

**Manchester City Council
Report for Resolution**

Report to: Audit Committee – 28 July 2020
Subject: Annual Accounts 2019/20
Report of: Deputy Chief Executive and City Treasurer

Summary

To report the 2019/20 Annual Accounts, which have been signed by the Deputy Chief Executive and City Treasurer, to the Committee.

Recommendations

To note the unaudited 2019/20 Annual Account, signed by the Deputy Chief Executive and City Treasurer, including the narrative report.

Wards Affected: All

Contact Officers:

Name: Carol Culley
Position: Deputy Chief Executive
and City Treasurer
Telephone: 0161 234 3406
E-mail: carol.culley@manchester.gov.uk

Name: Janice Gotts
Position: Deputy City Treasurer
Telephone: 0161 234 1017
E-mail: j.gotts@manchester.gov.uk

Name: Karen Gilfoy
Position: Chief Accountant
Telephone: 0161 234 3556
E-mail: k.gilfoy@manchester.gov.uk

Name: Julie Hardman
Position: Finance Lead
Telephone: 0161 234 4025
E-mail: julie.hardman@manchester.gov.uk

Name: Tim Seagrave
Position: Finance Lead
Telephone: 0161 234 3445
E-mail: t.seagrave@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 2019/20 accounts files

Report of the Deputy Chief Executive and City Treasurer to Audit Committee 10
March 2020 – Accounting Concepts and Policies, Critical Accounting Judgements
and Key Sources of Estimation Uncertainty

1.0 Introduction

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

2.0 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 2019/20. 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 2019/20 is that, by 31 August, 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 2020 and its income and expenditure for the year ended 31 March 2020. In previous years this was required by 31 May. The deadline for the publication of the audited accounts has also been extended from 31 July to 30 November for the 2019/20 accounts.

2.3 The audited accounts together with the external audit report will be considered at an Audit Committee before the deadline for publication of the accounts.

3.0 Presentation of the Annual Accounts

3.1 The sections in the Annual Accounts are:

- 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.
- 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 rather than by the standard service classification previously required by the Service Reporting Code of Practice (SERCOP).
- 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 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 2019/20. 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 10 March.
- 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 2019/20 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.

4.0 Effect of COVID-19 on the Annual Accounts.

- 4.1 The challenges associated with COVID-19 have had a significant effect on the Council's financial activities and position at the end of 2019/20 and predominantly into 2020/21. As a result additional disclosures have been included in the 2019/20 annual accounts. These include the underlying assumptions surrounding going concern, (note 7.1.1) particularly relating to the Council's group entities, and a post balance sheet event (note 58).

- 4.2 Additional allowance for impairment of debt, particularly in relation to council tax and business rates, has been provided in 2019/20. This has been increased based on the experience of the reductions in collection for the early months of 2020/21.
- 4.3 Where property, plant and equipment valuations are measured reflecting market conditions at 31 March 2020 valuers have reported that they can place less reliance on recent market evidence than in usual circumstances. This has led to valuers reporting valuations on the basis of 'material valuation uncertainty'. Further detail is contained within note 9.

5.0 **Other Key Issues in the Annual Accounts.**

- 5.1 The general fund revenue outturn report shows an overspend across all budgets, of £0.527m. The budget had assumed a transfer from general reserves of £0.165m. As a result of this overspend there has been a transfer from general reserves of £0.692m. The general reserve, after this transfer, is £21.353m. It is considered that this is a reasonable level of general reserves for the Council.
- 5.2 The Housing Revenue Account (HRA) has an underspend of £14.586m. This mainly relates to reduced revenue contributions to fund capital expenditure for several capital schemes planned across 2020/22 and lower Private Finance Initiative (PFI) payments due to the planned installation of sprinklers at both Miles Platting and Brunswick being in the following financial year.
- 5.3 The Council spent £255.5m on capital related projects in 2019/20 compared to the revised budget of £318.1m with the majority of unused budget being re-profiled into future years. The spend includes £52.2m on behalf of Greater Manchester.
- 5.4 The Council's Revenue and Capital Outturn reports give further details and were considered by the Executive on 3 June 2020.
- 5.5 The accounts are available for public inspection from 30 July 2020 to 10 September 2020. During this period the external auditor must give electors or any representative of an elector an opportunity to question them about the accounting records of the Council.

6.0 **Summary of the Annual Accounts**

- 6.1 The overspend on the Council's General Fund Account (£0.527m) and the underspend on the Housing Revenue Account (HRA) (£14.586m) total £14.059m underspend. The HRA is fully ringfenced and cannot be used to support the General Fund position. This is the position before notional accounting adjustments. The Consolidated Income and Expenditure Statement (CIES) shows a deficit of £15.644m. The difference of £29.703m is as a result of the notional accounting adjustments predominately relating to capital transactions and pension related costs plus transfers to reserves not shown within the CIES. 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.

- 6.2 The Balance Sheet, which summarises the value of the assets and liabilities of the Council, shows an overall increase in net worth of £364.827m as at 31 March 2020 when compared to the previous year end. This is due to an increase in usable reserves of £94.046m and in unusable reserves of £270.781m. The increase in usable reserves is mainly due to increases in the usable capital receipts reserve and capital grants unapplied reserve as well as the COVID-19 reserve as a result of the first tranche of emergency government funding being received in March.
- 6.3 The increase in unusable reserves is predominantly due to the decrease in the negative pension reserve as a result of revised actuarial assumptions including those on life expectancy. There have also been increases in the capital adjustment account and the revaluation reserve from the revaluation of non-current assets, during 2019/20.
- 6.4 The Collection Fund contains a closing Council Tax Surplus of £3.509m, of which the Council's share is £2.862m the remainder being due to the Greater Manchester Combined Authority for the Police and Fire elements. This is an overall decrease of £2.489m when compared to the estimate of the surplus made in January 2020 of £5.998m (Council share £5.028m). This is due to an increased requirement for bad debt provision following a review of the position at year end. The Council's share of the reduced surplus is taken into account when setting the 2021/22 budget.
- 6.5 The 2020/21 budget contains the estimated share of the 2019/20 Business Rates surplus, as calculated in January 2020 which totalled £12.202m with the Council's share being £12.080m. The final Business Rates surplus in the Collection Fund as at 31 March 2020 is £13.028m (Council share £12.898m), an increase of £0.826m. This is mainly due to a reduction in the provision for appeals based on information on outstanding appeals received from the Valuation Office Agency.

7.0 Timeline of the Annual Accounts Process

- 7.1 The timeline for the completion and audit of the 2019/20 annual accounts is as follows:
- Handover of annual accounts to External Auditors – 28 July 2020
 - Submission of unaudited annual accounts to Audit Committee – 28 July 2020
 - Submission of annual accounts, including amendments agreed during the external audit, to Audit Committee – before publication deadline of 30 November
 - Issue of audit opinion by the Council's external auditors, Mazars – before 30 November 2020

8.0 Recommendations

8.1 The recommendations appear at the front of this report.