

Manchester City Council Report for Resolution

Report to: Audit Committee – 25 July 2023
Subject: Draft Annual Accounts 2022/23
Report of: Deputy Chief Executive and City Treasurer

Summary

To present the 2022/23 Draft Annual Accounts, which have been signed by the Deputy Chief Executive and City Treasurer, to the Audit Committee. The report provides information on the structure of the accounts, highlights key issues and provides a summary of the key accounting statements.

The accounts will be made available for public inspection from 1st August 2023.

Recommendations

To note the unaudited 2022/23 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 2022/23 accounts

Report of the Deputy Chief Executive and City Treasurer to Audit Committee 14 March 2023– Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Report of the Deputy Chief Executive and City Treasurer to Audit Committee 13 June 2023– Update on Progress on the Audit of the Final Accounts for 2020/21 and 2021/22 and finalising the Draft Accounts for 2022/23

1 Introduction

- 1.1. This report sets out the process of approval for the draft annual accounts for the 2022/23 financial year. The Council is required to prepare a Statement of Accounts each financial year. The accounts are prepared in accordance with statutory accounting practices, which since 2010/11, have been based on International Financial Reporting Standards (IFRS). This is in common with much of the private sector and is designed to allow standardisation of financial information to allow for easy comparison across entities.
- 1.2. It is considered good practice that the Audit Committee should have the opportunity to review the unaudited accounts prior to their publication and submission to the external auditors. The statutory requirement for 2022/23 is that before the first working day of June 2023, 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 2023 and its income and expenditure for the year ended 31 March 2023.
- 1.3. This deadline was extended to 31 July for the previous two years under the Accounts and Audit (Coronavirus) (Amendment) Regulations issued by the government which set out the requirements for the production and publication of the Annual Statement of Accounts for 2020/21 and 2021/22. These amended the 2015 regulations. The government made the decision to revert to the earlier May deadline for 2022/23 accounts, despite a number of well documented national issues associated with delayed audit sign off and technical accounting matters around highways infrastructure and the timing of pension valuations.
- 1.4. The Accounts were not completed by the statutory deadline of 31 May 2023. This is due to a combination of issues, including the impact of the backlog of accounts issues from previous years; on-going live audits of the 2020/21 and 2021/22 accounts; the time required to finalise these; limited capacity within the corporate finance team partly as a result of managing multiple financial years of accounts; the challenges with obtaining all of the new valuations information now required and the later timescales that Manchester Airport Group (MAG) work to for their accounts it was not possible to complete the consolidated draft accounts for the 31 May deadline.
- 1.5. The statutory deadline for the publication of the 2022/23 audited accounts is 30 September 2023. Due to the backlogs of previous years accounts, it has been agreed with the External Auditors that the audit will commence in early October with the aim of completion in early 2024. The audited accounts together with the external audit report will be reported to Audit Committee following completion of the audit, before March 2024.
- 1.6. The delays to finalising the audit of prior year accounts are in the context of several challenges facing the local authority financial reporting and local audit system. The broad causes of the delays are well known and were set out in a report to this Committee on 13 June 2023.

- 1.7. The Public Accounts Committee report on their inquiry into the [timeliness of local auditor reporting](#) was published 12 June 2023 and noted the following:
- Only 9% of local authorities published audited 2020/21 accounts by the statutory deadline, itself extended due to the impact of the COVID-19 pandemic. This continued a trend of decline from 87% for 2017/18, 57% for 2018–19 and 45% in 2019/20.
 - Just 12% of Local audit opinions were received in time for the extended deadline for publishing the 2021/22 accounts. Over 400 local government bodies missed the deadline bringing the backlog of unpublished accounts nationally up to 632.
 - The report noted that Local Government accounts are increasingly complex due to the need to meet accounting financial reporting standards while also reflecting how local government finance works.
 - Many of the accounting and audit requirements are resource intensive, particularly around valuations of operational assets and pension assets and liabilities.
 - In these instances, some accounting practitioners and auditors believe more often than not the numbers in the accounts have little to no impact on day-to-day decision making.
 - DHLUC is asked to set out how it will work with HM Treasury, the Financial Reporting Council (FRC) and others to agree permanent and proportionate measures to address the most complex parts of local bodies' accounts and the subsequent audit of them.
 - The latest position, quoted by [DLUHC in their letter dated 14 July 2023 to the Committee Chair of Levelling up, Housing and Communities](#), states approximately 27% of 2021/22 accounts await local audit completion, with the combined total of outstanding local audits, dating back to 2015/16, now totalling nearly 520. The letter goes on to state “This is clearly unacceptable. There is consensus across the system that there is now no alternative but to take collective action to resolve the backlog. Restoring timely audit and financial reporting will improve local accountability, strengthen the government’s ability to identify warning signs of potential failure in local bodies and provide assurance to local residents about financial management and governance.”
- 1.8. It is disappointing that in the context of these delays the decision was made to return to the deadlines of 31 May 2023 for the production of draft 2022/23 accounts and 30 September 2023 for the completion of the audit process.
- 1.9. Finally, it is difficult for the S151 officer to sign off with confidence that the accounts represent a true and fair view when the audit of the previous year’s accounts is not complete.

