

AUDIT AND STANDARDS COMMITTEE

11th July 2019

2018/19 Statement of Accounts

Purpose of Report

To provide the MCA Audit & Standards Committee with an update on changes made to the Statement of Accounts since the unaudited version was presented to Members on 13th June 2019.

Freedom of Information & Section 12A of the Local Government Act 1972

The paper will be available under the Combined Authority Publication Scheme.

Recommendations

That MCA Audit & Standards Committee:

- notes the changes made to the Statement of Accounts;
- commends the amended Statement of Accounts to the MCA for formal adoption, and;
- notes that the Section 73 Officer will delegate authority to the Deputy Section 73 Officer to sign the accounts at the MCA on 29 July.

1. Introduction

- 1.1** The Audit & Standards Committee received the unaudited Statement of Accounts at its meeting on 13th June following their publication on the Authority's website on 31st May.
- 1.2** There have been three material changes made to the accounts since then which are being brought to Audit & Standards Committee's attention for consideration prior to the final version of the Statement of Accounts being submitted to the MCA for formal adoption on 29th July 2019. Attached at Appendix 1 is a series of key extracts which reflect these changes and which will be included in the revised Statement of Accounts once they have been cleared by the external auditors. These are also discussed further in the attached presentation which seeks to assist Audit & Standards Committee fulfil its responsibility of recommending to the MCA on whether the Statement of Accounts can be formally approved.
- 1.3** EY's audit of the accounts is substantially complete at this stage but has yet to be formally concluded. A progress update is being provided to Audit & Standards Committee to set out the current position, but the formal reporting of the audit in the form of the ISA 260 will be presented to the MCA.

2. Proposal

2.1 The three material changes made to the Statement of Accounts are as follows:

- Pensions (in response to Supreme Court ruling)
- Prior period adjustment to property company assets and liabilities
- Prior period adjustment to SYPTE reserves

These are explained in more detail below (the key entries in the accounts affected by the changes are also set out in Appendix 1).

2.2 Pensions

Members may recall that EY drew to their attention at the previous Audit & Standards Committee meeting on 13 June an emerging issue which affects all local government pension schemes across the country, and consequently the accounts of SYPTE and the MCA group.

There is ongoing uncertainty for LGPSs over compensation costs after the Supreme Court ruled that 2015 changes to the public sector pensions had discriminated against younger employees. In late June, judges ruled in favour of the Fire Brigades Union (FBU) and a group of judges led by Victoria McCloud, challenging the rule changes, which protected the pension benefits of older workers.

The implications of the Supreme Court ruling are still being worked through, but at this stage it appears highly likely that council pension funds will have to compensate and account for payments to ensure that there is nil detriment for all employees.

The following extract from the ruling is worth noting: "We have found that in both the judges' and firefighters' cases the manner in which the transitional provisions have been implemented has given rise to unlawful direct age discrimination. In neither case could the admitted direct age discrimination be justified."

South Yorkshire Pensions Authority has provided an indicative actuarial assessment of the implications of the McCloud court ruling. This assessment suggests that the impact is not material, therefore we are minded to disclose this as a contingent liability in the Statement of Accounts. The rationale for this is set out in further detail in Appendix 1.

This issue is purely presentational in nature, and doesn't impact on the finances of the group.

2.3 Prior Period Adjustment (PPA) to property company assets and liabilities

This prior period adjustment concerns the way in which the assets and liabilities of the MCA's wholly owned subsidiary, SYITA Properties, have been combined with those of the MCA following the company's transfer of business to the MCA during 2017/18, and the way in which the MCA's investment in the company is being realised.

As reported to the last Committee meeting, during the course of preparing the draft 2018/19 Statement of Accounts it had emerged that the presentation of this event in the 2017/18 Statement of Accounts was incorrect. It was agreed with the external auditors to submit the draft accounts without attempting to adjust for this presentational error, and to wait until all technical accounting, tax and legal implications had been properly considered.

Steps have subsequently been taken to restate the opening position in a manner which fairly reflects the substance of the business transfer. Since the last Committee meeting, further work has been undertaken to confirm the complex accounting, tax and legal implications that surround it with support from relevant professional advisors and in conjunction with the external auditors.

It is our view that the original aim – to establish an agreed way forward which facilitates the company's voluntary liquidation in an orderly fashion whilst at the same time maximising the financial benefit to the MCA Group – has now been achieved.

2.4 Prior period adjustment to SYPTE reserves

This PPA concerns the way in which SYPTE has accounted for revaluations gains and losses when land and buildings have been revalued in the past. In short, the accounting treatment has not been fully compliant with the Code of Practice to which local government accounts are required to adhere.

A highly reputable consultant considered by CIPFA to be an expert in his field was brought in to advise on the technical accounting adjustments and disclosures required in connection with this PPA. His recommended advice has been taken into consideration by the external auditors.

The 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.

The impact on the Statement of Accounts is set out in further detail in Appendix 1.

It is important to note that as well as correcting a material error, this adjustment supports the MCA group's ability to mitigate several key financial risks, namely:

- Opportunity to set up within usable reserves an earmarked reserve specifically for the purposes of offsetting future revaluation losses which are charged to revenue, and;
- Supplementation of existing earmarked reserves to support future strategic capital investments.

3. Consideration of alternative approaches

- 3.1 Do nothing – EY will not be able to give unqualified opinion if the material changes described above are not made.

4. Implications

4.1 Financial

The unaudited Statement of Accounts sets out the financial performance and financial position of the MCA and MCA group, subject to the Prior Period Adjustments referred to in paragraphs 2.2, 2.3 & 2.4 above.

4.2 Legal

The unaudited Statement of Accounts were authorised for issue by the Responsible Finance Officer on 30 May and published on the SCR's website on 31 May, thereby meeting the statutory deadline.

The revised Statement of Accounts will be presented to the MCA for formal adoption on 29 July 2019.

The Section 73 Officer (Finance Director) has delegated the function of signing the accounts to the MCA Senior Finance Manager as accommodated for in the MCA's Constitution.

4.3 Risk Management

None.

4.4 Equality, Diversity and Social Inclusion

There are no equality, diversity or social inclusion implications.

5. Communications

5.1 None.

6. Appendices/Annexes

6.1 Appendix 1 – Key extracts from Statement of Accounts, reflecting proposed material changes resulting from audit adjustments

Appendix 2 – Unaudited 2018/19 Statement of Accounts

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