Appendix 3

Final Accounts 2018/19

Audit & Standards Committee
11th July 2019

Sheffield City Region

AGENDA

1. Role of Audit & Standards Committee in scrutinising statement of accounts
2. Key financial highlights
3. Audit adjustments

Final Accounts 2018/19

Audit & Standards Committee
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Sheffield City Region

ROLE OF AUDIT & STANDARDS COMMITTEE

KEY FINANCIAL HIGHLIGHTS

AUDIT ADJUSTMENTS

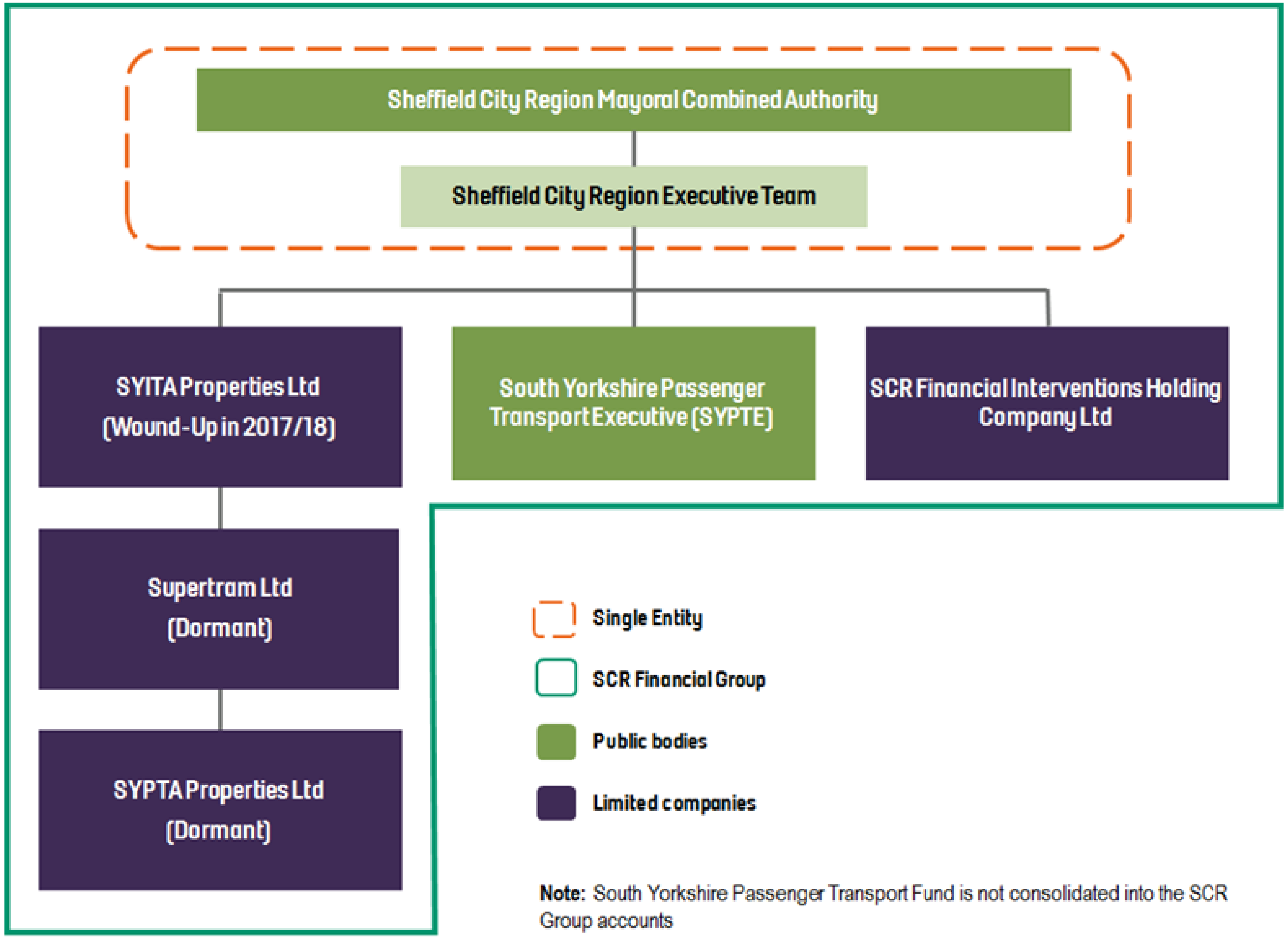
ROLE OF AUDIT & STANDARDS COMMITTEE

AUDIT & STANDARDS COMMITTEE TERMS OF REFERENCE

- Considering the Authority’s statement of accounts and making recommendations to the Authority in regard to the Statement prior to the Authority approving the same

- Considering the External Auditor’s Annual Audit and Inspection Letter and to monitoring the Authority’s response to individual issues of concern identified

HOW BIG IS THE MAYORAL COMBINED AUTHORITY?



Note: South Yorkshire Passenger Transport Fund is not consolidated into the SCR Group accounts

KEY FINANCIAL HIGHLIGHTS

KEY FINANCIAL HIGHLIGHTS

- Local Growth Fund target was met for the third year running
- MCA/LEP revenue budget: £0.5m underspend
- Net revenue spend on South Yorkshire transport activity was £0.9m less than budgeted for. This reduced the planned use of earmarked reserves to support the budget from £5.1m to £4.2m
- Further reduction in the transport levy through the MCA's medium term financial strategy, underpinned by the release of resource from the earmarked transport levy reduction reserve

REVENUE OUTTURN POSITION: ADJUSTING BETWEEN ACCOUNTING AND BUDGETING

- Differences in rules for accounting and budgeting (as discussed in the last slide) mean that the deficit shown on the face of the Consolidated Income & Expenditure Statement (CIES) is different to the CA’s revenue budget position at outturn.

- This is noticeable in the CA’s single entity accounts because we show an accounting surplus of **£1.0m**, but know that we made a budget surplus of **£0.5m**.

