

Audit, Standards and Risk Advisory Panel

21 June 2023

Draft Accounts 2022/23

Is the paper exempt from the press and public?	No
Reason why exempt:	Not applicable
Purpose of this report:	Discussion
Is this a Key Decision?	No
Has it been included on the Forward Plan?	Not a Key Decision

Director Approving Submission of the Report:

Gareth Sutton, Chief Finance Officer/s73 Officer

Report Author(s):

Ian Rooth

ian.rooth@southyorkshire-ca.gov.uk

Executive Summary

This report provides members with an update on the preparation of the 2022/23 Annual Accounts for the MCA and SYPTE.

The report notes that, in common with many other authorities, the draft accounts have not yet been published for public inspection. This reflects the ongoing work on the 2021/22 external audit.

The documents are provided to the Committee to support scrutiny and highlight that wherever possible officers have attempted to prepare the accounts in line with the statutory timeline.

What does this mean for businesses, people and places in South Yorkshire?

Strong public financial management is a key principle of good governance and enables the MCA to pursue its ambitions and objectives in the most effective and efficient way, bringing about better outcomes for residents and businesses in South Yorkshire.

Recommendations

Members are asked to review the single entity (MCA and SYPTE) Annual Accounts for 2022/23 prior to publication.

Consideration by any other Board, Committee, Assurance or Advisory Panel

N/A

1. Background

- 1.1 The Audit, Standards and Risk Committee is responsible for overseeing and reviewing the statutory accounts of the MCA. This report presents the draft single entity (SYPTE and MCA) Statement of Accounts for 2022/23. It should be noted that SYPTE was formally dissolved on 31 March 2023, so 2022/23 represents the last year that a separate set of accounts will need to be produced for that entity.
- 1.2 The aim of this report is to highlight the key elements of the accounts to Members, identifying relevant sections to aid understanding. It will also provide a summarised view of the financial health of the MCA from the Group Finance Director.

2. Key Issues

2.1 Draft Statement of Accounts 2022/23

The lengthy document attached as an appendix to this report is the draft Statement of Accounts (single entity) for 2022/23. It follows a formal prescribed format and accounting standards as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

- 2.2 The MCA is also financially responsible as a Group that also includes SYPTE and the Financial Interventions Holding Company. The consolidated Group position is currently being drafted up with the aim to publish a full set of 2022/23 accounts no later than the 30th June – taking on board any comments and changes from this Committee.
- 2.3 A report on the financial outturn position for 2022/23 was presented to the MCA Board on 5th June 2023. The report includes both the revenue and capital outturn position and the financial performance against budget. The report identified earmarked reserves to be adjusted and created to mitigate key financial risks that may arise in the current financial year and beyond. The accounts before the Committee reflect these adjustments to provisions and reserves following the formal approval of the MCA Board.
- 2.4 The Statement of Accounts have four core financial statements, comprising: Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. As stated earlier, these are compiled in line with prescribed guidelines that ensure compliance across the local government sector. However, they are complex and sometimes difficult to understand. To aid understanding, the Narrative Statement provides a simplified overview of the activity in the year that is reflected in the accounts.

2.5 Narrative Statement

Members' attention is drawn to the Narrative Report in section 1 on page 5 of the MCA Statement of Accounts. This describes the issues and financial impact of the activity in 2022/23 but also provides context not only for last year but also for the future as well. This is important as there are a number of generational issues and challenges facing the MCA, including:

- The wider macro-economic environment which continues to impact on day-to-day business. Recruitment into specialist posts continues to be a material concern with high vacancy rates and long lead-in times to recruitment weighing on capacity and capability. Equally, pay pressures are weighing on budgets, particularly affecting authorities like the MCA who are not in receipt of index linked settlements.
- The high inflationary environment which is proving a drag on the capital programme as schemes require re-engineering to fit within budgetary envelopes and a dearth of professional expertise slowing the pace at which that work can be undertaken.
- Slippage on the capital programme which now means that the MCA will be running Transforming Cities Fund programme activity concurrently with the City Region Sustainable Transport Settlement programme, placing strain on existing stretched transport investment teams.
- Macro pressures which are also met with local issues, with the MCA's decision to proceed with the bus franchising assessment and the end of the current tram concession coalescing in the new financial year.

2.6 In addition to providing context, the narrative statement also covers key financial and performance aspects as summarised in the bullets below:

- At outturn there was an overall underspend of £205m of which £177m (86%) related to capital activity, as labour market pressures impacted on capacity and inflationary pressures required schemes to be re-designed;
- Despite the significant capital underspend, the MCA and partners achieved the highest levels of annual capital investment since its inception in 2014 at £112m;
- This capital slippage led to higher levels of cash being held on deposit which attracted improving yields as interest-rates rose in response to inflation;
- This investment activity allowed the MCA to generate c. £8m more in investment income than it had planned, enabling the implementation of a £4m cost-of-living package to support struggling communities and allowing the MCA to consider options to bridge longer-term financial pressures;
- The MCA was also able to navigate complex commercial challenges on the bus and tram network, using local and national funding to sustain a level of service and support patronage priming products such as the Zoom Beyond concession and the £2 fare cap;
- An unexpected continuation of Government funding support for the transport network over Quarter 4 meant that the MCA avoided the need to draw upon finite reserves earmarked to support priority bus services, with that resource now available in the new year and beyond; and

- Bus operators' ability to deliver on all routes – regardless of subsidy – remained a problem throughout the year, with a lack of drivers leading to some tendered services remaining unfilled. This has further contributed to a net c. £2m underspend on local transport authority activity, reducing the need for calls on the Levy Reduction Reserve.

