

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 27 September 2022
Subject: Draft Annual Accounts 2021/22
Report of: Deputy Chief Executive and City Treasurer

Summary

To report the 2021/22 Annual Accounts, which have been signed by the Deputy Chief Executive and City Treasurer, to the Committee.

Recommendations

To note the unaudited 2021/22 Annual Accounts including the narrative report, signed by the Deputy Chief Executive and City Treasurer.

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 2021/22 accounts

Report of the Deputy Chief Executive and City Treasurer to Audit Committee 12 April
2022 – Accounting Concepts and Policies, Critical Accounting Judgements and Key
Sources of Estimation Uncertainty

1 Introduction

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

2. 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 2021/22. 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 2021/22 is that before the first working day of August 2022, 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 2022 and its income and expenditure for the year ended 31 March 2022. This deadline has been extended from 31 May following an Independent Review of Local Authority Financial Reporting and Audit (the Redmond Review).
- 2.3. Unfortunately, due to the late receipt of information from external experts plus the effects of the delay in the finalisation of the audit of the 2020/21 annual accounts it has not been possible to achieve this revised deadline.
- 2.4. The deadline for the publication of the 2021/22 audited accounts is 30 September 2022. Due to late completion of the draft accounts, it has been agreed with the External Auditors that the audit will commence in early October with the aim of completion in January.
- 2.5. The audited accounts together with the external audit report will be reported to Audit Committee following completion of the audit.
- 2.6. At the time of writing this report the national issue relating to the value of highways infrastructure remains unresolved. Upon resolution this is likely to lead to amendment of the annual accounts.

3. 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 by Council Directorate as in the regular revenue monitoring reports to Executive.
 - 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 2021/22. 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 12 April 2022.
- 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 2021/22 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. Key Issues in the Annual Accounts

- 4.1. The budget for 2021/22 assumed a transfer from general reserves of £1.470m to fund carry forwards approved in 2020/21. The general fund revenue outturn resulted in an underspend across all budgets, of £1.164m, with the total transfer from general reserves being £306k. The general fund reserve, after this transfer, stands at £26.497m. 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.
- 4.2. The Housing Revenue Account (HRA) underspent by £11.415m. This is mainly due to a revised delivery timescales for the capital programme and lower Private Finance Initiative (PFI) payments. This has increased the level of reserves in the HRA.
- 4.3. The Council spent £293.2m on capital related projects in 2021/22 compared to the budget of £458.3m. The majority of unused budget being re-profiled into future years.
- 4.4. The Council's Revenue and Capital Outturn reports give further details. The Revenue Outturn report was considered by Executive on 1 June 2022 and the Capital Outturn report on 29 June 2022. The relationship between the revenue and capital outturn position and the accounts is set out below.
- 4.5. The accounts are required to be available for public inspection for 30 working days. The inspection period will be advertised on the Council's website. 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.

5. Summary of the Annual Accounts

- 5.1. The underspend on the Council's General Fund Account (£1.164m) and the underspend on the Housing Revenue Account (HRA) (£11.416m) combine to give a total underspend of £12.580m. The outturn figures include transfers to and from usable reserve. The HRA is fully ringfenced and cannot be used to support the General Fund position. This is the position before the notional accounting adjustments are applied.
- 5.2. The Consolidated Income and Expenditure Statement (CIES) shows an accounting deficit of £58.670m. The difference of £71.250m is as a result of the notional accounting adjustments predominately relating to capital transactions and pension related costs. In addition, transfers to and from usable reserves are not shown in the CIES and are reflected in the MIRS. 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.
- 5.3. The below shows the difference between the outturn and that reflected in the CIES.

	General Fund £m	HRA £m	Total £m
Over / (Under)spend	(1.164)	(11.416)	(12.580)
Budgeted transfer (to) / from general reserves	1.470	16.494	17.964
Net transfer (to) / from general reserves	0.306	5.078	5.384
Transfers (to) / from earmarked reserves	77.043	0	77.043
Other income and expenditure classification	40.926	(40.926)	0
Notional accounting adjustments	(52.209)	28.452	(23.757)
Deficit / (Surplus) per CIES	66.066	(7.396)	58.670

- 5.4. The Balance Sheet, which summarises the value of the assets and liabilities of the Council, shows an overall increase in net worth of £871.969m as at 31 March 2022 when compared to the previous year end. This is due to a decrease in usable reserves of £75.439m and an increase in unusable reserves of £947.408m.
- 5.5. Usable reserves have decreased by £75.439m. The most significant are as follows:
- £67.6m decrease due to the use of COVID-19 government funding. The remaining grants of £124.4m will be applied in 2022/23 and are not available to support other council spending.

- £9.2m reduction in reserves held for economic growth and public sector reform, relating to planned use of Children's Social Care reserve, Our Manchester reserve and the Town Hall reserve.
- £13.5m decrease in Business Rates reserve due to planned withdrawals to support the budget and the timing of grant receipts and spend.
- £7m Increase in reserves held for capital purposes
- £9.8m increase in reserves to smooth risk, this mainly relates to the smoothing reserve which will support the budget as part of the next Medium Term Financial Strategy.

- 5.6. The £947.408m increase in unusable reserves mainly relates to:
- £527.7m increase in pensions reserve due to revised actuarial assumptions.
 - £113.2m increase in Collection Fund Adjustment Account which reflects the reduction in the Business Rates Deficit. The deficit is a result of timing differences between awarding expanded retail and nursery relief and the receipt of government grants to fund these reliefs.
 - £63.9m increase in Capital Adjustment Account, which includes timing differences arising from financing the acquisition, construction or enhancement of assets and accounting for their consumption
 - £239.2m increase in Revaluation reserve, relating to property, plant and equipment revaluations.
- 5.7. The Collection Fund contains a closing Council Tax Surplus of £12.924m, (Council's share £10.697m the remainder being due to the Greater Manchester Combined Authority for the Police and Fire elements). This is an overall increase of £0.952m (Council share £0.783m) when compared to the estimate of the surplus made in January 2021 of £11.972m. The Council's share of the increased surplus is taken into account in future years budgets.
- 5.8. This increase in surplus is due to a further increase in the number of properties and a reduced number of student discounts from the position assumed when the surplus was declared.
- 5.9. The Collection Fund contains a closing Business Rates Deficit of £75.293m, (Council's share £74.540m the remainder being due to the Greater Manchester Combined Authority for the Fire element). This is an overall decrease in deficit of £9.445m (Council share £9.351m) when compared to the estimate of the made in January 2021 of £84.738m. The Council's share of the reduced deficit is taken into account when setting future years budgets.
- 5.10. The deficit is a result of a large number of businesses receiving relief due to the pandemic totalling £75.293m. The Council was reimbursed for this income loss through a section 31 grant received in 2021/22. Due to the accounting rules for collection fund the associated deficit is recognised in future years, therefore the grant has been carried forward in reserves to offset this.

5.11. This improvement in deficit is mainly due to a reduction in the provision for appeals based on information on outstanding appeals received from the Valuation Office Agency and reduced allowance for non-payment.

6. Timeline of the Annual Accounts Process

6.1. The timeline for the completion and audit of the 2021/22 annual accounts is as follows:

- Submission of unaudited annual accounts to Audit Committee – 27 September 2022
- Handover of annual accounts to External Auditors and publication on the website before 30 September 2022
- Submission of annual accounts, including amendments agreed during the external audit, to Audit Committee – after 31 December 2022
- Issue of audit opinion by the Council's external auditors, Mazars – after 31 December 2022

7. Recommendations

7.1. The recommendations appear at the front of this report.