

**Manchester City Council  
Report for Recommendation**

**Report to:** Audit Committee – 19 September 2023

**Subject:** Final Annual Accounts 2021/22

**Report of:** The Deputy Chief Executive and City Treasurer

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**Summary**

To provide to the Committee with final 2021/22 accounts and explain the key audit adjustments to the draft. These accounts are updated from the draft accounts reported to the 27 September 2022 Committee and take account of the 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**

It is recommended that the Audit Committee:

- 1) Note the amendments made to the annual accounts since they were reported to the Audit Committee in September 2022
  - 2) Approve the revised annual accounts including the accounting policies contained within them
  - 3) Agree not to amend the annual accounts in relation to asset valuations as detailed in paragraphs 2.8, 2.11 and 2.12 and the amounts are not considered material
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**Wards Affected:** All

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| <b>Environmental Impact Assessment</b> - the impact of the issues addressed in this report on achieving the zero-carbon target for the city |
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| <b>Equality, Diversity and Inclusion</b> - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments |
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| Manchester Strategy outcomes  | Summary of how this report aligns to the OMS/Contribution to the Strategy |
|---|---|
| A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities |   |
| A highly skilled city: world class and home grown talent sustaining the city's economic success                   |   |
| A progressive and equitable city: making a positive contribution by unlocking the potential of our communities    |   |
| A liveable and low carbon city: a destination of choice to live, visit, work                                      |   |
| A connected city: world class infrastructure and connectivity to drive growth                                     |   |

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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 working papers

[Audit Committee report 12 April 2022 – Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty](#)

[Report to Audit Committee 27 September 2022 – Draft Annual Accounts 2021/22](#)

[Audit Committee Report 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](#)

Audit Committee 19 September 2023 - Report of External Auditors (Mazars)

## **1. Introduction and Background**

1.1. The draft Annual Accounts were reported to the Audit Committee on 27 September 2022 following their approval by the Deputy Chief Executive and City Treasurer. 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. This report is supported by the following Appendixes:

- Appendix 1 – Changes to the CIES and Balance Sheet
- Appendix 2 – Updated annual accounts 2021/22

1.2. A report was provided to this Committee on the 13 June 2023 which set out the reasons for the recent accounts delays in the context of a number of challenges facing the local authority financial reporting and local audit system.

1.3. In brief the 2020/21 audit was delayed due to a national issue on accounting for infrastructure assets, and complex accounting issues impacted the Council's group consolidation. These delays consequently impacted on the progress of the 2021/22 audit, which then included the need for the Council to consider the impact of the triennial pension fund valuation on its pension liabilities. An updated pension actuary report has now been provided and the revised figures are reflected in the accounts. The temporary resolution of the infrastructure issue and the revised accounting policies and presentation are now reflected in the final 2021/22 accounts.

## **2. Changes to the Single Entity Main Accounting Statements**

2.1. There have been no changes to the draft accounts that effect the usable reserves of the Council, and therefore its underlying resource position. However, there have been four changes to the main statements as follows:

- Pensions - Updated pensions actuary report (IAS 19)
- Pensions - Revised presentation of Northwards pension liability
- Asset Valuations – Infrastructure Assets
- Asset Valuation – Updated Property Plant and Equipment (PPE) valuation

2.2. Appendix 1 shows the effect on the CIES and balance sheet of the amendments agreed to date which result in a reduction in the net worth of the Council of £85.805m a decreased deficit on the provision of services of £25.837m and an increase in the total other comprehensive income and expenditure of £111.642m. The changes are explained in the following paragraphs.

### ***Pensions – Updated pensions actuary report (IAS 19)***

- 2.3. The pension values in the accounts are based on the valuations provided by the pension fund actuary. The actuary was commissioned by Tameside Metropolitan Borough Council (the Administering Authority) to carry out a valuation of the Greater Manchester Pension Fund as at 31 March 2022. The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement and meet all current and future pension obligations.
- 2.4. When the draft 2021/22 MCC accounts were reported the impact of the triennial valuation was not reflected as the results were not available at that time, as the process usually takes between 9-12 months. However, because the 2021/22 accounts have remained unaudited, it has been necessary to obtain an updated IAS19 report and reflect the results in the final 2021/22 accounts. In the final revised report, the value of the return on assets decreased. This amended the value reported in the Comprehensive income and expenditure statement (CIES) by £75.6m. This is fully matched by the change in the value of liability reported on the balance sheet which has increased from £465m to £540.6m and the negative pension unusable reserve value decreased by the same amount.