2.7 In Section 4 of the Narrative Statement, Post Pandemic Recovery implications are discussed. Group Earmarked reserves have been identified to ease potential pressures on current and future year budgets, mitigate known risk, and support key financial strategies. Notable examples are:

- Levy Reduction Reserve £11.8m
- Protection of Priority Services £11.7m
- Project Feasibility Fund £4.5m
- Capacity and Development Fund £3.75m
- Income Resilience £3.6m
- Bus Franchise Assessment £2.8m
- Mass Transit Project Readiness £2.6m
- Bus Recovery Project £2.2m
- Asset Management £1.8m
- Pensions smoothing, redundancy and pay inflation risk £1.8m

2.8 **Balance Sheet**

The Balance Sheet and associated disclosure notes will give Members reassurance on the financial strength of the MCA. One large element of the balance sheet is debt. The loans carried by the MCA are in the main historic and at fixed interest rates. They are scheduled to be repaid over the next few years, including a repayment of £50.4m in 2023/24. MCA holds substantial cash balances which will meet these future debt repayments. The Committee review this component of the Balance Sheet when scrutinising the Treasury Management Strategy and performance against that.

2.9 In assessing the financial strength of the MCA, Members' attention is drawn to the fact that the Group had usable reserves of £170.5m at the end of 2022/23 (£145.4m in the MCA as disclosed in note 30 of the MCA Balance Sheet and £24.9m in SYPTE). This is an increase on the of Group usable reserves held at the end of 2021/22 of £14.6m. The overall balance of £170.5m comprises earmarked revenue reserves of £91.3m, £7.8m of uncommitted General Fund balances and capital reserves of £71.4m consisting of grants unapplied and capital receipts.

2.10 Whilst reserve levels may appear very healthy, it should be noted that all bar £3.75m of earmarked revenue reserves are fully committed against specific purposes (South Yorkshire Renewal, Programme and Project Delivery or Identified risks) and all bar £6m of capital reserves are committed on the same basis. The level of these earmarked reserves is planned to fall in future years as the activity they are intended to fund takes place as outlined in the Reserves Strategy adopted by the MCA when the 2023/24 budget was set.

2.11 Overall Conclusion

The 2022/23 outturn position reflects the activities undertaken by the MCA and SYPTTE in the financial year. The Accounts before Members have been drawn together in line with the CIPFA Code of Practice and all appropriate accounting standards.

- 2.12 Finance directors are required to consider the on-going financial strength of an organisation as they present the financial accounts. The ongoing impact on delivery arising from Covid- 19 and the cost-of-living crisis arising from high levels of inflation and the war in Ukraine are key considerations and covered in the Narrative Statement. Risks to the on-going sustainability of each part of the Group have been assessed as part of the 2023/24 business planning process, and resources have been earmarked in the reserves strategy and 2023/24 budget approved by the MCA Board in March 2023.
- 2.13 In the opinion of the Section 73 Officer, these proposals are robust and provide a sound basis for the delivery of the MCA's activity. The Section 73 Officer further believes that the overall quantum of reserves held are appropriate and have been earmarked to mitigate key risks.

Further refinement of these statements will now be undertaken before formal publication by the end of June.

3. Timetable & Next Steps

- 3.1 The MCA is required to publish its unaudited accounts each year and submit them for external audit. The date for publication has been brought forward from 31st July last year to the pre-pandemic deadline of 31st May, despite lobbying of Government from across the sector that this deadline was both illogical and likely unachievable for a significant proportion of the sector.

It wasn't possible to meet this deadline for a number of reasons - not least the ongoing audit of the 2021/22 accounts and the work involved in integrating the SYPTTE formally with the MCA Group.

Documentation from the Local Government Association submitted to Government and Parliamentary committees challenging the logic of publishing draft accounts by the 31st May - when so many 2021/22 audits are still open and 2022/23 audits will not commence for many months - is appended to this pack.

It is intended to publish the unaudited accounts by 30 June which appears to be in line with most other MCAs based on consultation with the MCA's peer group.

The statutory deadline for publishing the audited accounts is 30th November but the Committee has already been informed that this will not be achieved and audit is not likely to commence until January 2024.

4. Financial and Procurement Implications and Advice

- 4.1 There are no financial or procurement implications associated with this report.

5. Legal Implications and Advice

- 5.1 The unaudited Statement of Accounts will be authorised for issue by the Responsible Finance Officer no later than 30th June and published on the Authority's website on the same date. No date has as yet been established for presenting the Final Statement of Accounts to the MCA Board for formal adoption.

6. Human Resources Implications and Advice

- 6.1 There are no human resource implications associated with this report.

7. Equality and Diversity Implications and Advice

- 7.1 There are no equality and diversity issues associated with this report.

8. Climate Change Implications and Advice

- 8.1 There are no climate change implications associated with this report.

9. Information and Communication Technology Implications and Advice

- 9.1 There are no information and communication technology implications associated with this report.

10. Communications and Marketing Implications and Advice

- 10.1 There are no communications or marketing implications associated with this report, however, the Statement of Accounts is required to be published on the Authority's website.

List of Appendices Included

- A SYMCA Draft Statement of Accounts for 2022/23
- B SYPTE Draft Statement of Accounts for 2022/23

Background Papers

N/A