costs are expected to rise by £2.1 million and £1.3 million respectively. The budget also reflects an increase of £1.5 million in Bus Operator Payments, reflecting provision for increases in contract renewals, inflation on continuing contracts and also an increase in the community transport budgets.

71. It is anticipated that there will no additions to Reserves in 2023/24 although the budget does include a contribution of £3.1 million to directly support the Subway capital programme and a further £1.0 million to support the General capital programme. For 2023/2024, SPT's General Capital grant remains at £15.3 million.

72. A draft 2024/25 balanced revenue budget of £37.0 million was also presented to the Partnership meeting of 17 March 2023. The draft Budget reflects further increases in salary costs, electricity costs and payments to Bus Operators, offset by increased Subway income.

73. There is internal 4 weekly reporting on performance against budget to all budget managers and the Strategy Group and regular reporting to the Partnership on the financial position.

SPT has effective financial planning arrangements

74. SPT's Long Term Financial Strategy (LTFS) provides financial forecasts projected forward over a 10-year period, split into short, medium and longer term forecasts. The short-term forecast covers the period 2022/23 and 2023/24. The medium-term covers years 2024/2025 to 2025/2026 and the longer-term covers years five to ten (2025/26 to 2031/32). Various price indices have been used to adjust the forecasts from year 2025/26 onwards. The Strategy also includes scenario planning based on a +/- 1% movement in the indices.

75. The Strategy also incorporates estimated changes that are planned to take place in the organisation. For example, in years 2026/2027 and 2027/2028 there have been significant staff adjustments assumed in both Subway Operations and Maintenance. Estimated operational change costs have also been included in both years to take account of these adjustments and a contribution from the Subway Fund has been released to partially offset the additional costs.

76. The Strategy identifies that SPT enters a deficit position from 2028/2029 onwards and needs to save £0.637 million in 2028/29 and an additional £8.9 million over the remaining period to 2031/32. The Strategy notes that the financial forecast will need to be monitored closely over the coming years and corrective measures put in place well in advance of 2028/2029 if the projected funding deficit remains. The Strategy will be reviewed annually.

77. In July 2023 the final draft Regional Transport Strategy (RTS) was approved by Scottish Ministers. The LTFS is aligned with the new strategy and as set out at [paragraph 93](#), work has since commenced to develop an RTS Delivery Plan along with key workstreams fundamental to delivery of the RTS.

As in 2022/23, delivery of the 2023/24 Capital Programme will be difficult

78. The Capital Plan 2023/2024 to 2025/2026 including the Capital Budget 2023/2024 was approved by the Partnership at its meeting of 17 March 2023. The 2023/24 budget is £52.1 million of which £25.5 million relates to subway modernisation and £26.6 million relates to General Capital (including subway infrastructure and subway operations). The 2023/24 budget includes only those proposals deemed to be Category 1. These are proposals which have progressed successfully through the evaluation process and are ready to be delivered in year one of the three-year programme. Indicative budgets for 2024/25 and 2025/26 Category 1 proposals are £55.2 million and £19.2 million respectively.

79. As for 2022/23, SPT has identified that supply chain insecurity and associated financial pressures may again be an issue in 2023/24. The Director of Finance & Corporate Support has advised the Partnership that the current proposed plan and budget for 2023/2024 may require to be amended to accommodate project slippage which has not yet been identified and that members will be advised of this at the earliest opportunity.

The Subway Modernisation Programme is taking longer than originally planned

80. As noted above, in 2011 SPT initiated a £288.7 million modernisation programme to which the Scottish Government is contributing up to £246 million. The five main strands to this programme are smart ticketing, station refurbishment, infrastructure asset renewal, rolling stock and control system replacement, and organisational change. They will be the first trains to operate in the UK with Unattended Train Operation (UTO). Refurbishing the Subway's 15 stations accounts for around £50 million of the programme. This started in July 2011 with Hillhead station and was completed in 2020.

