

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 26 November 2020

Subject: Annual Accounts 2019/20 and Letter of Representation

Report of: The Deputy Chief Executive and City Treasurer

Summary

To seek Members' approval of the revised accounts containing the amendments detailed in the report and to seek their approval and acknowledgement of the letter of representation. These accounts are updated from those reported to the July Committee and take account of any changes that have arisen since that time including the findings of external audit.

Recommendations

The Committee is asked to –

- Note the amendments made to the annual accounts since they were reported to the Audit Committee in July.
 - Approve the revised annual accounts including the accounting policies contained within them.
 - Approve and acknowledge the letter of representation in Appendix 1 which will be signed by the Deputy Chief Executive and City Treasurer.
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Wards Affected: All

Contact Officers:

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Background documents (available for public inspection):

Working papers – consolidation of 2019/20 accounts working papers
Report of the Deputy Chief Executive and City Treasurer to Audit Committee 10
March 2020 – Accounting Concepts and Policies, Critical Accounting Judgements
and Key Sources of Estimation Uncertainty

Report to Audit Committee 28 July 2020 - Annual Accounts 2019/20
Report of External Auditors, Mazars to Audit Committee 26 November 2020 – The
Audit Findings for Manchester City Council

Introduction

1. Members will recall that the draft Annual Accounts were reported to Audit Committee on 28 July 2020 following their approval by the Deputy Chief Executive and City Treasurer.
2. This report summarises the amendments that have been made following the work undertaken by the Council's External Auditors, Mazars. Further details can also be found in the External Auditor's report elsewhere on this agenda.

Changes to the Main Accounting Statements

3. There have been no changes to the draft accounts that effect the usable reserves of the Council.
4. There has been one change to the main accounting statements that effects the deficit on the provision of services in the Consolidated Income and Expenditure Statement (CIES). This has no implications for the usable reserves of the Council and is explained in the following paragraphs.
5. As a result of a consultation on the statutory underpinning of local authority pension schemes against age discrimination following the McCloud judgement, issued by the Ministry of Housing, Communities and Local Government (MHCLG) in July 2020, the Council requested an additional report from the pension's actuary. The McCloud judgement refers to the Court of Appeals ruling that found that changes in pension schemes for judges and firefighters were discriminatory on the grounds of age. Although the judgement applied to those two schemes only the government confirmed it will apply to all public sector pension schemes.
6. In the Local Government Pension Scheme (LGPS) the protections that applied when the scheme changed in 2014 from a final salary to a career average salary scheme were given to members closer to retirement, rather than all members, so they did not receive less pension under the new scheme compared to the old.
7. The allowance for McCloud in the actuarial report used in the draft accounts assumed that everyone active in the scheme at 31 March 2014 was eligible for the protections. However, the proposed McCloud remedy now limits eligibility to only members who were active at 31 March 2012, which has led to a reduction in the size of the allowance. The revised report showed a reduction in past service costs of £10.067m. As a result of this change the deficit on the provision of services in the CIES has reduced by £10.067m, from that shown in the draft accounts presented to the committee in July, to £5.576m.
8. In addition to the revision relating to the McCloud allowance the actuary updated the report to increase the return on pension assets by £16.254m following the provision of more up to date information provided by the Greater Manchester Pension Fund. As a result of these two changes the pension liability in the balance sheet has reduced by £26.321m. This is matched by a

reduction in the negative pension reserve therefore increasing the net worth of the Council by £26.321m.