- This variance principally arose because of the way we account for:
  - Contributions from earmarked reserves;
  - Capital grant income, and;
  - provisions for repayment of debt (MRP)

- The Narrative Statement at the front of the accounts includes a table which reconciles the two different surplus positions.

STRUCTURE OF THE ACCOUNTS (1)

The accounts consist of the single entity primary statements:

1. The Movement in Reserves
   - Shows movement in reserves, split between those that are ‘usable’ and can be applied to fund expenditure, or ‘unusable reserves’.
   - The ‘surplus or deficit on provision of services’ shows the true economic cost of the MCA providing services. This is different to the charge to the General Fund because of the adjustments we make ‘under regulations’.
   - The ‘net increase/decrease before transfers to earmarked reserves’ shows the draw or contribution to the General Fund reserve before we make any discretionary transfer to earmarked reserves we hold for specific activities.

2. Comprehensive Income and Expenditure Statement
   - Shows the accounting cost in the year of providing services
   - The cost of services is presented using the Service Reporting Code of Practice classification. For the MCA, most of our activity is on transport and economic development, so expenditure and income fall principally onto those lines

STRUCTURE OF THE ACCOUNTS (2)

3. Consolidated Balance Sheet
   - Shows the value as at the 31st March 2019 of the MCA's assets and liabilities
   - Net assets (i.e. assets less liabilities) are matched by reserves – this is how we balance
   - As the MCA as a single entity has more liabilities than assets due to the money we owe to SYPTE (the MCA's subsidiary) we have negative net worth
     - This isn't an issue for the MCA, as it arises as a result of internal financing between the MCA as parent and SYPTE as subsidiary
     - This position nets to nil in the Group when the SYPTE results are laid alongside the MCA's.

