



SENIOR TRAFFIC COMMISSIONER

Statutory Document No.2

FINANCE

This document is issued pursuant to section 4C of the Public Passenger Vehicles Act 1981 (as amended). Representative organisations have been consulted in accordance with that provision.

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Issued:	

Beverly Bell

Acting Senior Traffic Commissioner
2 December 2011

GUIDANCE

1. The Senior Traffic Commissioner for Great Britain issues the following Guidance under section 4C(1) of the Public Passenger Vehicles Act 1981.
2. This guidance is issued under section 4C(1)(a) of the 1981 Act to provide information as to the way in which the Senior Traffic Commissioner believes that traffic commissioners should interpret the law in relation to the requirements for financial standing.

Goods Vehicles Legislation: The Goods Vehicles (Licensing of Operators) Act 1995

3. Applicants for a standard licence must be of the appropriate financial standing, as required by section 13A(2)(c) of the Act. Traffic commissioners must revoke a standard licence if it appears that the licence holder no longer satisfies the requirement to be of the appropriate financial standing. However Article 13(1) of Regulation (EC) 1071/2009 allows the holder of a standard licence (but not applicants) to ask the traffic commissioner for a period of time ("period of grace") to rectify a situation where they cannot establish the required financial standing. The traffic commissioner is not obliged to grant a period of grace. The maximum period allowed under the legislation is 6 months to demonstrate that the requirements will be met *on a permanent basis*.
4. Applicants for any licence including restricted licences under section 13D of the Act must have sufficient financial resources for maintaining the authorised vehicles. Traffic commissioners may revoke a restricted licence if they find that there has been a material change in their financial position under section 26(1)(h).

Passenger Carrying Vehicles Legislation: The Public Passenger Vehicles Act 1981

5. Applicants for a standard licence must be of the appropriate financial standing - section 14ZA(1)(c) of the Act. Traffic commissioners must revoke a standard licence if it appears that the licence holder no longer satisfies the requirement to be of appropriate financial standing. However Article 13(1) of Regulation (EC) 1071/2009 allows the traffic commissioner to grant a period of grace to holders of standard licences (but not applicants) to rectify a situation where they cannot establish the required financial standing. The traffic commissioner is not obliged to grant a period of grace. The maximum period allowed under the legislation is 6 months to demonstrate that the requirements will be met *on a permanent basis*.
6. Applicants for a restricted licence have to meet the requirement to be of appropriate financial standing – section 14ZB(b) of the Act. Traffic commissioners may revoke a restricted licence if they find that there has been a material change in their financial position - section 17(2) and section 17(3)(d).

Level of finance required

7. The finance required for holders of standard operator licences for both goods and public service vehicles is decided by the Secretary of State for Transport (see below). The levels for restricted licences are set by agreement of the traffic commissioners (see the Statutory Direction attached).
8. Regulation 5 of the Road Transport Operator Regulations 2011 states that a standard licence granted under the 1981 Act constitutes an authorisation to engage in the occupation of road transport operator for the purposes of Regulation 1071/2009 in the capacity of road passenger transport operator. Article 7 of Regulation (EC) 1071/2009 states that the rates to be applied shall be those obtained on the first working day of October and published in the Official Journal of the European Union. They shall have effect from 1 January of the following calendar year.
9. The finance required for each authorised vehicle is based on the rate of exchange for the Euro as at 1 October 2009. The Secretary of State previously concluded that under EU legislation financial standing limits should be the same for both national and international licences as they existed. Operators who apply to add to the number of vehicles on their licences will be checked against the new limits. In the case of Multiple Licence Holders¹ the levels apply to each individual licence.
10. Existing operators will be liable to demonstrate the increased pound sterling rate whenever their licences are considered by or on behalf of a traffic commissioner, either at the five year review stage or where a traffic commissioner considers an operator's licence for any other reason.
11. Traffic commissioners will continue to check standard national and international licence holders regularly and at least every 5 years until 31st December 2014², so that operators continue to meet the financial standing requirements. This will apply equally to restricted licences (see attached Statutory Direction).

Regulation (EC) 1071/2009

12. This provision initially allows three ways in which the continuing and mandatory requirements can be satisfied for standard national and international operators:
 - Certified annual accounts comprising balance sheet, profit and loss accounts and notes on accounts;
 - Certified opening balance for new operators – a properly accredited person can provide a statement of assets and liabilities before they started trading;
 - Financial guarantee.

¹ See Statutory Guidance on Delegations and Multiple Licence Holders

² Article 12.2 Regulation (EC) 1071/2009

13. However the United Kingdom (of which Great Britain is the major part) has opted to engage the derogation (at Article 7.2) so as to allow greater flexibility to businesses in the evidence which can be taken into account. The EU Regulations do not contain an exhaustive list. In short this allows traffic commissioners to consider other evidence such as a bank guarantee, an insurance policy (including professional liability insurance) from a financial institution, joint and several guarantees as well as overdraft facilities, credit facilities and invoice finance agreements which they have previously taken into account. Any annual accounts and/or guarantees must be in the name of the relevant entity established in the Member State in which a licence has been applied for and not those of any other entity (established in any other Member State).