9. This change has also been reflected in the Movement in Reserves Statement (MIRS), Cash Flow Statement, Group Account Statements and relevant notes in both the single entity and group accounts.
10. There have been other changes to the main statements that do not affect the deficit on the provision of services. These are explained in the following paragraphs.
11. The disclosure note relating to Heritage Assets (note 25) previously stated that where heritage assets had an individual value of less than £100,000, they were not included in the balance sheet. In order to provide a more accurate position of the value of these assets it has been agreed during the external audit to include the valuation of these assets in the balance sheet. This has resulted in an increase in the value of heritage assets by £62.454m at 31 March 2020 with a corresponding increase in unusable reserves (revaluation reserve). Given the scale of this increase the prior year has also amended and this has resulted in an increase of £60.431m in the value of heritage assets at 31 March 2019.
12. This change has also been reflected in the CIES, MIRS, Group Accounts Statements and corresponding notes in the Single Entity and Group Accounts.
13. The Cash Flow Statement has been amended for financing activities. The repayment of ex GMC debt has been added to financing activities. This equates to £2.370m in 2019/20. In addition, net payments and receipts relating to the preceptors' element of council tax and national non-domestic rates have been removed from the financing activities section. This equates to payments of £7.308m in 2018/19 and receipts of £17,000 in 2019/20. These changes are a reclassification only and have no impact on the cash balances of the Council as these items had been previously shown in adjustments to the deficit on the provision of services.
14. The Taxation and Non-Specific Grants line within the CIES has been amended between gross expenditure and gross income. In the draft accounts the business rate top-up (£40.398m in 2019/20 and £19.015m in 2019/20) and the adjustment on concessionary interest loan (£3.752m in 2019/20 and £3.092m in 2018/19) were netted off gross income. In the revised accounts these have been shown as gross expenditure. Net expenditure remains unchanged.
15. The final adjustment to the core financial statements was to include a 'third balance sheet' i.e. as at 1 April 2018 for both the single entity and group accounts. This provides additional information following the prior period adjustments made.

Changes to Disclosure Notes

16. In addition to the amendments above there have been the following changes to disclosure notes.

17. The going concern note (7.1.1) has been updated to include information relating to Destination Manchester Ltd. This was not available when the draft accounts were issued.
18. The key sources of estimation uncertainty note has been updated to provide additional information in relation to investment properties (note 9.2) and pension fund property assets (note 9.7)
19. The Assets Held as Lessor note (note 30) has been corrected as two leases had been incorrectly included. These related to Bridge Street Car Park and 103 Princess Street Basement. Income is no longer collected for these leases, but the property records had not been updated at the time the draft accounts were completed.
20. Additional disclosures have been provided in note 41 (financial instruments) relating to items in the CIES and note 49 (related parties) relating to balance sheet items.
21. The events after balance sheet date note (note 58) has been updated with the latest information on the financial implications of COVID-19. This information has also been reflected in the Narrative Statement.

Other Changes

22. The Narrative Statement and the Annual Governance Statement have been amended to reflect Members' comments including those made at the July Audit Committee.
23. There have been various presentational changes made to improve the understanding of the accounts.

Next Steps

24. At the time of writing this report the audit of the 2019/20 accounts is ongoing particularly in relation to valuations of property, plant and equipment in both the single entity and the group accounts.
25. Subject to the satisfactory conclusion of the outstanding work, an unqualified opinion on the single entity and group accounts is expected to be issued by the statutory deadline of 30 November.
26. If any further amendments to the accounts are identified prior to the Committee meeting they will be reported at the meeting.
27. The revised Annual Accounts for 2019/20 are appended to this report.

Letter of Representation

28. The Council is required to provide a letter of representation to its External Auditors. These representations are required to be approved and acknowledged formally by a committee of the Council. A copy of this letter is attached to this report.

Recommendations

29. The recommendations are listed at the front of this report.

APPENDIX 1



**Corporate Services
Carol Culley**

Deputy Chief Executive and City Treasurer

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PO Box 314 Town Hall
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Karen Murray
Director
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26 November 2020

Dear Karen

Manchester City Council and Group - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Manchester City Council ('the Council') and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as the Council's Deputy Chief Executive and City Treasurer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Executive and committee meetings, have been made available to you.

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council and Group's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council and Group in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm that, despite the disclosure of material valuation uncertainties in the Council's financial statements, the valuations of the Council's Property, Plant & Equipment, Investment Properties, and Pension Fund assets are appropriate.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired, or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing

the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as the Council's Deputy Chief Executive and City Treasurer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council and Group involving:
 - o management and those charged with governance;
 - o employees who have significant roles in internal control; and
 - o others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council and Group's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

Covid-19

I confirm that I have carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Council will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

Unadjusted misstatements

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in Appendix A.

Yours faithfully

Carol Culley
Deputy Chief Executive and City Treasurer

Appendix A
Schedule of unadjusted misstatements