

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 27 July 2021
Subject: Annual Accounts 2020/21
Report of: Deputy Chief Executive and City Treasurer

Summary

To report the 2020/21 Annual Accounts, which have been signed by the Deputy Chief Executive and City Treasurer, to the Committee.

Recommendations

To note the unaudited 2020/21 Annual Account, signed by the Deputy Chief Executive and City Treasurer, including the narrative report.

Wards Affected: All

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to four years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

Working papers – consolidation of 2020/21 accounts files

Report of the Deputy Chief Executive and City Treasurer to Audit Committee 16
March 2021 – Accounting Concepts and Policies, Critical Accounting Judgements
and Key Sources of Estimation Uncertainty

1.0 Introduction

1.1 This report sets out the process of approval for the annual accounts.

2.0 Background

2.1 The Accounts and Audit (Coronavirus) (Amendment) Regulations issued by the Ministry for Housing, Communities and Local Government set out the requirements for the production and publication of the Annual Statement of Accounts for 2020/21. These amend the 2015 regulations.

2.2 The accounts are not required to be approved by a Committee of the Council prior to their submission to the external auditors, however it is considered good practice that the Audit Committee should have the opportunity to review the unaudited accounts. The requirement for 2020/21 is that before the first working day of August 2021, the accounts are certified by the Section 151 Officer (for the Council this is the Deputy Chief Executive and City Treasurer) as providing a true and fair view of the financial position of the Council as at 31 March 2021 and its income and expenditure for the year ended 31 March 2021. In previous years this was required by 31 May. The Government has accepted the recommendation of the Independent Review of Local Authority Financial Reporting and Audit (the Redmond Review) for the audit deadline to be extended for local authority accounts for 2020/21 and 2021/22. The deadline for the publication of the audited accounts has again also been extended from 31 July to 30 September for the 2020/21 accounts.

2.3 The audited accounts together with the external audit report will be considered at an Audit Committee before the deadline for publication of the accounts.

3.0 Presentation of the Annual Accounts

3.1 The Annual Accounts are structured into a number of sections:

- The ***Narrative Report*** which sets out the background to the financial year including a summary of the Council's revenue and capital outturn position.
- The ***Statement of Responsibilities for the Annual Statement of Accounts*** which details the responsibilities of the Deputy Chief Executive and City Treasurer and Section 151 Officer.
- The ***Comprehensive Income and Expenditure Statement (CIES)*** shows the accounting cost of the Council's activities rather than the amount to be funded from Council Tax. The analysis of the CIES is now by Council Directorate rather than by the standard service classification previously required by the Service Reporting Code of Practice (SERCOP).
- The ***Movement in Reserves Statement (MIRS)*** which explains the movement in the Council's usable and unusable reserves during the year.

- The **Balance Sheet** which shows the total assets, liabilities and reserves of the Council at the end of the financial year (31 March).
 - The **Cash Flow Statement** which shows the reasons for the change in cash and cash equivalents during the year.
- 3.2 Each statement is preceded by a note explaining its purpose and followed by notes explaining the statements.
- 3.3 The main statements and notes are followed by three further sections:
- The **Housing Revenue Account (HRA)** reports on the Council's costs of owning and maintaining properties which are let to tenants and associated income, predominantly from renting Council houses to tenants. These costs and income are also shown within the main statements.
 - The **Collection Fund Account** reports on the collection of local taxes and their distribution to the Council and the preceptors, (Greater Manchester Combined Authority for the Police and Crime Commissioner and Mayoral and Fire and Rescue elements).
 - The **Group Accounts** shows the full extent of the Council's economic activities by reflecting the full extent of the Council's involvement with its material group companies and organisations. These are Destination Manchester Ltd and the Council's share of Manchester Airport Holdings Ltd (35.5%).
- 3.4 Each of the statements is supported by explanatory notes to the accounts.
- 3.5 The **Annual Governance Statement**, giving a summary of the Council's review of the effectiveness of its overall governance arrangements including its system of internal control, accompanies the accounts.
- 3.6 The presentation of the accounts is governed by the accounting policies that the Council is required to follow. There are no changes in accounting policies for 2020/21. Further information relating to accounting policies used by the Council are shown in Note 7 - Accounting Policies and Concepts. These were previously reported to the Audit Committee on 16 March 2021.
- 3.7 Valuations have again been commissioned for the land and buildings assets of Manchester Airports Holdings Ltd and Destination Manchester Ltd and these have been used to produce the 2020/21 Group Accounts. The accounting policies of companies within the group are therefore on the same basis as the Council as required by the Code of Practice on Local Authority Accounting.
- 4.0 Effect of COVID-19 on the Annual Accounts.**
- 4.1 The challenges associated with COVID-19 have had a significant effect on the Council's financial activities and position at the end of 2020/21 and continuing

