

GOVERNANCE COMMITTEE 22ND DECEMBER 2020

AGENDA ITEM 7: STATEMENT OF ACCOUNTS 2019/20 AND LETTER OF REPRESENTATION

The list below details those amendments made to the Statement Of Accounts 2019/20, subsequent to the circulation of the Statement to the Committee.

There are 8 in total:

- 4 additional disclosures (items 2, 3, 4 & 8)
- 3 minor amendments (items 1, 5 & 6), and
- 1 update (item 7).

Item 2, 3, 8 and the final column in the updated table at item 7 are also applicable to the Statement of Accounts for 2018/19, at item 5 of the agenda.

No	Ref	Description												
1	Narrative Report, para 2, page 17	The stated figure of £431k has been amended to £461k.												
2	Note 3, page 51	The following has been added to the list of accounting standards that have been issued but not adopted: <ul style="list-style-type: none"> • IFRS 16 Leases 												
3	Note 4, page 52	Additional disclosure made re Business Rates appeals. The full text of the additional disclosure is shown in the separate table below.												
4	Note 5, page 53	Further wording added to disclosure re: Pension Fund Assets, as follows: As a result of the ongoing impact of Covid-19 on the global financial markets, the valuation of the Pension Fund's investment properties is reported on the basis of material valuation uncertainty. The Council's share of these assets is £1.277m.												
5	Note 26, page 85	Signage in descriptions was reversed, eg 'Increase / (decrease) in debtors' should have been '(Increase) / decrease in debtors', and have been corrected.												
6	Note 26, page 85	Increase in BDP was stated incorrectly. It showed the 2018/19 figure. No impact on total shown for Note, because amount nets off against movement in Debtors. Amounts were £223k/(£981k), now amended to £125k/(£883k).												
7	Note 33, page 92	The table has been updated to include the final additional fees which have been agreed the Council's auditor, as follows: <table border="1" data-bbox="432 1576 1423 1809"> <thead> <tr> <th></th> <th>2018/19 £'000</th> <th>2019/20 £'000</th> </tr> </thead> <tbody> <tr> <td>Fees for statutory inspection and audit</td> <td>68</td> <td>68</td> </tr> <tr> <td>Fees for the certification of grant claims and returns</td> <td>7</td> <td>10</td> </tr> <tr> <td>Balance at 31 March</td> <td>75</td> <td>78</td> </tr> </tbody> </table>		2018/19 £'000	2019/20 £'000	Fees for statutory inspection and audit	68	68	Fees for the certification of grant claims and returns	7	10	Balance at 31 March	75	78
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8	Note 38, page 103	Text re previous NHS business rates appeal amended and disclosure added re leisure service pension. The full revised text of the Note is shown in the separate table below.												

FULL AMENDED/ADDITIONAL TEXT RE ITEMS 3 & 8

Item 3: Full Text Of Additional Disclosure

Business Rates Appeals

With business rates, ratepayers who consider the rateable values of their properties to be too high can lodge an appeal with the Valuation Office to have it reviewed. Any resulting reduction in bills can be backdated, perhaps over several years. This creates an uncertainty, because it means that the amount of income for the year from business rates, which has been included by the council in this Statement of Accounts, may later be reduced. Given that the gross income (before reliefs) in each financial year is over £40m and that the provision is required to cover several years, even a relatively low percentage allowance produces a material amount, so the council must acknowledge this in its Statement.

Given that the uncertainties involved, ie the numbers of future appeals, their value and how far they will be backdated are all unknown, the question arises as to whether this should be treated as a provision or as a contingent liability. It is considered that it should be recognised as a provision, rather than as a contingent liability, because it meets the definition of a provision under IAS 37, in that there is:

- (1) a present obligation arising from a past event;
- (2) payment is probable;
- (3) the amount can be estimated reliably.

In respect of (1), the 'present obligation' can (under IAS 37) be either legal or constructive. For appeals already lodged the present obligation would be legal. However, for appeals not yet lodged, the present obligation is constructive, on the basis that the past practice of the council, in processing liability adjustments and associated refunds, creates a valid expectation on the part of the business rates payer that refunds will be granted in the future, as a result of equivalent liability adjustments. The past event is the raising of the business rates charge.

In respect of (2), there is a probability of payment, although there is a chance that refunds may not be payable, if individual businesses no longer exist. However, the number of such credits written off is very low. Any credits that are written off require liability adjustment (effectively re-raising the debt for refunds that are not payable). As such they are included in the data that feeds into the provision calculation.

In respect of (3), because of the nature of the revised appeals process introduced from April 2017 onwards, there are particular issues in estimating the potential value of appeals against valuations effective from that time onwards. The pattern of liability movements resulting from successful appeals across the years from 2010/11 to 2016/17 have been reviewed. This, together with comments by the Valuation Office that the approach adopted for the 2017 revaluation was the same as for earlier valuations and a review of the approaches adopted by other authorities, supports the view that the level of provision made by the council at the end of 2019/20 is of an appropriate level.

The need for local authorities to consider making a business rates appeals provision developed as a result of the change to 'Business Rates Retention' within the local government finance system from 2013/14 onwards. Prior to this, the impact of appeals was absorbed within the amounts paid by the council into the then national business rates pool. The relevant CIPFA guidance clarified the view on whether authorities should include an element for refunds on appeals not yet lodged. It quoted IAS

37, paragraph 39 which deals with situations involving large populations where the obligation is estimated by weighting all possible outcomes by their associated probabilities. It is considered that the appeals provision methodology adopted by the council is entirely consistent with this 'expected value' methodology.

Item 8: Full Text Of Amended/Additional Wording:

Note 38 Contingent Liabilities

Text re previous NHS business rates appeal amended and disclosure added re leisure service pension. Note now reads as follows:

At the end of March 2019, a contingent liability was disclosed in respect of claims made, against councils throughout the country, for mandatory charitable business rates relief by NHS Trusts and NHS Foundation Trusts. The backdated relief was potentially worth hundreds of millions of pounds in total across all of the councils. The councils had rejected the claims on the grounds that the NHS bodies are not charities, and therefore the claims were unfounded. The value of the appeals received by South Ribble Borough Council was estimated at £0.990m. In December 2019, the High Court ruled that these bodies are not eligible for such relief, with their activities being classified as governmental rather than charitable, so the council no longer has a contingent liability for this.

In 2005/06 the Council's leisure centre operation transferred to South Ribble Community Leisure Limited (SRCLL), which is a company set up with charitable objectives. Serco Leisure Operating Ltd (SLOL) manage the services from the council's leisure sites with payments made by South Ribble Council via SRCLL. The agreement ends in March 2021. The accounts at SRCLL indicate a pension related liability of c£2m. Within the agreement SLOL are required to indemnify for any shortfall in pension liabilities. The contract specifies that this indemnity should be attained though SLOL providing a bond to mitigate this risk exposure. As such, South Ribble Council is not deemed to be exposed to any outstanding pension liability risk associated with this contract terminating. However, as the value of the bond to be attained by SLOL is not yet fully ascertained, a contingent liability has been deemed to exist at 31 March 2019.