Date: 21 March 2019

Subject: GMWDA Statement of Accounts 2017/18

Report of: GMCA Treasurer

PURPOSE OF REPORT

To update Audit Committee Members on the progress made to conclude the audit of Greater Manchester Waste Disposal Authority’s Statement of Accounts 2017/18

RECOMMENDATIONS:

Committee Members are requested, as those charged with governance, to:

a) note the contents of the report;
b) consider the Audit Findings Report and note its content prior to considering approval of the financial statements;
c) approve the financial statements for 2017/18 as attached
d) note the AGS previously agreed by GMWDA to be signed by GMCA Chief Executive and the Mayor of Greater Manchester; and
e) confirm that the Letter of Representation can be signed, on behalf of the GMWDA, in order that the Auditors can issue their opinion on the Statement of Accounts 2017/18, on completion of the audit of the Authority’s Whole of Government Accounts (WGA) work.

CONTACT OFFICERS:

Richard Paver, GMCA Treasurer    richard.paver@greatermanchester-ca.gov.uk

Lindsey Keech, Head of Finance (Waste) lindsey.keech@greatermanchester-ca.gov.uk

Risk Management – n/a
Legal Considerations – n/a
Financial Consequences – Revenue – covered in the report and accompanying appendices
Financial Consequences – Capital – covered in the report and accompanying appendices
**BACKGROUND PAPERS:**


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<th>TRACKING/PROCESS</th>
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<td>Does this report relate to a major strategic decision, as set out in the GMCA Constitution (paragraph 14.2) or in the process (paragraph 13.1 AGMA Constitution) agreed by the AGMA Executive Board:</td>
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<td>Are there any aspects in this report which means it should be considered to be exempt from call in by the GMCA Scrutiny Pool on the grounds of urgency?</td>
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1. **INTRODUCTION**

1.1 The report sets out the latest position regarding the finalisation of the 2017/18 accounts of the GMWDA and the audit by Grant Thornton.

1.2 As members will recall from the previous meetings, the audit of the Accounts for the former GMWDA were not concluded in the required timescale. Work has been progressing to clarify remaining and new queries raised by the external audit team at Grant Thornton.

1.3 Whilst the Audit Findings Report highlights a number of significant areas, on some of which agreement has not been possible, it does not make any mention of the unique and groundbreaking accounting transactions contained in 2017/18. The complexity of which led to delays in receiving the technical queries from external audit until 11 July 2018, two days before the agreed timetabled final close out meeting.

1.4 Despite the challenges and queries raised, the main changes to the Statement of Accounts listed below, whilst material, have not affected any Usable Reserves.

2. **CHANGES TO STATEMENT OF ACCOUNTS FROM 31 MAY 2018**

2.1 The main changes to the current Statement of Accounts from the draft accounts are:

- Correction of duplicated asset value;
- Treatment of senior lending repayment as a capital receipt;
- Change of treatment of advance to TPSCo from long-term debtor to Revenue Expenditure Funded by Capital Under Statute (REFCUS);
- Further disclosures.

The above changes were included in the Statement of Accounts as per the GMCA response of 7 December 2018. Changes to disclosures have been included following further discussions with external auditors. Further unrelated queries, not previously raised, have all been responded to and have not altered the Statement of Accounts prepared as at the above date.

2.2 **Correction of duplicated asset value**

2.2.1 One site owned by the GMCA is detailed in two areas of the asset register – leasehold and freehold. The total value for the site was included in each area instead of being split. This was identified by the external auditor and corrected.
2.3  **Treatment of senior lending repayment as a capital receipt**

2.3.1  The GMWDA was in the unique position of being a senior lender to its own PFI scheme with Viridor Laing (Greater Manchester) Limited (VLGM). Repayments of principal amounts from VLGM were matched to the reduction in capital investment.

2.3.2  Following challenge from the external audit team it was agreed by GMCA that these should be properly presented as capital receipts and not netted off other capital expenditure. This has led to presentational changes in the Capital Financing Requirement (CFR) but no change to the overall balance. It has also led to the inclusion of an extra column in the Note for Adjustments Between Accounting Basis and Funding Basis but again, no change in the overall adjustment value.