81. In 2016, SPT announced that a consortium of Stadler Bussnang AG and Ansaldo STS (now Hitachi Rail STS) (ANSTA) had won a £176.3 million contract to supply its new trains, signalling and associated equipment. The consortium was also awarded a £26.9 million contract for technical support and spares supply (TSSSA) for the new train fleet. Stadler is supplying 17 four-car articulated trainsets; fifteen of these trains are now in Glasgow. ANSTA has built a construction depot and store adjacent to the main depot in Govan. This ANSTA-controlled facility is assembling and testing the new trains and is segregated from normal operations.

82. At 31 March 2023, £207.6 million has been incurred against the total budget of £288.7 million. Capital commitments to subway modernisation total £73.8 million. Overall, the Subway Modernisation capital programme remains within the approved budget, including programme contingency and available funding.

83. The programme is however taking longer than originally envisaged when it started in 2011. The first of the new trains arrived in Glasgow in May 2019 to begin testing by Stadler. The new trains were expected to start service in 2020 with UTO scheduled to be implemented on the trains in 2021. In his Subway Modernisation – progress update report of June 2023, the Director of Subway notified the Partnership that ANSTA are currently holding the position that trains will be in revenue service in Autumn 2023 with full UTO in 2025.

84. In 2022 an independent review was commissioned by both SPT and ANSTA to report on aspects of delivery of the project to date and reflect on issues that have led to delays. It was reported to the Partnership that the independent review identified a number of areas where ANSTA and SPT could be more collaborative.

85. In response to the report, claims for additional time and cost received by SPT from Stadler/ANSTA throughout the project (including those relating to the pandemic force majeure) were settled in the principle of ‘drawing a line in the sand’.

86. A Variation Order settled all Variation Proposal claims raised by Stadler/ANSTA with two exceptions which have not been agreed by SPT and for which no liability is acknowledged.

87. The Variation Order also released and returned the original surety bonds to Stadler/ANSTA and replaced them with parent company guarantees. SPT have advised that they took legal advice as part of this process however they acknowledge and accept the transfer of risk associated with release of the original surety bonds. The subway modernisation programme is considered to be at an advanced stage reducing the likelihood of the bonds being called.

88. We will continue to monitor progress made on the Subway Modernisation Programme during 2023/24.

5. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

The final draft Regional Transport Strategy has been approved by Scottish Ministers.

Governance arrangements are appropriate and operated effectively.

Internal controls over key financial systems operated effectively.

SPT is proactive in investigating matches and reporting the outcomes of NFI activity.

The final draft Regional Transport Strategy has been approved by Scottish Ministers

89. SPT has a statutory duty under the Transport (Scotland) Act 2005 to produce a Regional Transport Strategy (RTS). The previous RTS, 'A Catalyst for Change' - the statutory RTS for the west of Scotland 2008-21 was approved by Scottish Ministers in 2008.

90. In March 2023, the Partnership approved the final draft RTS, 'A Call to Action' – the statutory RTS for the west of Scotland 2023-38 for submission to Scottish Ministers.

91. The new RTS sets out the transport projects, actions, services and other activities to be taken forward in line with strategic priorities within the document. It reflects the ambitions, and long-term direction, for transport in the west of Scotland for the next 15 years including the potential impact of Clyde Metro.

92. The RTS vision and priorities have been set out as:

- The west of Scotland will be an attractive, resilient and well-connected place with active, liveable communities and accessible, vibrant centres facilitated by high quality, sustainable and low carbon transport shaped by the needs of all.
- A healthier environment, supported by a transport system that helps our region become a low carbon place with healthier natural and built environments for the benefit of all.
- Inclusive economic growth, underpinned by a transport system that supports regional economic development and growth, with better opportunities and fairer outcomes for all.
- Improved quality of life, supported by a transport system that helps everyone to have better health and wellbeing and lead active, fulfilling lives.

93. The RTS was approved by Scottish Ministers in July 2023. Work has since commenced to develop an RTS Delivery Plan along with key workstreams fundamental to delivery of the RTS, including the Strathclyde Regional Bus Strategy, Regional Active Travel Strategy and Clyde Metro.

Governance arrangements are appropriate and operated effectively

94. As part of our audit process we assess the governance arrangements within SPT and review the Annual Governance Statement in the annual report and accounts. We concluded that arrangements are appropriate and operated effectively during 2022/23.