4. Cash Flow Statement
   - Shows the changes in cash and 'cash equivalents' during the year
     - Cash equivalents are those financial assets that we hold that can be accessed so quickly that they are the equivalent to holding cash
     - Cash and cash equivalents up by c. £39.8m on the previous year
   - Cash flows are split between those arising from:
     - Operating activity: day-to-day operations
     - Investing activity: capital activity
     - Financing activity: such as the raising or repayment of loans

GROUP ACCOUNTS: CONSOLIDATING THE RESULTS OF THE SUBSIDIARIES INTO THE MAYORAL COMBINED AUTHORITY'S RESULTS

When considering the MCA's financial results for the year it is important to look not just at the single entity parent results, but also at the results of the subsidiaries.

We do this by consolidating the financial results of SYPTE (and previously SYITA Properties Ltd) into those of the MCA. These give us the **Group Financial Statements**.

We consolidate the two subsidiaries into the Group because the MCA exerts control over both bodies. To that extent, the MCA is responsible for the financial results of the organisations, and as a result we amalgamate the results to allow us to see the **overall financial health of the MCA financial group.**

Understanding consolidation is particularly important when the MCA's single entity statements show **negative net worth**. This situation is reversed in the group accounts when SYPTE's numbers are overlaid on the MCA's.

This reflects that we often transact within the group, as well as outside it.

GROUP ACCOUNTS: CONSOLIDATING THE RESULTS OF THE SUBSIDIARIES INTO THE MCA'S RESULTS (2)

To consolidate the results of the subsidiaries we first make sure we all apply the same accounting treatments. This is pertinent to the MCA Group, because SYITA Properties Ltd are a private company and complete their accounts to different rules.

We then eliminate intra-group transactions. This means that when the MCA transacts with its subsidiaries, we ignore those transactions. This makes sense because at the Group level we are simply operating internally as individual service areas may do in any local authority.

For the MCA Group, the elimination of these transactions is very noticeable. This reflects that most of the MCA's expenditure goes towards a grant to SYPTE, whilst most of the MCA's liabilities relate to cash owed by the MCA to SYPTE.

Elimination of intra-group transactions gives an indication of what the single entity accounts would look like if the asset-management and operational transport functions were delivered directly by the MCA rather than through subsidiaries.

AUDIT ADJUSTMENTS

SYPTE – REVALUATION OF FIXED ASSETS PRIOR PERIOD ADJUSTMENT

- SYPTE accounting treatment of revaluation gains and losses not fully compliant with Code of Practice
- External advice sought from a reputable source
- Proposed PPA shows a transfer from unusable reserves (revaluation reserve) to usable reserves (SYPTE’s General fund balance) of £5.0m to restate the opening position at 1 April 2018
- As well as correcting a material error, this mitigates several key financial risks: offset against future revaluation losses, and source of funding for strategic capital investments

SYITA PROPERTIES LTD – PRIOR PERIOD ADJUSTMENT (£'000)

	As currently reported (£'000)	Recommended position (£'000)	PPA required (£'000)
Cost of investment (Fixed Assets)	0	7,805	7,805
Intercompany creditor	0	(9,304)	(9,304)
Earmarked reserves	(1,490)	0	1,490

- Write back carrying value of MCA's investment in SYITA Properties ltd to the paid up share capital of £7.8m
- Include book value of assets & liabilities transferred from SYITA Properties Ltd at the point of business transfer (£13.5m), offset by dividend receivable of £4.2m

PENSIONS ADJUSTMENT

- Emerging issue which affects all local government pension schemes across the country
- Supreme Court ruled that 2015 changes to the public sector pensions had discriminated against younger employees
- Implications of ruling are still being worked through, but appears highly likely that council pension funds will have to compensate and account for payments to ensure that no employee is out of pocket
- Actuarial assessment commissioned via SYPA – the indicative results are not considered to be material, hence we are minded to disclose by way of a contingent liability, subject to further discussion with SYPTE and EY

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