2. Presentation of the Annual Accounts

- 2.1. 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 and relates these to the financial statements as presented in the accounts.
- 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.

2.2. Each statement is preceded by a note explaining its purpose and followed by notes explaining the statements.

2.3. 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 Limited and the Council's share of Manchester Airport Holdings Ltd (35.5%).

2.4. Each of the statements is supported by explanatory notes to the accounts.

2.5. 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.

- 2.6. 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 2022/23. Further information relating to accounting policies used by the Council are shown in Note 5 - Accounting Policies and Concepts. These were previously reported to the Audit Committee on 14 March 2023.
- 2.7. Valuations have 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 2022/23 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.

3. Key Issues in the Annual Accounts

- 3.1. The budget for 2022/23 assumed a transfer from general reserves of £2.973m to support the budget plus £400k to fund carry forwards approved in 2021/22. The 2022/23 revenue outturn position was an overspend of £4.543m, which brought the total transfer from general reserve to £7.916m. As planned throughout 2022/23 the surplus balance in the budget smoothing reserve was used to support the pressures and a transfer of £7.266m enacted. The general fund reserve, after this transfer, stands at £25.847m as at 31 March 2023. 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.
- 3.2. The Housing Revenue Account (HRA) underspent by £2.895m. This is mainly due to a revised delivery timescales for the capital programme partly offset by increased repairs and maintenance costs.
- 3.3. The Council spent £403.611m on capital related projects in 2022/23 compared to the budget of £579.365m. The majority of unused budget has been re-profiled into future years.
- 3.4. The Council's Revenue and Capital Outturn reports give further details. The Revenue Outturn report was considered by Executive on 31 May 2023 and the Capital Outturn report on 28 June 2023. The relationship between the revenue and capital outturn position and the accounts is set out below.
- 3.5. The accounts are required to be available for public inspection for 30 working days. It is proposed that the draft accounts are made available on 1 August 2023. 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.

4. Summary of the Annual Accounts

- 4.1. The Executive considered the Council's outturn report on 31 May 2023, which reported an overspend on the Council's General Fund Account (£4.543m) and an underspend on the Housing Revenue Account (HRA) (£2.895m), which combine to give a total overspend of £1.648m. The outturn figures include

transfers to and from usable reserves. The HRA is fully ringfenced and cannot be used to support the General Fund position and vice versa. This is the position as reported to the Executive against the approved budget at outturn and is before the IFRS accounting adjustments are applied in the production of the annual statement of accounts.

Comprehensive Income and Expenditure Statement (CIES),

- 4.2. The CIES is prepared adherence to IFRS and the CIPFA Accounting Code of Practice and shows an accounting deficit of £130.4m for the 2022/23 financial year, reflecting the true economic cost, valued in accordance with the proper accounting practices. The true economic cost is different from the reported outturn overspend of £1.6m, as it includes net expenditure that is not chargeable to local taxation and rents. To maintain a balanced budget the reported overspend is met from a transfer from reserves, along with a £16.2m budgeted transfer, totalling £17.8m and is included in the table below.
- 4.3. The remaining difference between Net Transfer from Reserves and CIES (deficit on services) is £112.6m and is a result of the notional IFRS accounting adjustments. These adjustments predominately relate to capital transactions, such as depreciation, non-current asset revaluation and impairment, gains or loss on investments; and pension related costs. These are based on estimated valuations provided by professional third parties, including property valuers and financial actuaries. In addition, transfers to and from usable reserves are not shown in the CIES and are reflected in the MIRS.
- 4.4. The table below shows the difference between the outturn and that reflected in the CIES.