95. Through our attendance at Audit and Standards Committee meetings, we concluded that committee papers were well prepared (and in sufficient time in advance of meeting for review), adequate time was allowed to discuss the issues on the agenda and committee members were well-prepared and asked appropriate questions. This enables the Audit and Standards Committee to exercise effective scrutiny.

Internal controls over key financial systems operated effectively

96. As part of our audit, we develop an understanding of the control environment in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that systems of recording and processing transactions provide a sound basis for the preparation of the financial statements. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. No material weaknesses or areas of concern were

identified from our work which would have caused us to alter the planned approach as documented in our 2022/23 Annual Audit Plan.

Internal audit reported on areas for improvement in the governance arrangements which are being progressed and monitored

97. The partnership obtained independent assurance on its governance arrangements from Internal Audit. In his Annual Report and Opinion for 2022/23 to the Audit and Standards Committee in June 2023, the Audit and Assurance Manager reported that reasonable assurance can be placed upon the adequacy and effectiveness of the partnership's framework of governance, risk management and internal control in the year to 31 March 2023.

98. From the thirteen assurance reviews completed in 2022/23, five were classified as 'sound in most areas', five were 'reasonable' and the remaining three were 'reasonable with exceptions'.

99. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2022/23 we did not plan to place formal reliance on the work of internal audit to support our financial statements audit opinion. However, we considered internal audit report findings as part of our work.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

100. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

101. SPT has a range of established procedures in place designed to maintain standards of conduct, prevent and detect bribery and corruption and prevent and detect of fraud and error.

102. The Counter Fraud Strategy is available to all staff via the Partnership's website. There are codes of conduct for members and staff which are also available on the website. The Partnership has also implemented and publicised the National Whistleblowing Standards as established by the Independent Whistleblowing Officer. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current. We concluded that the Partnership has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

The Partnership is proactive in investigating matches and reporting the outcomes of National Fraud Initiative (NFI) activity

103. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

104. In February 2023, the NFI team released 459 matches to SPT; of these, 455 were trade creditor matches and 4 related to payroll matches. Engagement testing by SPT during February/March 2023 analysed and investigated this data and found no evidence of fraud in these matches.

105. The results of NFI activity are reported regularly to the Audit and Standards Committee by the Audit and Assurance Manager. We concluded that SPT is proactive in investigating matches and reporting the outcomes of NFI activity.

Cyber Security arrangements

106. As reliance on technology grows within audited bodies, failure of network and information systems has a bigger impact on the delivery of public services. In addition, there are more opportunities to compromise those systems. All public bodies need to recognise these cyber threats and embrace the importance of protecting data and securing information.

107. SPT have confirmed that their internal IT team follow the Cyber Resilience Framework in assessing the risks applicable to their IT systems. Reports from their own reviews on Cyber Security are presented to the Audit and Standards Committee. Cyber security and system continuity are detailed in the corporate risk register. A Vulnerability Register is also maintained and reviewed at least monthly.

108. An Incident Response Plan is in place and was last tested in May 2022 with another currently being scheduled. There have been no cyber security incidents identified or detected in the last year.

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusion

SPT has an established and effective performance management framework in place.

SPT's Annual Report was published in July 2023.

Subway patronage has increased. The last few weeks of 2022/23 saw a return to 95% of pre-Covid levels.

Supported bus patronage increased by 28.8% compared to the previous year but remains 10.5% down on pre-Covid levels.