Case Law

14. This Guidance may be subject to decisions of the higher courts and to subsequent legislation. The Senior Traffic Commissioner, however, has extracted the following principles from existing case law and for ease of reference uses financial standing in general terms³. The case law predates the commencement of Regulation (EC) 1071/2009, referred to above.
15. The case law refers to the statutory purpose for the requirement of having available finance namely that the holder of an operator's licence has the financial resources available to ensure that its vehicles are safe to use on public roads, its passengers (PSV) and other road users are not put at risk by them and that it can compete fairly with other operators, within the constraints of the regulatory regime⁴. The key test is whether the applicant or operator has available capital and reserves of an amount equal to the sum specified. "Available" is defined as: "capable of being used, at one's disposal, within one's reach, obtainable or easy to get". The leading case⁵ poses three questions:
- how much money can the operator find if the need arises?
 - how quickly can he find it?
 - where will it come from?
16. Financial resources must be at the disposal of or within the reach of the operator so if the operator must first ask someone else to transfer the money then it is not available⁶. An operator may prove the availability of financial resources or capital and reserves if he has money in the bank, which is capable of being used, (i.e. it is not already needed for the payment of debts such as a VAT or tax bill in the ordinary course of the business) or an overdraft at his disposal in the sense that there is a balance undrawn before the limit is reached or he has debts which are obtainable because they are due and likely to be easy to collect or he has assets from which money is easy to get in the sense that the assets are items which can be readily sold without any adverse effect on the ability of the business to generate money, should it be needed. This is not an exhaustive list.

³ 2010/075 VST Building & Maintenance Ltd

⁴ 2011/036 LWB Ltd

⁵ 1992/D41 J J Adam (Haulage)

⁶ LWB Ltd (as above) – the Upper Tribunal indicated that money in an account requiring more than 30 days notice, is not available.

17. The bank statements or equivalent should be up to date when submitted⁷. A traffic commissioner is justified in rejecting summaries or highlights⁸. Whilst the assessment of financial standing has to be made at the time of a hearing the requirement is not limited to that day. Financial resources must be sufficient to ensure the requirement for financial standing with the need for continuing availability⁹.
18. Real assets such as property, plant and machinery can be taken into account if their disposal would not reduce the ability of the operator to operate efficiently and profitably. This may mean examining the impact on an operator's overheads. Where an operator proposes to rely on this type of asset it may be necessary to have independent evidence of value and the market to answer the above questions. It is for the operator to satisfy the traffic commissioner that the assets belong to it rather than anyone else¹⁰.
19. It is a fundamental principle of company law that every company is a separate legal entity. If a company is part of a Group the company which holds the licence must not only operate the vehicles but also be able to demonstrate that it is of the appropriate financial standing¹¹. The traffic commissioner will have to be satisfied as to the detail of any Group guarantee. The more complicated the company structure and financial arrangements the greater the care which will be needed to demonstrate that the applicant company does have the money readily available to meet the requirement to be of appropriate financial standing¹².
20. Traffic commissioners are reminded of the following Upper Tribunal guidance "The operator's licensing system is built on cooperation and trust. Traffic commissioners must be able to trust operators to cooperate with the licensing regime as established by Parliament. The regime includes provision, where there are appropriate grounds for doing so, to enable the traffic commissioner to explore the question of financial standing. In such circumstances, traffic commissioners are empowered to require operators to establish financial standing by the timely production of original and acceptable documentary evidence. If it appears that the operator is able to snub the reasonable requirements of the traffic commissioner without adverse consequences then, clearly, trust will break down, the authority of the traffic commissioner will be diminished, the public inquiry system and fair competition between operators will be undermined, and others may also feel inclined (or compelled) to flout the regime"¹³.
21. The burden of supplying financial evidence remains upon the operator at all times but there are occasions where, particularly when unrepresented, the traffic commissioner may be required to offer assistance in identifying potential resources which can be relied upon to establish financial standing and to allow a short period of time prior to final determination (e.g. 14 days) to produce

⁷ 2005/413 Red Rose Travel

⁸ 2010/058 Asif Mohammed Din t/a Ribble Valley Private Hire

⁹ 1998/K37 David Alfred Tricks

¹⁰ 2009/385 1st 4 Builders Ltd

¹¹ 2004/373 Rai Transport Ltd

¹² 2004/383 Blue Arrow Ltd

¹³ per Judge Hinchliffe, DCP in Stay Decision – David John Nutt

further evidence to support financial standing¹⁴ but any approach has to ensure fairness to *all* operators¹⁵. The Upper Tribunal has indicated that persistent failure to comply with financial undertakings, especially following a warning, may provide compelling reasons for loss of repute/fitness¹⁶. Furthermore where, as a result of there being no evidence that the operator could meet the financial requirements, regulatory action resulting in revocation within one month of the decision has been held to be entirely reasonable¹⁷.

¹⁴ 2005/306 James Scaffolding Ltd

¹⁵ 2011/022 Andrew John Chatter t/a AJC Vehicle Delivery & Collection

¹⁶ LWB Ltd (as above)

¹⁷ 2010/362 Flowers 2000 Private Co Ltd t/a Cargo Carriers Transport

DIRECTIONS

22. The Senior Traffic Commissioner for Great Britain issues the following Directions to traffic commissioners under section 4C(1) of the Public Passenger Vehicles Act 1981. The aforementioned Guidance relates to matters which may affect an assessment of the financial position of an applicant or operator. These Directions are addressed to the traffic commissioners in respect of their approach and that to be taken by staff acting on behalf of individual traffic commissioners and dictate the operation of delegated functions.
23. The Senior Traffic Commissioner has taken account of the financial requirements determined by the Secretary of State and directs the traffic commissioners to adopt the financial levels indicated for restricted licences in the table attached. The Senior Traffic Commissioner also directs that checks should be applied equally to restricted licence holders.
24. It is a condition of the licence that traffic commissioners are informed of any relevant changes within 28 days. This includes any changes to the mandatory requirements for a standard licence as set out in Article 3.
25. Traffic commissioners may call upon the assistance of a financial assessor when considering any financial question which appears to arise in relation to the exercise of his functions under the Public Passenger Vehicles Act 1981 or the Goods Vehicles (Licensing of Operators) Act 1995, but this resource should be used sparingly¹⁸. It is for an individual commissioner to decide when a financial assessor is to be consulted and required to assist at a public inquiry (which must be referred to in the call-up letter).

