

## Audit, Standards and Risk Committee

17 July 2024

### MCA Annual Accounts 2023/24

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

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**Director Approving Submission of the Report:**

Gareth Sutton, Chief Finance Officer/s73 Officer

**Report Author(s):**

Simon Tompkins

[simon.tompkins@southyorkshire-ca.gov.uk](mailto:simon.tompkins@southyorkshire-ca.gov.uk)

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#### **Executive Summary**

The MCA's 2023/24 Annual Accounts present the financial performance and financial position in the first year since the formal integration of the MCA and SYPTTE on 1 April 2023.

Prior to formal integration, the MCA and SYPTTE as separate legal entities, were each required to produce their own single entity Annual Accounts which were then consolidated into Group Accounts to show the financial performance and position of the MCA and SYPTTE combined. The comparatives in the MCA's 2023/24 Annual Accounts are those from the 2022/23 Group Accounts and are therefore on a like for like basis. This reflects the fact that in 2022/23 the management structure, functions and governance arrangements of the MCA post integration are the same as for the Group pre integration.

There has however, been a need to restate certain opening balances on integration, to reflect the fact that SYPTTE was not subject to local authority capital finance and

accounting regulations, and, to fully harmonise the application of accounting policies. The adjustments made on integration are shown in Note 1 Business Combinations on p.45 of the Annual Accounts.

Integration has also provided an opportunity to reconsider the classification of certain types of asset. This has resulted in the reclassification of public transport infrastructure network assets from operational Property, Plant and Equipment to Infrastructure assets, and, the reclassification of certain properties previously classified as Investment Properties as Surplus Assets both of which are considered a fairer presentation of their purpose. Further information on these changes is disclosed in Note 8 Critical Judgements in Applying Accounting Policies on p.67 of the Annual Accounts.

This report provides members of the Committee with an opportunity to consider and scrutinise the MCA's unaudited 2023/24 Annual Accounts prior to the commencement of the external audit.

The unaudited 2023/24 accounts were published on the website on 31 May 2024 and are currently open to public inspection.

## **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 MCA's Annual Accounts for 2023/24 prior to audit.

## **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 MCA's Annual Statement of Accounts for 2023/24.
- 1.2 The aim of this report is to highlight the key elements of the accounts to Members, identifying relevant sections to aid understanding.

### **2. Key Issues**

#### **2.1 Statement of Accounts 2023/24**

The document attached as an appendix to this report represents the MCA's unaudited Statement of Accounts for 2023/24. 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 2023/24.

- 2.2 Following the formal integration of the MCA with SYPTE on 1 April 2023, the financial performance and financial position of the MCA and SYPTE combined is reported in the

MCA's Annual Statement of Accounts. There is therefore no longer a need to produce Group Accounts to show the consolidated position of the MCA and SYPTE combined.

2.3 A report on the financial outturn position for 2023/24 was presented to the MCA Board on 4 June 2024. 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 reserves following the formal approval of the MCA Board.

2.4 The Annual Statement of Accounts comprise:

(i) A Narrative Report – which sets out the overall performance of the MCA against its strategic objectives

(ii) An Annual Governance Statement – which summarises the arrangements the MCA has put in place to ensure that MCA business is conducted within a proper Governance Framework

(iii) Core financial statements comprising: Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement. These report the financial performance and financial position of the MCA and its cashflows in accordance with international financial reporting standards as prescribed in the Local Authority Accounting Code of Practice

(iv) Notes to the core Financial Statements which provide additional disclosure on certain items of account.

The form and content of the Annual Statement of Accounts is complex and sometimes difficult to understand. This report seeks to aid Members understanding by providing further detail on the following key aspects:

- Issues arising from the integration of the MCA and SYPTE on 1 April 2023
- Reclassification of assets
- Overall financial health

2.5 **Integration of the MCA and SYPTE on 1 April 2023 - comparatives**

The formal integration of the MCA and SYPTE on 1 April 2023 means that, with effect from that date, the financial performance and financial position of the MCA and SYPTE combined are reported within the MCA's accounts.

Accounting standards offer two options on how a business combination should be accounted for.

The first option only accounts for the functions transferred from the date of integration without providing comparative information. This would mean that SYPTE activity would only be included from 2023/24 with the comparatives for 2022/23 showing MCA activity only excluding SYPTE.

The second option treats the combined organization as if it had always been in place and includes comparative information for the combined entity for the previous year. This means, in effect, reporting SYPTE activity in 2023/24 and in the 2022/23

comparatives.