2.3.3  The presentation changes has also affected the previously audited 2016/17 Statement of Accounts.

2.4  **Change of treatment of advance to Thermal Power Station Company at Runcorn (TPSCo) from long-term debtor to Revenue Expenditure Funded by Capital Under Statute (REFCUS)**

2.4.1  Under the previous PFI Contract, there was a second Special Purpose Vehicle (SPV), TPSCo, which had constructed a thermal facility at Runcorn which does not revert at the end of 25 years (the former PFI Contract period), but instead the GMWDA could obtain access at discounted rates / take a royalty sum for a further 15 years. On the early termination of the PFI Contract, the GMWDA opted to switch to the Residual Value Contract terms already included with the former PFI Contract.

2.4.2  The GMWDA sought Counsel opinion on the ability of treating the advance of monies to repay PFI loans to TPSCo for the construction of the thermal facility as expenditure for capital purposes. Following discussions with our financial advisors it was determined that the payment could be presented as a long term debtor or as REFCUS. At the time of preparation of the Statement of Accounts, the option of treatment as a long-term debtor was chosen but importantly, either REFCUS or a prepayment was considered acceptable.

2.4.3  The challenge received from our external audit team was that this would normally be treated as REFCUS and that the GMCA had not included an accounting policy to cover long-term debtors. REFCUS is the capitalisation of expenditure that would normally have been charged to Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.

2.4.4  Following review, and to be consistent with other transactions of the wider GMCA where similar schemes are treated as REFCUS, it was agreed this would be a more consistent approach once the balances of the GMWDA were transferred in to GMCA
from 1 April 2018. The change in treatment also means the GMCA will not have to value this long-term debtor in future years.

2.4.5 This change in treatment has had a material impact on several of the statements within the Accounts but importantly has not altered the Usable Reserves or the Capital Financing Requirement.

2.5 Further disclosures

2.5.1 Additional disclosure has been requested by the external audit team throughout the Statement of Accounts. Appropriate changes have been included as can be seen in the full details of the changes to the Accounts listed as an appendix to the Audit Findings Report.

3. GROUP ACCOUNTS

3.1 The GMWDA, after expert technical support from KPMG, has not prepared Group Accounts. At 31 March 2017, the GMWDA had no subsidiaries. At 31 March 2018, the GMWDA owned Greater Manchester Combined Waste & Recycling Limited (GMCWRL) and Greater Manchester Combined Waste and Recycling (Holdings) Limited (GMCWRHL) but was not considered to be in control of the organisations as both had been placed into solvent liquidation on 22 March 2018.

3.2 By applying the definition of control per IFRS 10, at this date, the GMWDA no longer had the power to direct the activities of the two entities, as it is the responsibility of the liquidator to recover the assets and discharge the liabilities.

3.3 Unfortunately, as previously reported to this Committee, the external auditors disagree with this view despite on page 11 of the Audit Findings Report relying on the same definition as in 3.2 above.

3.4 Officers of the GMCA attempted to comply with the request for Group Accounts during July 2018 to ensure audit sign off by the statutory deadline of 31 July 2018. During the completion of this process it became clear that agreement was not going to be reached as the subsidiary did not have audited accounts for 2016/17 and did not have an opening audited position. This made it very difficult to agree an opening position and subsequent transactions during the GMWDA period of control with the external audit team.

3.5 Once it became apparent that there were numerous technical queries outstanding on the single entity accounts and the statutory deadline would not be met, the decision was taken to revert to the previous position of not completing Group Accounts as in any case this was considered by the GMCA to be the correct treatment. This allowed efforts to be
concentrated on the single entity GMWDA Accounts, the balances of which would be transferred into the GMCA.

4. **LETTER OF REPRESENTATION**

4.1 This is a letter to be signed by GMCA Treasurer and Chair of Committee confirming that all relevant matters have been disclosed. The signed letter will be needed prior to the final opinion being issued. Subject to any views of the Committee, it is intended to send the letter as soon as reasonably practical in order to secure final certification, after the WGA work.

5. **CONCLUSION**

5.1 The 2017/18 GMWDA set of accounts were produced following the dissolution of GMWDA which caused some issues with the understandings the previous GMWDA management had with Grant Thornton at the time the PFI was terminated.

5.2 As work progressed, a number of new areas were identified post the July deadline, which have now been responded to and treatment agreed with the exception of the preparation of Group Accounts.

5.3 The sign off of the single entity accounts allows a clear opening position for the transfer of balances into the GMCA which is important for the preparation and audit of the 2018/19 accounts.

6. **RECOMMENDATION**

6.1 The recommendations are set out at the front of the report.