Basis of Directions

26. The following directions are issued under section 4C(1)(b) of the 1981 Act to provide practical advice on the administrative arrangements to those who support the traffic commissioners in fulfilling their statutory functions.

Assessing Availability of Finance

27. Historically commissioners have required the submission of bank statements for a three month period when operators and applicants are seeking to establish availability of finance but this approach has only given a historic analysis of the operator's financial position and has been of limited assistance to new applicants who may only be able to establish access to the required finances for a period of one month prior to the establishment of the business.
28. The following approach is intended to implement the requirement of Article 7(1) of Regulation (EC) 1071/2009 that operators should meet the financial standing requirement at all times without creating a disproportionate burden on transport businesses. It will permit traffic commissioners to undertake a detailed scrutiny where they deem it necessary.

¹⁸ See Statutory Guidance and Statutory Directions on Case Management

- 29.** Each case must be considered on its individual merits. Much of the information below is already requested from applicants by staff of the Office of the Traffic Commissioner based at the Centralised Licensing Office. Further information, however, may be requested by a traffic commissioner so that he or she may be completely satisfied that the requirements are met in all cases. Applicants for licences and existing operators are advised to comply quickly and accurately with any requests for information from staff acting on behalf of the traffic commissioner.
- 30.** One of the most reliable indications of money being available is cash or a facility being held in a bank account of the licence holder over a period of time. This may be supplemented or substituted by the unused portion of any overdraft facility. Where evidence other than bank account or credit card statements are relied upon this will necessitate referral to the traffic commissioner. Subject to paragraph 53 below traffic commissioners may accept sums made available to the operator by other people or companies and share-holdings, which can be turned into cash fairly quickly (within a month at most) if needed. In those circumstances the terms of the individual investment or policy will need to be checked. A traffic commissioner might also accept a bank guarantee (not a simple letter but a formal business arrangement) or an insurance policy, including a professional liability insurance from a regulated financial institution, upon production of the agreement and terms. The evidence must be capable of addressing the legal test for availability. Availability of finance is a continuing obligation. Consequently it is not disproportionate for traffic commissioners to require bank statements for a period of 3 months and/or any other financial evidence covering 3 months to be produced when an operator is called to public inquiry.
- 31.** If it is a new business and thus does not have sufficient statements an opening balance meeting the requirement can be accepted, but the licence must be made subject to a finance condition which must be reviewed after the grant of the licence in accordance with Annex 5.
- 32.** In all cases of a previous liquidation, whilst an applicant might be able to provide evidence which meets the requirements, the report of the liquidator to the creditors must be requested. The contents may also be relevant to the consideration of fitness or repute¹⁹.
- 33.** Operators will be asked at a five-yearly review of their licence (see paragraph 10) to demonstrate that they continue to meet the requirement to be of the appropriate financial standing. They will accordingly be sent a copy of Annex 4 for completion and return. Additional information may be requested.
- 34.** Any case in which there is doubt about whether an operator meets the requirements, which cannot be resolved by reference to these directions and annexes, is to be referred to the traffic commissioner.

¹⁹ See Statutory Guidance and Statutory Directions on Good Repute and Fitness

Amounts Required

From 4th December 2011:

Licence type		Goods vehicles (GVs)	Public Service Vehicles (PSVs)	
Standard International	First vehicle	£8,100	£8,100	
	Each additional vehicle	£4,500	£4,500	
Standard National	First vehicle	£8,100	£8,100	
	Each additional vehicle	£4,500	16 seats or fewer £4,500	over 16 seats £4,500
Restricted	First vehicle	£3,100	£3,100	
	Each additional vehicle	£1,700	£1,700	

- 35.** Whilst Regulation 5 of the Road Transport Operator Regulations 2011 makes clear that a standard licence granted under the Public Passenger Vehicles Act 1981 or the Goods Vehicles (Licensing of Operators) Act 1995 constitutes an authorisation to pursue the occupation of road passenger or haulage operator (as applicable) for the purposes of Regulation (EC) 1071/2009, references to national and international standard licences are included above for transitional purposes.

From 1st January 2012:

Licence type		Goods vehicles (GVs)	Public Service Vehicles (PSVs)	
Standard	First vehicle	£7,700	£7,700	
	Each additional vehicle	£4,200	£4,200	
Restricted	First vehicle	£3,100	£3,100	
	Each additional vehicle	£1,700	£1,700	

- 36.** The EU regulation requires traffic commissioners to utilise the exchange rate as published in the Official Journal of the European Union on the first working day of the previous October. The level for 2012 is based on 1 Euro to £0.85.