	General Fund £m	Housing Revenue Account £m	Total £m
Over / (Under)spend	4.5	(2.9)	1.6
Budgeted transfer (to) / from general reserves	3.0	13.2	16.2
Net transfer (to) / from general reserves	7.5	10.3	17.8
Transfers (to) / from earmarked reserves	130.0	0.0	130.0
Other income and expenditure classification	(2.5)	2.5	0.0
Notional accounting adjustments	(9.1)	(8.3)	(17.4)
Deficit / (Surplus) per CIES	125.9	4.5	130.4

Balance Sheet

- 4.5. The Balance Sheet, which summarises the value of the assets and liabilities of the Council, shows an overall increase in net worth of £1,035.2m as at 31 March 2023 when compared to the previous year end. This is due an increase

in unusable reserves of £1,151.6m partly offset by a decrease in usable reserves of £116.4m as set out in the table below:

Unusable Reserves	31-Mar 2022 £m	31-Mar 2023 £m	Movement £m
Revaluation Reserve	(1,626.9)	(1,697.5)	(70.5)
Financial Instruments Revaluation Reserve	(13.4)	(13.5)	(0.2)
Pensions Reserve	583.8	(372.2)	(956.0)
Capital Adjustment Account	(1,441.7)	(1,464.7)	(23.0)
Deferred Capital Receipts Reserve	(4.3)	(5.2)	(0.9)
Financial Instruments Adjustment Account	4.7	4.5	(0.2)
Collection Fund Adjustment Account	63.8	(34.9)	(98.6)
Short-term Accumulated Absences Account	6.6	5.7	(0.9)
Dedicated Schools Grant Reserve	2.7	1.4	(1.3)
	(2,424.7)	(3,576.3)	(1,151.6)

4.6. Unusable reserves reflect the balance of accounting adjustments and cannot be used to fund services. The total increase in unusable reserves of £1,151.6m and details of the key movements are set out below:

- £70.5m increase in the revaluation reserve from the revaluations of non-current assets, mainly in relation to council dwellings and other land and buildings;
- £23.0m increase in the capital adjustment account. This includes the costs of depreciation and impairment losses in addition to amounts set aside to finance capital expenditure including grants, contributions and capital receipts;
- £956.0m increase in the pension reserve due to changes in the financial performance and the review of financial assumptions used to value the Pension Fund. The estimation depends on a number of complex judgements. In 2022/23 the actuarial valuation has seen a significant movement from a deficit to a surplus position. This is reflected in the change to unusable reserves.
- £98.6m reduction in the Collection Fund Adjustment Account mainly due to previous year adjustments on Business Rates relating to Government COVID funding.

Usable Reserves	31-Mar-22	31-Mar-23	Movement
	£m	£m	£m

Capital			
Reserves held for capital purposes including capital receipts and capital grants unapplied These cannot be applied to revenue spend and are earmarked to fund the approved capital programme.	201.0	232.4	31.4
Sub Total	201.0	232.4	31.4
Revenue			
Statutory reserves	22.6	24.1	1.5
Reserves held for PFIs to meet contracted future costs	2.2	1.9	(0.3)
Reserves held to smooth risk or for assurance	138.0	122.8	(15.2)
Business Rates Reserve	15.7	9.9	(5.8)
Revenue reserves held to support capital including the Capital Fund	135.6	149.1	13.5
Reserves held to encourage economic growth or for public sector reform	16.6	11.1	(5.5)
Small specific reserves	4.1	3.1	(1.0)
Grants and contributions held to meet expenditure commitments over more than one year	23.1	19.6	(3.5)
COVID-19 related Grants and contributions held to meet expenditure commitments over more than one year	124.4	7.3	(117.1)
Sub Total	482.4	349.1	(133.3)
Housing Revenue Account reserve	106.1	95.8	(10.3)
General Fund reserve	26.5	25.8	(0.7)
Schools' reserves (these belong to schools and are for their use only)	20.1	16.5	(3.6)
Total usable reserves	836.1	719.7	(116.4)
Amounts relating to the carry forward of COVID-19 related Funding	(124.4)	(7.3)	117.1
Total excluding COVID-19 carry forward	711.7	712.3	0.7

4.7. The decrease in usable reserves of £116.4m is mainly due to a £117.1m decrease due to the planned use of COVID-19 government funding. The remaining grant of £7.3m will be applied in 2023/24. Other significant movements are as follows:

- £31.3m increase in reserves held for capital purposes is in line with delivery of the planned capital programme and reflects capital receipts

received to be utilised in future years in line with the approved capital strategy

- £15.2m decrease in reserves to smooth risk, this mainly relates to the planned use of the airport dividend reserve. A balance of £4.2m remains, which will be applied over the next two years to support the budget.
- £10.3m reduction in HRA reserves
- £5.8m decrease in Business Rates reserve due to the timing of grant receipts and spend.

