Agenda Item 5

Committee report

Annual Accounts 2018/19

Committee Audit and Standards

Date of meeting 30 August 2019 **Date of report** 9 August 2019

Report by Assistant Chief Executive

1. Object of report

To provide the Committee with the audited annual accounts for financial year ending 31 March 2019 for Strathclyde Partnership for Transport (SPT) and Strathclyde Concessionary Travel Scheme Joint Committee (SCTSJC) for final scrutiny prior to their submission to the Partnership and SCTSJC for approval on 20 September 2019.

2. Background

The Committee considered the unaudited accounts of both SPT and SCTSJC for the financial year 2018/19 at its meeting on 7 June 2019, prior to these being formally submitted to the external auditor, Scott Moncrieff.

The annual accounts of both bodies are prepared in line with proper accounting practice and are required to be audited by 30 September 2019. SCTSJC agreed previously that, as common systems were utilised, it was appropriate that SPT's committees would scrutinise the annual accounts on its behalf, and these would subsequently be submitted to the next available Joint Committee for noting. For 2018/19 the SCTSJC annual accounts will go to the SCTSJC for approval on 20 September 2019.

3. Outline of proposals

Attached to this report are the annual accounts for SPT and SCTSJC for the financial year 2018/19. These have been prepared in accordance with the recognised standards and the Accounting Code of Practice.

One significant change has been made to the SPT accounts since the draft accounts were considered by the Audit and Standards Committee in June. Similarly to 2017/18 the change was outwith the control of SPT and related to the pension information submitted to SPT by the Strathclyde Pension Office actuary Hymans Robertson. The issue with the actuarial valuation is not restricted to SPT but is a wider Local Government Pension Scheme issue.

The change is that pension results for 2018/19 have now taken into account the financial effects of the McCloud judgement and the General Minimum Pension (GMP) equalisation impact.

When the LGPS Scotland benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. In December 2018 the Court of Appeal upheld a ruling ("McCloud/ Sargeant") that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The financial effects of this in the 2018/19 accounts is an estimated increase in past service costs of £2.070 million.

Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number or reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men's and women's benefits. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers. The financial effects of this in the 2018/19 accounts is an increase in past service costs of £1.151 million.

The financial effect of these pension issues has resulted in an increase of £3.221 million in past service costs and an increase of £0.043 million in interest costs, giving a total increase in the current year of £3.264 million. Although SPT's estimated pension liability has increased due to McCloud/GMP, this does not currently affect the amounts that SPT have to pay over to the pension office. SPT's current contribution to the pension office has been fixed at 19.3% of pensionable pay until 2020/21.

In addition to the significant change a technical adjustment has been made to the accounts, which relates to the write out of revaluation reserve balances in line with depreciation. In accordance with the Code of Practice on Local Authority Accounting in the UK (the Code), for revalued assets, a transfer between the Revaluation Reserve and Capital Adjustment Account should be carried out which represents the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on an asset's historical cost. As in previous years, SPT processed the transfers between the two reserve accounts, but in addition processed transactions through the Comprehensive Income and Expenditure Statement (CIES). The total value of the equal and opposite transactions was £1.279m and did not impact on the overall net asset position of SPT.

Scott Moncrieff have expressed an opinion that the financial statements represent a true and fair view of the Partnership's financial affairs, and similarly for the SCTSJC.

4. Committee action

The Committee is asked to note the annual accounts for SPT and SCTSJC for the financial year 2018/19 and, if appropriate, agree that these should be submitted to the Partnership and SCTSJC respectively for approval on 20 September 2019.

5. Consequences

Policy consequences	*None.*
Legal consequences	*Complies with legislative timetable for submission.*
Financial consequences	*None directly. All accounting standards considered during preparation.*

Personnel consequences	*None.*
Social inclusion consequences	*None.*
Risk consequences	*None.*

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Title	**Assistant Chief Executive**	**Title**	**Chief Executive**

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