Determining Factors

Names on financial statements

- 37.** The starting point is that all financial documents should be in the same name(s) as the applicant or licence holder²⁰. In the case of partnerships or sole traders the financial evidence (see above) may, at the traffic commissioner's discretion, be in a different name, but it must be supported by a statutory declaration (see example at Annex 2) signed as at the date of the application by the person(s) holding the money showing that it is available to other person(s). (This could apply, for instance, where a mother wishes to support a son, or if a wife wants a joint account to be available for her husband's business). A statement from a finance house to the effect that "I certify that funds of £XXX are available to Mr X if needed" or the like is not acceptable, because such loans are usually only available at high rates of interest and as such the operator is unlikely to draw them down when his other finances are running short.
- 38.** In the case of a limited company the funds must be held within the company. A limited company protects the liability of its shareholders and is a separate legal entity from its directors. It is subject to statutory requirements regarding its ability to pay its debts. Whilst a statutory declaration is not appropriate for a limited company²¹ or Limited Liability Partnership an application by a limited company or Limited Liability Partnership might be supported by a Group or cross-company guarantee. This is usually evidenced by a deed which follows and must record a resolution by the Board of Directors of the company offering the guarantee itself. This type of arrangement must be referred to a traffic commissioner to consider the merits and will require evidence of the financial standing of the guarantor.
- 39.** In assessing franchises a decision will depend on the actual relationship between the franchiser and franchisee. The franchise package may include the provision of vehicles, subsequent maintenance, and even the provision of an operating centre. The franchisee may have committed all of his or her available resources to purchase the franchise. Traffic commissioners, however, must still be satisfied that the relevant financial criteria are met and that the vehicles will be properly maintained.
- 40.** In these circumstances the available finance of the franchiser may be of equal or greater relevance than that of the franchisee. Where the franchisee holds a licence the appropriate checks can be made. It is more difficult where he is not, although of course, it is likely that the franchiser will be incorporated and thus have available published accounts. In the case of an applicant the onus is on the applicant to satisfy the traffic commissioner that the financial requirements are met. In the case of an existing licence the operator will be aware of the consequences if the traffic commissioner cannot satisfy themselves that the requirement is met and is obliged to offer assistance. The initial approach is to consider the terms of the agreement between the parties to ensure that this includes provision for the maintenance of the vehicles etc. The traffic commissioner will also require evidence that the franchisee has sufficient funds to cover any immediate charges or subscription.

²⁰ Article 7.2 Regulation (EC) 1071/2009

²¹ LWB Ltd (as above)

The types of evidence to be taken into account

41. Where bank or building society statements, are relied upon they should generally be assessed over a period of time: see Annex 5 and below. If an operator holds or is applying for licences in more than one traffic area the financial requirement is to be assessed on each licence.
42. Where on application (new or variation) and at 5 yearly review, bank or building society accounts are relied upon, due to difficulties with authenticating documents, original statements must be supplied for the past 28 days, the last balance of which must not be more than 2 months from the date of receipt of the application. The average balance over this period will be calculated, (see Annex 5) and added to any overdraft or credit facility demonstrated by a formal written commitment by the bank, etc. (An offer of such a facility will not suffice.) If the average balance is negative, this will be subtracted from the overdraft limit to find the available finance. Building society accounts will only be acceptable if funds can be drawn down within one month. If more than one account is offered, the amount available to demonstrate financial standing is the sum of the amounts calculated as above. Unusually large deposits/withdrawals which have influenced the balance might lead to further enquiries and a request for an explanation from the applicant/operator. The traffic commissioner might ultimately decide to discount these deposits/withdrawals from the balance. If there is any doubt as to the source of funds this should be referred to the traffic commissioner.
43. As stated above original documents need to be produced and so where internet statements are relied upon the operator/applicant will need to have them endorsed by the relevant bank. A stamp and signature from the relevant bank or building society will be accepted by traffic commissioners.
44. Credit card accounts (in the same name as the applicant or licence holder) must also be supported by original documents to show that over the same 28 day period the funds available meet the criteria. Where a credit card account is the sole source of evidence to prove the availability of finance traffic commissioners are entitled to ask why there is no other evidence of banking facilities available.
45. If the applicant has a new business and thus does not have statements for the 28 day period, an opening balance meeting the requirement may be accepted, with an explanation regarding the source of funds but it is likely that traffic commissioners will require the operator to submit further financial evidence within a specified period after the date of grant (likely to be 6 to 12 months).
46. Alternatively a working capital loan facility and/or a revolving credit agreement with minimum monthly repayments may be accepted as evidence of available finance. The terms of any agreement will need to be considered and in the case of a twelve month period committed working capital loan facility it should be:
 - available up to a maximum required amount to meet legislative requirements;
 - available for multiple drawings in a 12 month period;

- convert to a 12 month fixed term loan for any amount drawn;
- be renewable annually by notice from the bank;
- be available to limited companies; and
- have no minimum or maximum amount, up to agreed facility limit.

A revolving credit agreement must refer to the revolving credit facility, have an agreed facility (credit) limit and show sufficient amounts to be drawn upon to meet repair and maintenance costs. Invoice Finance or Invoice agreements may also be accepted but only if accompanied by a copy of the signed agreement and a completed schedule signed on behalf of the finance company (Annex 3). Guarantees are to be considered on their merits by traffic commissioners, subject to establishing the financial availability of the guarantor. Owner-driver contracts must be referred to the traffic commissioner for consideration as to whether a Section 22 condition should be made. The financial requirement is not reduced in the case of contract or lease hire vehicles whose maintenance is included in the hire charge, since there are often substantial penalty clauses within hire agreements which would have to be met if, for instance, the operator wanted to return the vehicles early upon the loss of a contract. The financial requirement is primarily for the purpose of working capital.

