

**Manchester City Council
Report for Information**

Report to: Audit Committee – 23 April 2024
Subject: Annual Accounts 2022/23 Update
Report of: City Treasurer

Summary

To provide the Committee with updated 2022/23 accounts and explain the key audit adjustments to the draft accounts reported to the 25 July 2023 Committee.

Recommendations

The Committee is recommended to:

- 1) To consider and comment on the amendments made to the annual accounts since they were reported to the Audit Committee in July 2023.
 - 2) Approve the revised annual accounts including the accounting policies contained within them
 - 3) Agree not to amend the annual accounts in relation to 3.8
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Wards Affected:

All

Environmental Impact Assessment -the impact of the issues addressed in this report on achieving the zero-carbon target for the city	<i>None</i>
Equality, Diversity and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments	<i>None</i>

Manchester Strategy outcomes	Summary of how this report aligns to the Our Manchester Strategy/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The effective use of resources underpins the Council's activities in support of its strategic priorities as set out in the Corporate Plan which is underpinned by the Our Manchester Strategy.
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	

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

None of the changes to the accounts impact on the financial position of the council or its taxpayer funds.

Financial Consequences – Capital

None

Contact Officers:

Name: Tom Wilkinson
Position: City Treasurer
Telephone: 0161 234 1017
E-mail: tom.wilkinson@manchester.gov.uk

Name: Samantha McArdle
Position: Head of Corporate Finance
Telephone: 0161 234 3472
E-mail: samantha.mcardle@manchester.gov.uk

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 working papers

[Audit Committee report 14 March 2023 – Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty](#)

[Report to Audit Committee 25 July 2023 – Draft Annual Accounts 2022/23](#)

[Report to Audit Committee 28 November 2023 – Annual Accounts Update](#)

Audit Committee 23 April 2024 - Report of External Auditors (Mazars)

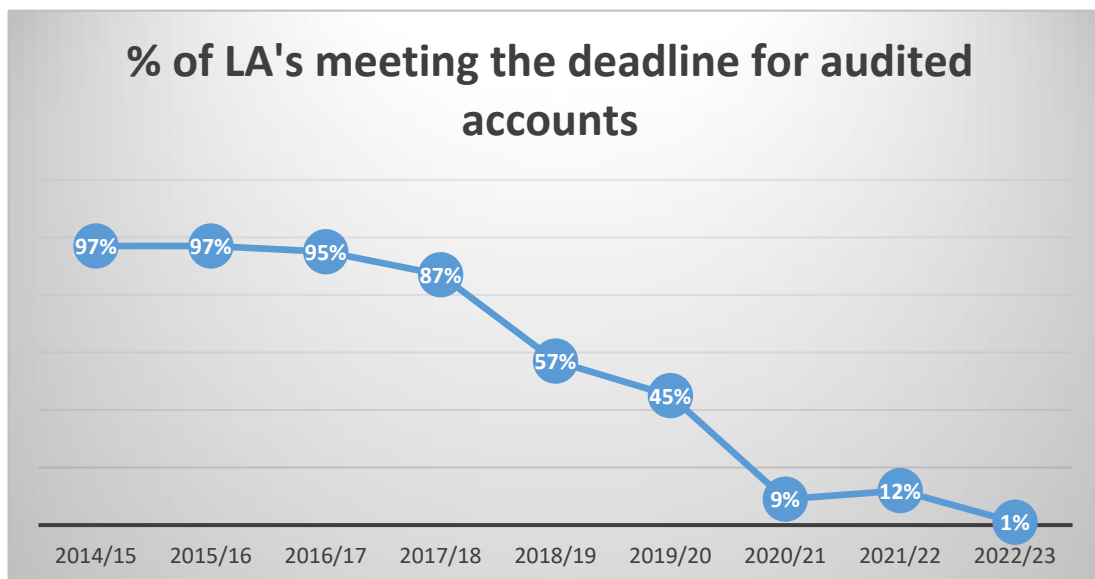
1. Introduction

1.1. The 2022/23 draft accounts were presented to this committee on 25 July 2023 and published for public inspection on 14 August 2023. They have now been updated to reflect the final changes agreed as part of the 2021/22 audit process as well as amendments identified during the 2022/23 audit process. This report provides an update on the national situation in relation to audit delays and 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 2022/23

2. Background and context

2.1. As set out in previous reports to this committee there are significant challenges facing the local authority financial reporting and local audit system. The graph below shows how the situation has deteriorated in recent years. Just 9% of local government bodies received audit opinions in time to publish audited accounts for 2020/21 by September 2021 and 12% for 2021/22 by the extended deadline of November 2022. This reduced to just 1% (5 out of 467) for 2022/23 accounts, where the deadline returned to September. The backlog stood at 771 overdue audits as at 31 December 2023.