### ***Pensions - Revised presentation of Northwards Pension Liabilities***

- 2.5. Northwards Housing Ltd was an Arm's Length Management Organisation (ALMO) limited by guarantee, and therefore a subsidiary of the Council. Manchester City Council is the ultimate parent undertaking. The ALMO activities transferred back into the Council with effect from 5 July 2021, this included TUPE transfer for all staff, novation of existing contracts and the Council taking direct responsibility for delivery of activities previously undertaken by the ALMO.
- 2.6. The accounting treatment of the pension liabilities of £37.9m following the transfer of former Northwards staff back to the Council was shown in the draft 2021/22 accounts as within the CIES Net Cost of Services. During the audit it was agreed this should be within the 'total other comprehensive income and expenditure' part of the CIES. The updated accounts reflect this change.

### ***Asset Valuations – Infrastructure***

- 2.7. Regarding the national infrastructure assets issue, the CIPFA Guidance has resulted in a revised policy and an amendment to the presentation as a separate item on the balance sheet 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 is £552.732m.

- 2.8. There has been no change to the values of infrastructure assets previously reported as the revised calculation resulted in a non-material change of £5.7m. This includes the unadjusted misstatement reported in 2020/21 of £2.3m and the impact on 2021/22 of £3.4m.

### ***Asset Valuations - Property Plant and Equipment (PPE)***

#### *Adjusted miss-statements*

- 2.9. A sample of valuations for property, plant and equipment, investment properties and assets held for sale have been reviewed by the valuation expert employed at Mazars. This review included the challenge of assumptions used by the Council's internal and external valuers. This has resulted in assumptions being revisited and revised valuations being provided and adjusted for in the accounts if materially significant.
- 2.10. The impact on the accounts is one change to the value of PPE assets reported, a reduction in the original asset valuation for the land at Manchester National Football Museum of £10.206m.

#### *Unadjusted miss-statements*

- 2.11. Not all assets are valued every year, the Council has adopted a rolling revaluation model which sees all property, plant & equipment revalued in a five-year cycle. Indexation seeks to adjust the value of the assets on the balance sheet by the rate at which asset values have changed in the general market to provide a more up to date carrying value. Following work done by the Council and Mazars it was estimated that the carrying value of those assets which were not valued or subject to indexation was understated by £9.3m. There was also an increase in value of Sportcity where a revised valuation was obtained after the draft accounts were submitted but not processed in the fixed asset register as the change in value, of £1.3m, was immaterial.
- 2.12. In addition, the external audit valuation work determined that the revised value of the Football Museum was overstated by £4.2m, compared to the upper end of their expected valuation range. It is proposed not to adjust the 2021/22 final accounts for these three PPE valuation matters, which total £14.8m

### **3. Group Accounts**

- 3.1. The Group Accounts reflect the consolidation of Destination Manchester Limited (DML) which is a Group Subsidiary and Manchester Airport Holdings Limited (MAHL) which is a Joint Venture, of which the Council owns 35.5%.
- 3.2. All amendments in the single entity accounts have been reflected in the updated group accounts. The group accounts have been updated for the impact of changes agreed in 2020/21 and to reflect the 2021/22 audited DML accounts. In addition, disclosure notes to the group accounts have been

reviewed and notes which do not disclose material items have been removed in agreement with external audit to improve clarity.

#### **4. Other Changes**

4.1. The narrative report has been amended to reflect the changes outlined in this report, in relation to unusable reserves, outturn to CIES, the single entity balance sheet and the group balance sheet. The impact of changes to 2020/21 financial statements and disclosure notes have been reflected in the updated 2021/22 financial statements.

4.2. Disclosure notes have been updated where required to reflect the updates to the main statements outlined in this report. Mazars completed a review of the initial draft accounts and recommended changes to the presentation of some disclosure notes which have been reflected in the updated audited document This includes:

- The pooled budget (note 12) was expanded to include the entirety of the budget pooled with the Manchester Clinical Commissioning Group rather than just the Better Care Fund element. The prior year figures were also adjusted.
- The related parties note has been revisited, information on additional related parties has been included and several corrections made to the figures.
- The Cash Flow Statement and related notes have been updated following the purchase and application of a toolkit available from CIPFA which improved the identification of appropriate entries.
- Revenue Grants credited to the CIES (Note 17) – additional Covid grants previously omitted are now included in this note.
- Capital expenditure and capital financing (Note 29) – expenditure on Investment Properties and Heritage Assets has been separately disclosed
- Financial Instruments (Note 37) – additional disclosures were included to comply with the CIPFA Code with adjustments made to some of the disclosures.

#### **5. Conclusion**

5.1. The completion of the Audit is a statutory requirement and is substantially complete subject to several outstanding matters listed in the Audit completion report elsewhere on the agenda. Subject to the satisfactory conclusion of the outstanding work, an unqualified opinion on the single entity and group accounts is expected to be issued. The revised Annual Accounts for 2021/22 are appended to this report.