47. The latest annual accounts can also be submitted (to a date not more than 18 months prior to the date of application/licence check). They will only be accepted as a substitute for bank statements etc. where they have been certified, generally only where the entity is an established and substantial limited company/plc with a turnover of more than £5.6m (subject to statutory uprating).
48. Audited annual accounts in respect of the financial year end, to a date not more than 18 months prior to the date of application can be used as a substitute for bank statements and equivalent documents only for established and substantial companies with a turnover of more than £5.6m (subject to statutory uprating). Smaller businesses have historically produced annual accounts as additional evidence to establish financial standing. However under Regulation (EC) 1071/2009 traffic commissioners will accept annual profit and loss accounts and balance sheets or a statement of an opening balance if they are certified by a properly accredited person. Annex 7 sets out those persons whom traffic commissioners will accept as “properly accredited persons”. Draft accounts can be very unreliable and should only be accepted pending receipt of signed documents within 2 months confirming no material changes.
49. The financial accounts for all other businesses, whether audited or not, should be examined as additional evidence of financial stability. This will highlight any insolvent trading positions or unpaid taxes such as PAYE/Ni/VAT etc (a sign of cash flow problems), which may contradict the position shown by the operator’s bank statements.
50. Where any type of accounts are relied upon it is always open to the traffic commissioner to seek a further check of finances either by way of a condition upon grant or an undertaking where it is considered appropriate, for example, there has been a previous history of previous entities or a previous history of none compliance.

51. It is open to traffic commissioners to consider financial accounts for all other types of business entities (i.e. not companies) whether audited or not. This might highlight any insolvent trading positions or unpaid taxes such as PAYE/NI/VAT etc. and may indicate cash flow problems. Where accounts contradict the impression given by the bank statements the traffic commissioner might ask for further enquiries to be made. Applicants and operators are to be reminded of the need to reply to these further enquiries in a timely manner.
52. Annex 1 offers a quick reference guide to the starting point for different types of legal entity. It must be read in conjunction with the Directions above.
53. The following are not generally acceptable as evidence and must be referred to a traffic commissioner for consideration:
- Cash is rarely appropriate since it cannot be demonstrated to 'belong' to the applicant, but may occasionally be accepted for a limited number of applicants who claim to deal exclusively in cash.
 - Bank letters (other than formal overdrafts).
 - Children's accounts as the contents cannot be demonstrated to 'belong' to the applicant and may be held in trust for the named child.
 - Shares, bonds, PEPs/ISAs, savings certificates, insurance policies (see above), unless accompanied by a letter from an accountant/financial advisor certifying the current encashment values (except for shares quoted in the daily press which Office of the Traffic Commissioner staff can easily ascertain), and the notice required to cash them, which must be no more than one month. It is noted that banks generally accept no more than 75% of the quoted worth of stocks and shares.
 - Physical assets such as livestock or perishable goods which might reduce in value quickly will not usually be accepted. Other 'real assets' such as property, plant and machinery can be taken into account if their disposal would not reduce the ability of the operator to operate efficiently and profitably. This may mean examining the impact on an operator's overheads. Where an operator proposes to rely on this type of asset reliable evidence of its value and the market may be required. It is for the operator to satisfy the traffic commissioner as to ownership.
 - Age debt registers or records of debts owing to the applicant or operator as these do not demonstrate how quickly the funds might be obtained.
54. The requirement is to provide evidence of available capital and reserves. The financial requirement is not reduced in the case of contract or lease hire vehicles whose maintenance is included in the hire charge, since there are often substantial penalty clauses within hire agreements which would have to be met if, for instance, the operator wanted to return the vehicles early upon the loss of a contract.

Period of Grace

55. Where a standard licence holder cannot demonstrate financial standing standard licences Regulation (EC) 1071/2009 allows but does not require the traffic commissioner to provide a period of time to rectify the situation. The operator may be given a limited time to make written representations before the

traffic commissioner decides whether to allow time for rectification and for what period by way of a notice served under the legislation. The maximum periods allowed under the legislation are as follows:

Shortcoming		Maximum Period of Grace
Transport Manager	Departure	6 months
	Death or physical incapacity	6 + 3 months
Effective & Stable Establishment		6 months
Financial Standing		6 months to demonstrate that the requirement will be met <i>on a permanent basis</i>

ANNEX 1: SOURCES OF FINANCIAL EVIDENCE

Sole Trader and unincorporated entities	
All financial documents should be in the same name as the applicant or licence holder.	The traffic commissioner may allow documents in a different name, but this must be supported by a statutory declaration signed by the person(s) holding the money showing that it is available to other person(s). Evidence of the availability of the funds belonging to the person making the offer must be seen. (This method of financing could apply, for instance, where a mother wishes to support a son, or if a wife wants a joint account to be available for her husband's business, but is not generally suitable for larger enterprises.)
Original or certified copies of any bank or building society accounts statements must be supplied for the last 28 days. The average balance will be calculated, and added to any overdraft or credit facility demonstrated by a formal written commitment by the bank, etc.	If it is a new business and does not have statements for 28 days, an opening balance which meets the level required may be accepted and should be accompanied by an explanation regarding the source of funds.
If more than one account is offered, the amount available to demonstrate financial standing is the sum of the amounts calculated as above.	
Invoice finance agreements are acceptable, but only if accompanied by confirmation of available balances not drawn down averaged over a 3 month period. The complete agreement will need to be examined.	
Owner-driver contracts must be referred to the traffic commissioner for consideration as to whether any additional conditions should be applied.	
Annual accounts or a statement of opening balance provided they are certified by a properly accredited person	