2.2. There is consensus across all parties involved that the backlogs must be addressed, a return to timely consolidation and audit across the sector is imperative. In July 2023, the Department for Levelling Up, Housing and Communities (DLUHC) announced a range of proposals. These included setting

statutory deadlines and issuing qualifications and disclaimers of opinion in the short term. This was followed by a joint statement to update to proposals to clear the backlog and embed timely audit¹, published 8 February 2024.

- 2.3. A DHLUC consultation on proposed legislative changes ran for 4 weeks, closing on 7 March 2024. The outcome is awaited. The proposed changes to the Accounts and Audit Regulations 2015 that regulate audited financial statements for local authorities in England are part of a series of wider measures consisting of three stages as shown below.

Three stage proposal

1

Phase 1: Reset involving clearing the backlog of historical audit opinions up to and including financial year 2022/23 by 30 September 2024

2

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles

3

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit

Phase One – Reset

- 2.4. The first phase of the proposals will require local authorities to finalise all their outstanding audited financial statements by 30 September 2024, bringing audits up-to-date for financial years 2015/16 through 2022/23. For the most recent financial year ending 31 March 2023, this will be 18 months after the balance sheet date.

Phase Two – Recovery

- 2.5. Phase two relates to 2023/24 and future financial years, and proposes gradually shortening the statutory deadline until it aligns with what was previously a target date for publication of eight months after the year-end, as follows:

- 2023/24: 31 May 2025 (14 months)
- 2024/25: 31 March 2026 (12 months)
- 2025/26: 31 January 2027 (10 months)

¹ [Local audit delays: Joint statement on update to proposals to clear the backlog and embed timely audit - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-audit-delays-joint-statement-on-update-to-proposals-to-clear-the-backlog-and-embed-timely-audit)

- 2026/27: 30 November 2027 (8 months)
 - 2027/28: 30 November 2028 (8 months)
- 2.6. The National Audit Office (NAO) is proposing that the Code of Audit Practice would require auditors (unless specific circumstances apply) to issue their opinion in time for the authority to publish its accounts by the specified dates. If they have been unable to obtain sufficient appropriate audit evidence in time this would result in an auditor having to issue a modified opinion, either through qualification or through issuing a disclaimer of opinion.
- 2.7. To support the 'recovery' phase CIPFA have set out proposals for an exceptional update to the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The changes would apply to local authorities in England only for 2023/24 and 2024/25 with the intention of reducing the burden on those who produce Local Authority Accounts and their auditors. They include:
- extending the override relating to the valuation and disclosure requirements for infrastructure assets
 - Simplifying measurement for operational property, plant and equipment using indexation
 - Reducing disclosure requirements around net pension assets and liabilities

Phase Three – Reform

- 2.8. The challenges that have led to the current local audit backlog are systemic and further long-term work is required to address them. All partners recognise that work must continue to ensure that financial reporting, auditing and regulatory requirements are proportionate. There are several strands as follows:
- DHLUC will build on the recommendations of the Redmond Review² published September 2020. A central proposal of this work was the establishment of a new independent regulator for local audit to overcome fragmentation in the local audit framework and enable a coordinated response to challenges. The government has committed to establishing the Audit, Reporting and Governance Authority as system leader for local audit when Parliamentary time allows.
 - CIPFA plan to look at long-term reforms to financial reporting based on the needs of accounts users.
 - In 2024 HM Treasury will be setting out the outcome of the thematic review into the valuation of non-investment assets. CIPFA intends that they any changes are introduced to the Code for 2025/26.
- 2.9. Despite these challenges across councils and audit firms, the Council has maintained a productive working relationship with our External Auditors, Mazars. The timing of the 2022/23 audit work has run concurrently initially with the

² [Local authority financial reporting and external audit: independent review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-authority-financial-reporting-and-external-audit-independent-review)

budget process which has been challenging for the finance team to respond to audit queries whilst ensuring the delivery of a balanced and sustainable budget and latterly with the preparation for the 2023/24 accounts closure process.

