Appendix 1

Key extracts from Statement of Accounts, reflecting proposed material changes resulting from audit adjustments

1. Pensions

Subject to further discussions with SYPTE and the external auditors, at this stage we are minded to disclose this issue as a ‘contingent liability’ in the group accounts.

As defined in the accounting policies note (Section XI. Provisions, Contingent Liabilities and Contingent Asset), a contingent liability arises where an event has taken place that may give rise to a possible obligation whose existence will only be confirmed by the occurrence, or otherwise, of uncertain future events that are not wholly within the control of the Authority. Exceptionally, Contingent Liabilities may also arise in circumstances where a provision would otherwise be made but the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

As advised by both CIPFA and EY, SYPTE has liaised with its pension scheme administrator SYPA. In conjunction with the scheme actuary Mercers, an estimate of the impact of the McCloud judgement has been made which, at total scheme level, would result in an increase in pension liabilities of approximately 1%.

If extrapolated specifically for SYPTE, this would result in an increased pensions liability of c.£700k, which in isolation is not considered to be material. However, in order to obtain a more reliable figure to include in the accounts, SYPTE would need to pay an additional fee to the actuary, and it is unlikely that SYPA would be able to return the actuarial assessment in time for the group accounts to be published ahead of the MCA. Furthermore, there is no reason to believe that the result of the actuarial assessment would be materially different to the initial estimate already provided by SYPA.

CIPFA’s bulletin ‘Pension Liabilities: Accounting for the McCloud Judgement in 2018/19’ issued in April 2019, states:

“If the matter is immaterial no reference in the accounts is required, although an authority may note that there is some uncertainty due to the factors identified but these are not considered to be material for the authority.”

On this basis, we believe that a disclosure by way of a contingent liability note complies with the above guidance from CIPFA.

2. PPA to property company assets and liabilities

The current position in terms of disclosure is that the retained profits of the former property company appear in Note 30 of the draft accounts (Usable reserves) as “Property Reserves” of £1.49m.

There is no other reference to the assets and liabilities of the former property company in other notes. We accept the external auditor’s view that the cost of the investment in the former property company (c.£7.8m) and an intercompany creditor of c.£9.3m were incorrectly omitted from the opening balance of the 2018/19 accounts.

To correct the omission, we accept that a prior period adjustment needs to be made which will result in the following amendments to the MCA single entity part of the Statement of Accounts:

- Addition of £7.8m cost of investment in the financial instruments note (Note 20)
- Addition of £9.3m intercompany creditor as a ‘related party creditor’ (Note 27)
- Removal of £1.5m property reserve (Note 30)

The net effect on the balance sheet is £nil.

3. PPA to SYPTE reserves

The net effect on the balance sheet is £nil.

We accept that a prior period adjustment needs to be made which alters the presentation of reserves in the group accounts, resulting in £5m moving from unusable to usable reserves, as follows:

- Increase in usable reserves within the group accounts (Note 59)
- Reduction in unusable reserves within the group accounts (Note 60)