Partnerships (not LLPs)	
All financial documents should be in the same name(s) as one or both of the applicants or licence holders.	The traffic commissioner may allow documents in a different name, but this must be supported by a statutory declaration signed by the person(s) holding the money showing that it is available to other person(s). Evidence of the availability of the funds belonging to the person making the offer must be seen. (This method of financing could apply, for instance, where a mother wishes to support a son, or if a wife wants a joint account to be available for her husband's business, but is not generally suitable for larger enterprises.)
Original or certified copies of any bank or building society accounts statements must be supplied for the last 28 days. The average balance will be calculated, and added to any overdraft or credit facility demonstrated by a formal written commitment by the bank, etc.	If it is a new business and does not have statements for 28 days, an opening balance which meets the level required may be accepted and should be accompanied by an explanation regarding the source of funds.
If more than one account is offered, the amount available to demonstrate financial standing is the sum of the amounts calculated as above.	
Invoice finance agreements are acceptable, but only if accompanied by confirmation of available balances not drawn down averaged over a 3 month period. The complete agreement will need to be examined.	
Annual accounts or a statement of opening balance provided they are certified by a properly accredited person	

Limited companies and Limited Liability Partnerships (LLPs)	
In the case of a limited company the funds must be held within the company.	Group and cross company guarantees must be referred to the traffic commissioner to consider the merits and will require evidence of the financial standing of the guarantor.
Original or certified copies of any bank or building society accounts statements must be supplied for the last 28 days. The average balance will be calculated, and added to any overdraft or credit facility demonstrated by a formal written commitment by the bank, etc.	If it is a new business and does not have statements for 28 days, an opening balance which meets the level required may be accepted and should be accompanied by an explanation regarding the source of funds.
If more than one account is offered, the amount available to demonstrate financial standing is the sum of the amounts calculated as above.	Accounts shared by two or more companies must be referred to the traffic commissioner.
Invoice finance agreements are acceptable, but only if accompanied by confirmation of available balances not drawn down averaged over a 3 month period. The complete agreement will need to be examined.	
Audited annual accounts for operators with a turnover of more than £5.6m (subject to statutory uprating) (in respect of the financial year end, to a date not more than 18 months prior to the date of application) can be used as a substitute for bank statements.	Draft annual accounts to a date not more than 12 months prior to the date of application/licence check may be sufficient but should be referred to the traffic commissioner who may require further evidence.
Annual accounts or a statement of opening balance provided they are certified by a properly accredited person	

ANNEX 2: STATUTORY DECLARATION

Operator..... O Licence Number

STATUTORY DECLARATION

I, , do solemnly and sincerely declare that I have the sum of not less than £ readily available and I undertake and confirm that the above named operator may use these funds for the sole purpose of complying with their obligations under the Goods Vehicles (Licensing of Operators) Act 1995 and/or the Public Passenger Vehicles Act 1981.

And I further confirm that I will inform the Traffic Commissioner in the event that my financial assets are no longer to be made available to the operator and I make this declaration, conscientiously believing the same to be true, and by virtue of the Statutory Declarations Act 1835.

Signed

Name.....

(Block Capitals)

Dated

Before me,

Signed (A Solicitor authorised to Administer Oaths)

Name

.....

(Block Capitals)

Name and Address of Solicitor's Firm

.....

Dated

I [the solicitor] confirm that I have explained to [] the effect of the undertaking and confirmation referred to.

ANNEX 3: FINANCE AGREEMENT

Between: Name of operator. Licence Number:
And: Finance Co Ltd

In support of this application for a new operator's licence/variation of the existing operator's licence/check of the operator's licence I request and authorise you to divulge to the Traffic Commissioner of the XXXXXX Traffic Area, the information for the last working day in the previous three months at questions A, B, C and D.

Signed by the operator: _____ Dated: _____

Please insert the figures in the following format:

Months	A	B	C	D

Signed for the Finance supplier: _____ Dated: _____

Name: _____ Position: _____

The questions are as follows:

Column A. The maximum sum available to me/the Company under the Factoring Agreement at the month end.

Column B. The sum to which I/the Company is entitled to draw upon on demand ("X%").

Column C. The sum already advanced

Column D. The balance, which is available but not drawn down (Col. B minus Col. C)

The following example shows how to provide the information, in a case where X% is 75%:

Months	A	B	C	D
April	£100,000	£ 75,000	£ 50,000	£25,000
May	£200,000	£150,000	£110,000	£40,000
June	£ 80,000	£ 60,000	£ 50,000	£10,000

ANNEX 4: LICENCE RENEWAL

DECLARATION FOR FINANCIAL STANDING FOR STANDARD LICENCES & ADEQUATE FINANCIAL RESOURCES FOR RESTRICTED LICENCES

Legislation requires that for the type of licence you hold and the number of authorised vehicles, you will meet the continuing requirement regarding availability of finance provided you can demonstrate available capital and reserves of £....., (being £..... for your first vehicle and £..... for each of your other authorised vehicles). Please show how this requirement was met at [date].

1. What is the limit of any loan/overdraft arrangement on on your business bank account(s)? **(a)**

2. Either

Enter your current account average credit balance

over the last 3 months **(b)**

or

Enter your current overdrawn average debit balance

over the last 3 months **(c)**

3. i. What factoring/discount finance facilities do you have?(d)

ii. How much of this are you utilising?(e)

iii. How much of the agreed facilities are not taken up? (f)

(d) minus (e)

4. What other financial resources do you have available?

Give details:

(g)

Total : (a) + (b) +(f) + (g) =

(h)

Total:(c)

(i)

Available Resources (h) minus (i)

(This figure must equal or exceed the amount set out in the opening paragraph above.)

You need send no supporting documents at this stage, but the traffic commissioner reserves the right to call for further financial evidence if necessary. **Making a false declaration may result in regulatory action being taken against your licence.**

ANNEX 5: ASSESSING BANK STATEMENTS

This is to be read in conjunction with the Statutory Directions. It sets out how caseworkers should assess the average balance from bank statements when submitted in support of a new application, a variation application to increase vehicle authority, and an application to upgrade a licence from restricted to standard.