2023/23 Updated MCC Accounts

3. Changes to the Single Entity Main Accounting Statements

3.1. There have been no changes to the draft accounts that affect the usable reserves of the Council, and therefore its underlying resource position. Appendix 1 shows the effect on the CIES and balance sheet of the amendments agreed to date which result in an increase in the net worth of the Council of £275.567m, an increased deficit on the provision of services of £443k and an increase in the total other comprehensive income and expenditure of £272.947m. This reflects two changes to the main statements as follows:

- Pensions - Updated calculation of the valuation from the actuary, (removing the asset ceiling calculation of £272.947m)
- Re-categorisation of a contingent asset to a long-term debtor of £2.620m

Pensions – Updated asset ceiling calculation

3.2. The pension values in the accounts are wholly based on the valuations provided by the pension fund actuary, (Hymans Robertson LLP). The actuary is annually commissioned by Tameside Metropolitan Borough Council (the Administering Authority) to carry out a valuation of the Greater Manchester Pension Fund as at 31 March 2023.

3.3. In 2022/23 the actuarial valuation has seen a significant movement from a deficit to a surplus position. This follows the improved financial performance of the underlying assets of the fund and updated financial assumptions used to value the Pension Fund liabilities. The closing 2022/23 position now reflects a net pension asset of £645.1m, moving from the prior estimated liability of £540.6m.

3.4. Under IFRS accounting there is a limitation on the value of the net pension asset that can be recorded on the balance sheet. This is known as an ‘asset ceiling’ and was calculated by the actuary at £372.2m meaning an asset ceiling adjustment was reflected in the draft CIES and balance sheet of £272.9m. During the audit the Council obtained a revised pensions asset ceiling calculation from the actuary which removed this adjustment due to revised assumptions. This is reflected as an increase to the net pension asset and an increase to the pensions unusable reserve. The adjustment is reflected in the revised statements and associated disclosure note 41.

Deferred capital receipt

3.5. The Council has a historic equity share assistance scheme which involved supporting buyers to purchase a property while the Council retained a share of the equity. When the home is sold, transferred, or when the purchaser dies, the

Council is repaid the equity share based on the home's value at that time. There are 29 equity share loans remaining.

- 3.6. In the draft accounts, the forecast future income was accounted for as a contingent asset, on the basis that the point at which the Council would be repaid was unknown. On review of the arrangement, it has been determined this should be treated as a deferred capital receipt. The impact of the change is a £2.620m increase to the deferred capital receipts reserve and a corresponding increase to Long term debtors. In addition the CIES has been updated to reflect the £443k increase in the value since 31 March 2022.

Asset Valuations - Property Plant and Equipment (PPE)

- 3.7. A sample of valuations for property, plant and equipment, investment properties and assets held for sale have been reviewed by the Mazars audit team and valuation experts employed at Mazars. This review included the challenge of assumptions used by the Council's internal and external valuers. This has not resulted in any proposed changes which is a key improvement from previous years.

Unadjusted misstatements

- 3.8. As part of the sample testing of asset disposals it was identified that the Council had accounted for an asset as being disposed of in 2022/23, however, it was still owned by the Council on 31 March 2023. The scale of the error is £1,088k therefore it is proposed not to adjust the 2022/23 final accounts. In future when the team are advised about asset disposals, legal colleagues will be asked to confirm that there has been an exchange of contracts.

4. Group Accounts

- 4.1. 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 2021/22.
- 4.2. The draft Group Accounts reflected 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%. The updated accounts now also include a further subsidiary which is Manchester Heat Network Limited. The audit of the updated group accounts is still underway.

5. Other Changes

- 5.1. 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.

5.2. At the time the draft 2022/23 accounts were published the audit of the prior year was still underway. The impact of agreed changes to the 2021/22 accounts has now been reflected in the updated 2022/23 financial statements and disclosures.

5.3. 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:

- Note 9 Expenditure and Income Analysis - £45.3m of income was shown as fees and charges when it is grant income, this has been corrected
- Note 27 Operating Leases – The future minimum lease payments receivable under non-cancellable leases disclosure was amended
- Note 30 Contracted Capital Commitments – The total value of capital commitments has increased by £8.5m to £184.1m.
- Note 34 Analysis of Long-term Borrowing – A correction has been made to the range of interest rates payable.
- Note 40 Dedicated Schools Grant – An additional table has been added to disclose the prior year comparative values.
- Note 45 Related Party Transactions – Additional disclosures have been added to disclose the transactions between the Council and the related parties of the Manchester Heat Network and The Factory International.
- Note 53 Events after the Balance Sheet Date – Additional narrative has been added to disclose that following the year end three schools with total value of Land and Building assets of £38.4m have converted to academies.

6. Conclusion

6.1. As well as being a statutory requirement, audited financial statements are critical to effective financial management in Local Authorities and a key part of how we are held to account. Both the Council, and our external auditors are working closely together to get back on track after a difficult few years.

6.2. The 2022/23 audit 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 2022/23 are appended to this report.