Collection Fund

- 4.8. The Collection Fund balance is made up of Council Tax and Business Rates funds.
- 4.9. The Council Tax Surplus was £0.509m, (Council's share £419k the remainder being due to the Greater Manchester Combined Authority for the Police and Fire elements). This is a reduction from a Council Tax opening surplus of £12.924m and is due to transfer of £14.790m relating to previous years surplus to the Council and preceptor's budget and an in-year surplus of £2.375m (Council share £1.960m). The in-year surplus decreased by £2.891m when compared to the estimate made in January 2023 of £5.267m (Council share of £4.335m), mainly due to backdated reliefs and discounts. The Council's share of the surplus is taken into account in future years budgets.
- 4.10. The in-year surplus is due to an increase in the number of properties and a reduced number of Council Tax Support claimants, partially offset by an increase in the number of student discounts applied, returning to pre-pandemic levels.
- 4.11. The Business Rates Surplus was £34.794m, (Council's share £34.447m the remainder being due to the Greater Manchester Combined Authority for the Fire element). This is an overall increase of £20.214m (Council share £20.012m) when compared to the estimate of the made in January 2023 of £14.580m, including previous year's position and deficit spread relating to 2020/21. The Council's share of the surplus is taken into account when setting future years budgets.
- 4.12. This surplus is a result of a release of the allowance for non-collection along with base growth, and reduced relief awards, particularly Retail, Hospitality and Leisure Relief (formerly Extended Retail Relief) due to ineligibility from the national cap of £110k per business and relief refusal; as this is fully funded this results in a reduction in Section 31 grant. This is offset by an increase in appeal provision which reflects the increase in appeals received by the VOA in March 2023 along with other appeal requirements such as interest on refunds provided post 1 April 2023.

Group Accounts

- 4.13. The Council is required to complete Group Accounts to show the full extent of the Council's economic activity, this reflects the consolidation of the Council's

involvement with its Group companies and organisations. This position is reviewed annually and only consolidated for the Council's material subsidiaries, associates and joint ventures.

- 4.14. In producing the group accounts the Council is required by the CIPFA Code of Practice on Local Authority Accounting to make consolidation adjustments to take account of any differences in accounting policies between the Council and its subsidiaries, associates and joint ventures so that the group accounts are prepared on a standard set of accounting policies.
- 4.15. Subsidiaries are defined as organisations that the Council controls by having power over the organisation, exposure or rights to variable returns from its investment and the ability to use its power over the organisation to affect the amount of the return. The subsidiary considered to be material is Destination Manchester Limited (DML).
- 4.16. Associates are defined as organisations where the Council has significant influence. Significant influence is defined as the power to participate in financial and operating policy decisions of the investee. The assumption is that a holding of more than twenty percent of the voting power of an investee would bring significant influence. The Council has no associates considered to be material.
- 4.17. Joint Ventures are defined as arrangements under which two or more parties have contractually agreed to share control such that decisions about activities that significantly affect returns require the unanimous consent of the parties sharing control and have the rights to the net assets of the arrangement. The joint venture considered to be material is Manchester Airports Holdings Limited (MAHL).

5. Timeline of the Annual Accounts Process

- 5.1. The timeline for the completion and audit of the 2022/23 annual accounts is as follows:
 - Submission of unaudited annual accounts to Audit Committee – 25 July 2023
 - Handover of unaudited annual accounts to External Auditors and publication on the website by 31 July 2023 for public inspection from 1 August 2023.
 - Submission of annual accounts, including amendments agreed during the external audit, to Audit Committee – after 31 December 2023
 - Issue of audit opinion by the Council's external auditors, Mazars – after 31 December 2023

6. Recommendations

- 6.1. The recommendations appear at the front of this report.