Applicants who choose to submit bank statements as evidence of financial standing are required to provide original bank statements for a recent full month. "Recent" means that the closing balance on the evidence to be assessed should not be more than 2 months prior to the date the application is received by the Central Licensing Office.

However when assessing the average balance from bank statements for operators required to attend public inquiry bank statements for a period of 3 months must be provided and the assessment carried out over that 3 month period.

When statements are provided the way to check that the applicant meets the level set is as follows:

1. Establish the amount required for the licence type and number of vehicles applied for. For variations to existing licences this must include the total number of vehicles to be authorised and for multiple licence holders operators it must include the total number of vehicles across all licences held/applied for with the first vehicle on each licence taken at the higher rate and subsequent vehicles on each licence taken at the lower rate.
2. Check the bank statements as follows:
 - a. Take the latest available balance (no more than 2 months from the date of receipt of the application), including any unused capacity on an overdraft facility, and the balance 28 days prior to that date then take the two best closing balances during the intervening period. Then take an average of the 4 balances including any unused capacity on an overdraft facility.
 - b. If the average equals or exceeds the requirements the operator/applicant has met the requirement of financial standing.
 - c. If the average is less than the requirement the applicant must provide evidence of additional financial resources available in accordance with Statutory Guidance and Directions. The applicant should be advised that the traffic commissioner will be obliged to refuse the application if access to the total resources required cannot be demonstrated.

3. **New Applications only**

a. If an applicant for a new licence has provided an opening balance or only the closing balance demonstrates access to sufficient funds the evidence can be accepted provided that a finance condition is accepted which requires the applicant to provide a further set of bank statements covering month 3 from the anniversary of the granting of the licence by the end of month 4. This is required so that the traffic commissioner can be satisfied that they still meet the financial test required of licence holders and the test at 2 above will be applied.

ANNEX 6: INTERPRETING FINANCIAL ACCOUNTS

Financial accounts have to be prepared to a set format. The two most important elements are the Profit and Loss Account and the Balance Sheet.

Staff should initially check the Profit and Loss Account at the 'Profit before Tax' line, to ensure the company is trading profitably. Figures in brackets usually mean a loss.

Staff should check the Balance Sheet and then calculate the following ratios.

- The ratio of total assets divided by total liabilities, which should normally be greater than 1.0. In simple words, the company should own at least as much as it owes. If the operator, however, is a limited company and the shortfall is covered by directors loan account balances, this may be acceptable if the loan account balances are confirmed as at least a semi-permanent features of the accounts.
- The ratio of current assets divided by current liabilities should exceed 0.5. In other words, the company can realise at least sufficient cash to pay off half its creditors. A ratio above 0.5 but below 1 may indicate difficulties. If this ratio is below 1, the matter should be referred to the traffic commissioner who may then undertake an examination of the make up of creditors. If the deficit is covered by bank overdraft, loans, mortgages, HP contracts or directors' current account balances etc, this would again be acceptable upon confirmation that none of these facilities are likely to be withdrawn. If, however, these liabilities are large, staff should satisfy themselves that any ongoing repayments are covered by cash flow.

ANNEX 7: SCHEDULE OF PROPERLY ACCREDITED PERSONS & ACCOMPANYING GUIDANCE

How traffic commissioners will test whether the person signing off individual annual accounts is properly qualified

All certified annual accounts submitted as proof of financial standing will need to include a statement giving the personal details of the person signing them off and their qualifications – in terms of which supervisory body or qualifying body from the list above their qualification came from.

- (a) As a first step, a check will be made of the online register of authority auditors. The register is available at:

www.auditregister.org.uk/Forms/Default.aspx

- (b) In the event that the individual is not listed here, a check will be made of the qualifying or supervisory body given as part of the personal details of the auditor submitted with the annual accounts

“Statutory auditors” are auditors of:

- (a) Companies defined by Part 16 of the Companies Act 2006, or;
- (b) Building Societies or certain other entities under legislation applying to them.

A person (either an individual or a firm, as defined in Part 42 of the 2006 Act) is eligible for appointment as a statutory auditor by virtue of either Chapter 2 or Chapter 3 of Part 42 of the Act. In practice, almost all appointments are of persons eligible by virtue of Chapter 2, but for the purposes of certifying accounts, both will be allowed.

In order to qualify to certify annual accounts or opening balances, two specific requirements must be met:

Requirement 1 – Being a member of a recognised supervisory body

Section 1212 of the Companies Act 2006 provides that a person is eligible for appointment as a statutory auditor if they are:

- (a) A member of a recognised supervisory body; and
- (b) Eligible for appointment under the rules of that body.

Supervisory bodies are then defined in Section 1217 as bodies which maintain and enforce rules as to:

- (a) Eligibility for appointment as a statutory auditor, and

- (b) The conduct of statutory audit work.

In practice, the Professional Oversight Board of the Financial Reporting Council (POB) authorises a professional accountancy body to act as a supervisory body. The current recognised supervisory bodies are listed below.

Requirement 2 – Professional qualifications

Individuals eligible for appointment as statutory auditors must also either:

- (a) Hold an “appropriate qualification” recognised in the UK, or;
- (b) Be an individual eligible for appointment in another EEA state who must pass a UK aptitude test in any areas not covered by any professional qualification they already hold.

Sections 1219 and 1220 of the Companies Act 2006 cover appropriate qualifications recognised in the UK. Again, POB has responsibility for determining what the eligible qualifications are for auditors. The recognised professional qualifying bodies are listed below.