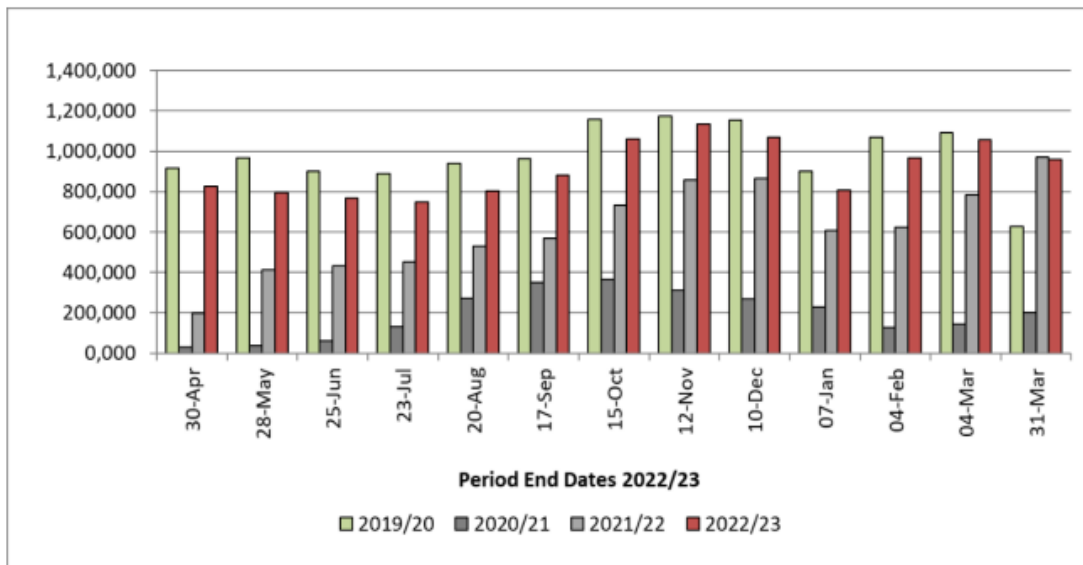
SPT has an effective performance management framework in place

109. The Operations Committee is routinely presented with monitoring reports on the operational performance of public transport services and facilities which are delivered directly by the Partnership or by others on behalf of the Partnership.

110. The largest areas of SPT's expenditure relate to subway and bus operations. [Exhibit 7](#) below illustrates the subway patronage by period over the last four years. For the full year 2022/2023, Subway patronage was 11.9 million journeys, up 48% year-on-year and down 10% on pre-Covid (2019/2020), with an improving trend as the year went on. The April 2023 monitoring report notes that the last few weeks of 2022/23 saw a return to 95% of pre-Covid levels.

Exhibit 7

Subway patronage over the last four years

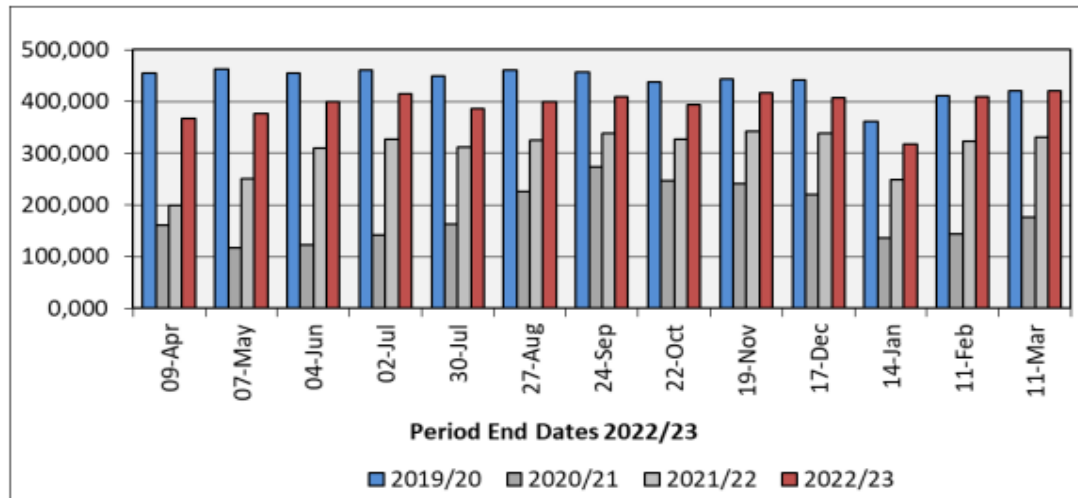


Source: SPT – Performance Monitoring Report April 2023

111. [Exhibit 8](#) below illustrates that supported bus patronage for the past three Periods (to 11 March 2023) has increased by an average of 27.3% year-on-year. The April 2023 monitoring report notes that for the full year 2022/2023, supported bus patronage was 5.1 million journeys, up 28.8% on the previous year and down 10.5% on pre-Covid (2019/2020).