into 2021/22. As a result, additional disclosures have been included in the 2020/21 annual accounts and reported as outlined in both the reserves and collection fund position. These also include the underlying assumptions surrounding going concern, (note 7.1.1) particularly relating to the Council's group entities.

- 4.2 Additional allowance for impairment of debt, particularly in relation to council tax and business rates, has been provided in 2020/21. This has been increased based on the experience of the reductions in collection 2020/21 and for the early months of 2021/22.

5.0 Other Key Issues in the Annual Accounts.

- 5.1 The original budget for 2020/21 assumed a transfer to general reserves of £1.597m. The general fund revenue outturn resulted in an underspend across all budgets, of £3.854m, with the total transfer to general reserves being £5.451m. The general fund reserve, after this transfer, stands at £26.803m. It is considered that this is a reasonable level of general reserves for the Council at this time given the level of risks the Council is facing.

- 5.2 The Housing Revenue Account (HRA) underspent by £20.323m. This mainly relates to reduced revenue contributions to fund capital expenditure for several capital schemes planned across 2021/22 and lower Private Finance Initiative (PFI) payments due to the planned installation of sprinklers at both Miles Platting and Brunswick now expected in 2022/23.

- 5.3 The Council spent £335.7m on capital related projects in 2020/21 compared to the revised budget of £373.3m with the majority of unused budget being re-profiled into future years.

- 5.4 The Council's Revenue and Capital Outturn reports give further details and were considered by the Executive on 2 June 2021.

- 5.5 As a result of the revised statutory deadlines, the requirement for the public inspection period to include the first 10 working days of June has been removed. Instead, local authorities must start the public inspection period on or before the first working day of August 2021. This means that accounts must be confirmed by the responsible finance officer (RFO) and be published by 31 July 2021 at the latest.

- 5.6 During this period of public inspection the external auditor must give electors or any representative of an elector an opportunity to question them about the accounting records of the Council.

6.0 Summary of the Annual Accounts

- 6.1 The underspend on the Council's General Fund Account (£3.854m). and the underspend on the Housing Revenue Account (HRA) (£20.323m) total £5.575m underspend. The HRA is fully ringfenced and cannot be used to support the General Fund position. This is the position before notional

accounting adjustments. The Consolidated Income and Expenditure Statement (CIES) shows an accounting surplus of £140.089m. The difference of £134.514m is as a result of the notional accounting adjustments predominately relating to capital transactions and pension related costs plus transfers to reserves not shown within the CIES. The CIES is prepared in accordance with International Financial Reporting Standards (IFRS) which seeks to present the figures on a consistent basis across all of the organisations to which they apply.