Recognised Supervisory Bodies

1. Association of Authorised Public Accountants (AAPA)

www.accaglobal.com/aapa

2. Association of Chartered Certified Accountants (ACCA)

www.accaglobal.com

3. Institute of Chartered Accountants in England and Wales (ICAEW)

www.icaew.com

4. Institute of Chartered Accountants in Ireland (ICAI)

<http://www.charteredaccountants.ie>

Recognised Professional Qualifying Bodies

1. Association of Chartered Certified Accountants (ACCA)

www.accaglobal.com

2. Association of International Accountants (AIA)

www.aiaworldwide.com

3. Chartered Institute of Public Finance and Accountancy (CIPFA)

www.cipfa.org.uk

4. Institute of Chartered Accountants in England and Wales (ICAEW)

www.icaew.com

5. Institute of Chartered Accountants in Ireland (ICAI)

www.icaireland.ie

6. Institute of Chartered Accountants of Scotland (ICAS)

www.icas.org.uk

ANNEX 8: EU LEGISLATION

Regulation 5 of the Road Transport Operator Regulations 2011 states that a standard licence constitutes an authorisation to engage in the occupation of road transport operator for the purposes of:

Regulation (EC) 1071/2009 establishing common rules concerning conditions to be complied with to pursue the occupation of road transport operator repealed Council Directive 96/26 EC and applicable from 4th December 2011

Article 3 - Requirements for engagement in the occupation of road transport operator

1. Undertakings engaged in the occupation of road transport operator shall:

(c) have appropriate financial standing; and

2. Member States may decide to impose additional requirements, which shall be proportionate and non-discriminatory, to be satisfied by undertakings in order to engage in the occupation of road transport operator.

Article 7 - Conditions relating to the requirement of financial standing

1. In order to satisfy the requirement laid down in Article 3(1)(c), an undertaking shall at all times be able to meet its financial obligations in the course of the annual accounting year. To this end, the undertaking shall demonstrate, on the basis of annual accounts certified by an auditor or a duly accredited person, that, every year, it has at its disposal capital and reserves totalling at least EUR 9 000 when only one vehicle is used and EUR 5 000 for each additional vehicle used.

For the purposes of this Regulation, the value of the euro in the currencies of Member States which do not participate in the third stage of the economic and monetary union shall be fixed every year. The rates to be applied shall be those obtained on the first working day of October and published in the *Official Journal of the European Union*. They shall have effect from 1 January of the following calendar year.

The accounting items referred to in the first subparagraph shall be understood as those defined in Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies(1)

2. By way of derogation from paragraph 1, the competent authority may agree or require that an undertaking demonstrate its financial standing by means of a certificate such as a bank guarantee or an insurance, including a professional liability insurance from one or more banks or other financial institutions, including insurance companies, providing a joint and several guarantee for the undertaking in respect of the amounts specified in the first subparagraph of paragraph 1.3.

The annual accounts referred to in paragraph 1, and the guarantee referred to in paragraph 2, which are to be verified, are those of the economic entity established in the Member State in which an authorisation has been applied for and not those of any other entity established in any other Member State.

Article 13 - Procedure for the suspension and withdrawal of authorisations

1. Where a competent authority establishes that an undertaking runs the risk of no longer fulfilling the requirements laid down in Article 3, it shall notify the undertaking thereof. Where a competent authority establishes that one or more of those requirements is no longer satisfied, it may set one of the following time limits for the undertaking to rectify the situation:

(c) a time limit not exceeding 6 months where the requirement of financial standing is not satisfied, in order to demonstrate that that requirement will again be satisfied on a permanent basis.

Note:

The Fourth Council Directive 78/660/EEC of 25 July 1978 is based on Article 54(3)(g) of the Treaty on the annual accounts of certain types of companies and is a consolidation of existing Directives on the annual accounts of limited liability companies. Those Directives include Directive 86/635/EC on the annual accounts and consolidated accounts of banks and other financial institutions and Directive 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings and apply to all limited companies. They also apply to certain forms of partnership such as Limited Liability Partnerships.

The annual accounts are to comprise a balance sheet, a profit and loss account (See Annex 6) and the notes to the accounts. These documents constitute a composite whole. The Directives lay down the principles which govern the drawing up of these documents.

The balance sheet: the Directives provide for two balance sheet layouts, leaving it to the Member States to choose. It then lists the balance sheet items and comments on them.

The Directives state general principles for the valuation of items in the annual accounts, such as prudence, consistency in the application of the methods of valuation, etc. They also set out specific valuation rules.

The Directives list the information which must be provided in the notes to the accounts: the valuation methods applied to the various items, undertakings in which the company holds a certain percentage of the capital, certain types of the company's debts, financial commitments not included in the balance sheet, etc.

The annual report must include a 'fair' review of the development of the company's business and of its position. It must also provide information on any important events that have occurred since the end of the financial year, the company's likely future development and activities in the field of research and development.

The Directives lay down certain rules on publication (documents which must be published, etc.).

The Directives also provide for a system of auditing under which companies must have their annual accounts audited by one or more persons authorised by national law to audit accounts. Such a person or persons must also verify that the annual report is consistent with the annual accounts for the same financial year.

Less strict rules are laid down for small and medium-sized companies. Member States may lighten their obligations in respect of the publication of annual accounts or dispense small companies from the requirement that the annual accounts be audited.

"Small" companies are companies which, on their balance sheet dates, do not exceed the limits of two of the following three criteria:

- balance sheet total: EUR 4 400 000;
- net turnover: EUR 8 800 000;
- number of employees: 50.

"Medium-sized" companies are:

- balance sheet total: EUR 17 500 000;
- net turnover: EUR 35 000 000;
- number of employees: 250.