

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 25 July 2023

Subject: Final Statement of Annual Accounts 2020/21

Report of: Deputy Chief Executive and City Treasurer

Summary

To provide an update to Members of the final 2020/21 accounts containing the amendments detailed in the report. These accounts are updated from those reported to the 26 July 2022 Committee and take account of any changes that have arisen since that time, including the national accounting changes to the reporting of infrastructure assets that have delayed the final audit of the accounts, and affected all Councils.

Recommendations

The Committee is asked to –

- Note the amendments made to the annual accounts since they were reported to the Audit Committee in July 2021 and July 2022 as included at Appendix 1.
 - Agree to not amend the annual accounts in relation to the issue detailed at 3.1
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Wards Affected: All

Contact Officers:

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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 working papers
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
Report to Audit Committee 27 July 2021 – Draft Annual Accounts 2020/21
Report of External Auditors, Mazars to Audit Committee 26 July 2022

Draft Audit Completion Report 2020/21
Report to Audit Committee 26 July 2022 – Revised Draft Annual Accounts 2020/21

1. Introduction and Background

- 1.1. The Committee will recall that the draft Annual Accounts were reported to Audit Committee on 27 July 2021 following their approval by the Deputy Chief Executive and City Treasurer. An updated version was presented to July 2022 audit committee reflecting the audit amendments and adjustments to that date.
- 1.2. Following that meeting, and just prior to final sign off, concerns were subsequently raised by a local government auditor, that some authorities were not applying component accounting requirements appropriately for transport infrastructure assets. This exposed a discrepancy in the way local authorities valued all of their highways network assets compared to how it was stipulated in the Accounting Code of Practice. Resolving this matter has been an area of urgent focus for CIPFA, DHLUC, PSAA and all local audit firms. The issue raised is in relation to the derecognition (removal of the undepreciated balance) of parts of infrastructure assets when replacement expenditure is undertaken. This may have the impact of overstating the value of highway and infrastructure assets in the accounts. There are also related issues for the reporting of gross historical cost and accumulated depreciation.
- 1.3. Infrastructure assets are one of the few categories of property, plant and equipment assets that are measured at historical cost rather than at an asset measurement described as 'current value'.
- 1.4. The valuation process for these assets was deemed to be too costly, and therefore infrastructure assets are held in local authority balance sheets at depreciated historical cost. Normal custom and practice for (highways) infrastructure assets is that derecognition does not affect asset balances because the assets are expected to have been fully used up before the replacement expenditure takes place; this does require that assets are properly depreciated in line with the requirements of the Accounting Code.
- 1.5. This issue arises in part because of limitations on historical information relating to when the assets were first recorded on balance sheets in the early 1990s, and where there have been transfers of assets because of local authority reorganisations. It is also extremely difficult to clearly identify the parts of the assets which are being replaced.
- 1.6. CIPFA established a Task and Finish Group to address this issue regarding the derecognition of parts of infrastructure assets following 'replacement' expenditure; recognising that this is a complex and serious issue. This was subject to consultation in which Manchester participated.
- 1.7. CIPFA then took the unusual step of issuing draft guidance for this issue in the draft bulletin:

[Draft Bulletin 12 Accounting for Infrastructure Assets \(PDF\)](#)

The Manchester City Council accounts have been amended fully in line with the guidance and audited against this.

- 1.8. Further to this, a temporary resolution was reached in December 2022 with the introduction of a statutory override which applied to the Accounts for 2021/22 and the accounting periods to 31 March 2025. The Council's 2020/21 financial statements were updated to incorporate the relevant changes and the External Auditor was able to complete this element of the audit. The accounts have been prepared to comply with the requirements of the statutory override.
- 1.9. This report summarises the amendments that have been made since the revised draft accounts were presented in July 2022. Further details can also be found in the Mazars Audit completion report elsewhere on this agenda, which summarises all changes made since the publication of the draft accounts on 31 May 2021.
- 1.10. There have been no changes to the Annual Governance Statement from that reported to Members in July 2022.
- 1.11. As the Mazars audit completion report to be presented also includes details of the accounts changes previously approved at the July 2022 Committee a summary of these, as previously presented are attached at Appendix 1.

2. Summary of the amended accounts including changes to the Main Accounting Statements since the July 2022 updated accounts

- 2.1. A summary of the changes to the accounts subsequent to the position approved in July 2022 is attached at Appendix 2. Further details of the key changes are added below:
- 2.2. There have been no changes to the draft accounts that effect the usable reserves of the Council, and therefore its underlying resource position has not changed. There has been no change to the single entity Comprehensive Income and Expenditure Statement (CIES) previously reported. The only change to the single entity balance sheet is the revised presentation of infrastructure assets as set out below
- 2.3. Regarding the national infrastructure assets issue, the CIPFA Guidance has resulted in the revised policy and an amendment to the presentation as a separate note rather than being included in the PPE notes. This change has been reflected on both the single entity and group balance sheets and associated notes. The total value of infrastructure presented separately being £538.992m.
- 2.4. There has been no change to the values of infrastructure assets previously reported as the revised calculation resulted in a non-material change.
- 2.5. The Group accounts CIES and Balance sheet have been amended by £19.533m, this solely relates to change in de-recognising the Council's share

of the holding in Manchester Airport Car Parks Limited (MACPL). This increased the Group share of other comprehensive income and expenditure by £19.533m. This is then reflected as an equal change on the balance sheet (long-term investment in MAG and the Group reserve).

- 2.6. This re-statement reflects the de-recognition of the specific consolidation for MACPL. The total value of assets being £55m and the original consolidation value being £19m (35.5%). This was fully removed as the Council only own a 10% share of this asset and therefore should not be consolidated.
- 2.7. There have been amendments to both the Single entity and Group accounts cashflow statement and supporting notes. This reflects a revised presentation following the adoption of the CIPFA cashflow toolkit as set out at Appendix 2.
- 2.8. There have been some further changes relating to presentational issues, the leasing notes and other corrections; all of which are detailed in Appendix 2.

3. Unadjusted errors

- 3.1. This only relates to the following issues. An additional review was completed of the value of the Manchester Airport terminal assets following the receipt of additional information. This calculation was re-worked from 2016/17 annually to the 2020/21 accounts. The total cumulative adjustment gross to the Group CIES being £9.9m and net £835k; it was therefore recommended and agreed to not reflect this change as it was immaterial.

4. Next Steps

- 4.1. The revised audited Annual Accounts for 2020/21 are appended to this report for approval.
- 4.2. The accessibility version of the accounts will be published following the provision of the external audit completion certificate; when finalised.

5. Recommendations

- 5.1. The recommendations are listed at the front of this report.