- 6.2 The Balance Sheet, which summarises the value of the assets and liabilities of the Council, shows an overall decrease in net worth of £157.152m as at 31 March 2021 when compared to the previous year end. This is due to an increase in usable reserves of £216.837m and a decrease in unusable reserves of £373.999m.
- 6.3 The £216.837m increase in usable reserves relates to timing differences between government funding being received to support COVID-19 losses and pressures, and the budget impact of such losses. The most significant are as follows:
- The Business Rates section 31 grant reserve new in 2020/21 is reported as increased by £167.690m m which reflects additional Section 31 grant to fund the extended retail relief award of £150.491m offset by reduced Section 31 grants and other movements totalling £2.018m, mainly from the Multiplier Cap, and Taxation Income Support grant of £19.219m.
 - £19.901m of the increase relates to COVID-19 related grants which have been carried forward in line with grant conditions to fund eligible spend in 2021/22.
 - £22.957m relates to grants to support businesses impacted by COVID-19 restrictions. This was spent by the end of June 21.
 - Revenue reserves supporting capital schemes have increased by £18.346m due to the re-profiling of the capital programme and use of short-term borrowing during the financial year.
- 6.4 The £216.837m decrease in unusable reserves mainly relates to:
- £370.5m increase in pensions reserve due to the first year of the pension pre-payment
 - £192.802m decrease in Collection Fund Adjustment Account which reflects the Business Rates Deficit of £178.017m. This is a result of awarding £142.741m extended retail relief (which will be offset by government grant) and reduced collection due to the impact of COVID-19.
 - £101.366m increase in Capital Adjustment Account, which includes timing differences arising from financing the acquisition, construction or enhancement of assets and accounting for their consumption
 - £94.467m increase in Revaluation reserve, mainly linked to property, plant and equipment revaluations.

- 6.5 The Collection Fund contains a closing Council Tax Surplus of £1.187m, of which the Council's share is £0.975m the remainder being due to the Greater Manchester Combined Authority for the Police and Fire elements. This is an overall increase of £4.170m when compared to the estimate of the deficit made in January 2021 of £2.985m (Council share £2.482m). This is due to an increased number of properties and a reduced number of student discounts from the position assumed when the deficit was declared. In addition, the bad debt provision has been increased to reflect the reduced collection in 2020/21 and ongoing as a result of the pandemic. The Council's share of the increased surplus is taken into account when setting the 2022/23 budget.
- 6.6 The 2021/22 budget contains the estimated share of the 2020/21 Business Rates deficit, as calculated in January 2021 which totalled £181.108m with the Council's share being £180.932m. The final Business Rates deficit in the Collection Fund as at 31 March 2021 is £179.815m (Council share £178.017m), a reduction of £1.293m. This is mainly due to a reduction in the provision for appeals based on information on outstanding appeals received from the Valuation Office Agency and increased bad-debt provision. Large number of businesses received full relief from business rates in 2020/21, due to the pandemic. The Council was reimbursed for this income loss through a section 31 grant received in 2020/21, totalling £154m. Due to the accounting rules for collection fund the associated deficit is recognised in 2021/22, therefore the grant will be carried forwards in reserve to offset.
- 6.7 In 2020/21 under new regulation if a billing authority is estimating a Business Rates net deficit position, after adjusting for additional extended retail relief award, this must be spread equally over 3 years (from 2021/22 to 2023/24). This deficit is based on that estimated in January and is fixed and unable to be changed when the outturn figures became available. The net deficit determined as spreadable was £41.454m (Council share £41.039m).
- 6.8 In addition, Government announced the 75% Taxation Income Guarantee (TIG) scheme in the provisional settlement, which primarily seeks to fund 75% of losses in collection for both Council Tax and Business Rates by comparing budgeted collection with actual collection. In 2020/21 £19.219m is due for Business Rates, there is no TIG due to the Council for Council Tax.

7.0 Timeline of the Annual Accounts Process

- 7.1 The timeline for the completion and audit of the 2020/21 annual accounts is as follows:
- Submission of unaudited annual accounts to Audit Committee – 27 July 2021
 - Handover of annual accounts to External Auditors and publication on the website before 1 August 2021
 - Submission of annual accounts, including amendments agreed during the external audit, to Audit Committee – after the publication deadline of 30 September

- Issue of audit opinion by the Council's external auditors, Mazars – after 30 September 2021

8.0 Recommendations

8.1 The recommendations appear at the front of this report.