Exhibit 8

Bus patronage over the last four years

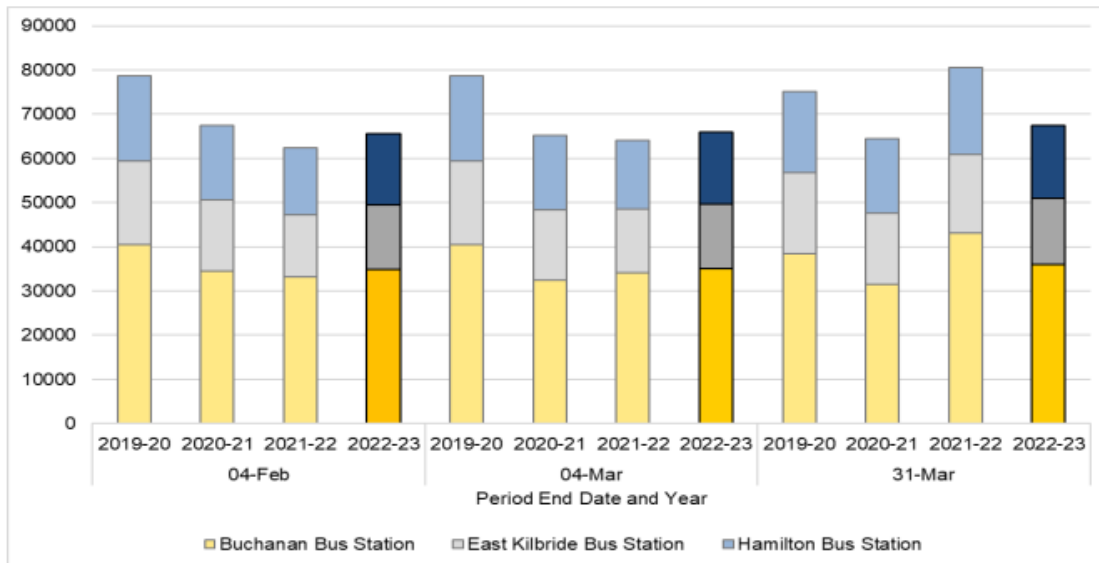


Source: SPT – Performance Monitoring Report April 2023

112. [Exhibit 9](#) below shows bus station departures for the current year and previous three years. Total bus station departures for 2022/2023 overall were 841,199 down (4.6%) compared to the previous year. The April 2023 monitoring report notes that when comparing to pre-Covid performance (2019/2020), overall bus station departures were down 15.8%. This reflects the reduction in services operated across the network.

Exhibit 9

Bus station departures over the last four years.



Source: SPT – Performance Monitoring Report April 2023

113. The monitoring reports also routinely provide details on School Transport, MyBus, Compliance Inspections, Complaints and Rail Services within the Partnership area.

114. We concluded that SPT has an established and effective performance management framework that managers and members clearly understand, and that this provides a sound base for improvement.

The Annual Report was published in July 2023

115. Effective annual reporting in the public sector is more important than ever. The COVID-19 pandemic and, more recently, the energy price crisis have resulted in extraordinary public spending interventions by the government to support the public and the economy. Making public spending transparent and understandable to those who fund it is therefore critical.

116. SPT's Annual Report 2022/23 was published in July 2023 and is one of the key documents used to inform stakeholders on activities during the year, and on how resources have been allocated to deliver outcomes.

117. The Annual Report provides links to the new Regional Transport Strategy 2023-28, along with highlights from the year including the Subway Modernisation Programme, improvements to Bus infrastructure, and School and

Community Transport. The Report also details progress on supporting active travel and provides a carbon management update.

Appendix 1. Action plan 2022/23

2022/23 recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|---|--|---|
| <p>1. Best Value</p> <p>Whilst there is evidence of elements of best value being demonstrated by SPT across a range of areas, the mechanism for formally reviewing and reporting on the arrangements to secure best value is not formalised and published.</p> | <p>A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements should be completed and reported to the Partnership.</p> <p>Paragraph 35</p> | <p>A formal review of the Best Value assurance framework and an assessment of the board's Best Value arrangements will be undertaken and reported to the Partnership.</p> <p>Responsible Office: Director of Finance & Corporate Support</p> <p>Agreed Date: 31 March 2024.</p> |

Strathclyde Partnership for Transport

2022/23 Annual Audit Report

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