Having considered the matter, management have taken the view that the second option presents more fairly, the fact that in 2022/23, the management, functions and governance arrangements of the MCA and SYPTTE had already been restructured under a single framework in readiness for integration.

Accordingly, the comparatives presented in the MCA's 2023/24 Annual Statement of Accounts are 2022/23 Group Accounts figures which show the position of the MCA and SYPTTE combined rather than just the MCA only.

## **2.6 Integration of the MCA and SYPTTE on 1 April 2023 – restatement of balances on integration**

Whilst the MCA as a local authority is subject to local authority capital finance and accounting regulations, SYPTTE was not.

This meant that the treatment of certain items in SYPTTE's accounts differed from what they would have been had SYPTTE been a local authority.

On integration, the closing balances in SYPTTE's 2022/23 accounts were transferred as opening balances into the MCA's balance sheet.

This required that, where necessary, SYPTTE's balances be adjusted to comply with local authority capital finance and accounting regulations.

Note 1 Business Combinations on p.45 of the accounts summarises the impact of the adjustments that have been made.

## **2.7 Reclassification of assets**

The integration of the MCA and SYPTTE has provided an opportunity for management to reconsider the classification of certain types of asset.

Public transport infrastructure network assets including interchanges, park & ride sites, shelters and passenger information displays and other public transport related assets were all previously categorized as operational Property, Plant and Equipment (PPE).

The view taken by management is that rather than treating them as a series of separate PPE assets a fairer presentation is to treat them as interconnected components of a South Yorkshire wide public transport infrastructure asset and to therefore reclassify them as infrastructure (as the Light Rail system is).

The consequence of this reclassification is that the basis of measurement changes from current value to depreciated historic cost. This has resulted in their carrying value in the balance sheet being adjusted down by £32m.

The MCA and SYPTTE have in the past carried legacy transport assets originating from bus deregulation in the balance sheet as investment properties, for example, the bus depot in Doncaster.

The definition of investment property is that it is held solely to earn rentals or for capital appreciation or both.

Management have concluded that these properties do not meet this definition and they have therefore been re-classified as surplus assets within PPE.

Note 8 Critical Judgements in Applying Accounting Policies provides further detail in this regard.

## **2.8 Overall Financial Health**

Note 28 on p.96 of the accounts shows that the MCA had total usable reserves and balances (revenue and capital) of £181.8m at the end of 2023/24 compared £170.1m at the end of 2022/23.

Whilst ostensibly this suggests that the MCA is in a very healthy position, as described in the Narrative Report on p.12 of the accounts, most of these reserves and balances, are being held to support programme and project delivery, meet identified risks, or to provide resource as the funding environment of the MCA changes.

The outlook section of the Narrative Report on p.18 of the accounts describes the evolving nature of the risk environment in which the MCA operates and challenges it faces. These include the sustainability of the bus network, bringing tram operations back under public control, risks to commercial income in particular treasury management investment income, and ability to absorb costs by recharging to programmes as programmes come to an end.

The current reserves strategy is considered appropriate to mitigate the current level of risk but will need to be re-assessed continually as the MCA continues to evolve.

More detail on the nature and purpose of earmarked revenue reserves is provided in Note 15 on p.75 to p.78 of the accounts.

More detail on the extent to which capital receipts and unapplied capital grant are committed is shown in Note 28 on p.97 and p.98 of the accounts.

## **3. Timetable & Next Steps**

- 3.1 The publication of the MCA's 2023/24 Annual Statement of Accounts on 31 May 2024 means that the statutory deadline has been met.
- 3.2 The next step will be for the Annual Statement of Accounts to be subject to audit. The 2023/24 indicative Audit Plan presented by KPMG gives an indication of the nature and scope of their accounts audit. However, this is tempered by the fact that the 2022/23 accounts remain open and will not be subject to audit, and, by the fact that legislation has still to emerge from the national consultation on resetting local government audit. Accordingly, at this stage, the timetable for concluding the audit cannot be confirmed, nor the date on which the audited Statement of Accounts will be formally adopted by the MCA Board.

## **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 were published on 31 May 2024 and thereby met the statutory deadline.

5.2 The national consultation on resetting Local Government audit proposed that a back stop date of 31 May 2025 be set to conclude the audit of 2023/24 accounts. However, as set out in para 3.2 above, as legislation on the outcome of the national consultation remains pending, there remains uncertainty over the statutory deadline for completing 2023/24 audits.

**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 Unaudited Statement of Accounts for 2023/24

**Background Papers**

N/A