

**Manchester City Council
Report for Information**

Report to: Audit Committee – 11 June 2019
Subject: Annual Accounts 2018/19
Report of: Deputy Chief Executive and City Treasurer

Summary

To report the 2018/19 Annual Accounts, which have been signed by the Deputy Chief Executive and City Treasurer, to the Committee.

Recommendations

To note the unaudited 2018/19 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: c.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 2018/19 accounts files

Report of the Deputy Chief Executive and City Treasurer to Audit Committee 11
March 2019 – 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 Regulations 2015 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.

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 is that, by 31 May, the accounts will be 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 2019 and its income and expenditure for the year ended 31 March 2019.

2.3 The audited accounts together with the external audit report will be considered at the Audit Committee meeting on 30 July.

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 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 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. This has previously been considered by this committee and Standards Committee and updated for any comments.

3.6 The presentation of the accounts is governed by the accounting policies that the Council is required to follow. There have been two new accounting standards in 2018/19. These are IFRS9 Financial Instruments and IFRS15 Revenue Recognition from contracts with customers. Further information relating to these standards is shown in Note 7 - Accounting Policies and Concepts. These were previously reported to the Audit Committee on 11 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 2018/19 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 Key Issues in the Annual Accounts.

4.1 The general fund revenue outturn report shows an overspend across all budgets, of £0.293m. The budget had assumed a transfer to general reserves of £0.031m. As a result of this overspend there has been a transfer from general reserves of £0.262m. The general reserve, after this transfer, is £22.045m. This compares to £22.838m assumed when the 2018/19 Budget was approved at Council. It is considered that this is a reasonable level of general reserves given the level of risk faced by the Council.

- 4.2 The Housing Revenue Account (HRA) has an underspend of £11.064m. This allows for funding set aside to improve fire safety measures through the installation of sprinkler systems within Council owned tower blocks which will take place in 2019/20, and lower Private Finance Initiative (PFI) payments due to delays in delivering the capital works on the Brunswick PFI scheme.
- 4.3 The Council spent £452.8m on capital related projects in 2018/19 compared to the end of February forecast of £495.7m with the majority of unused budget being re-profiled into future years. The spend includes £91.2m on behalf of Greater Manchester.
- 4.4 The Council's Revenue and Capital Outturn reports elsewhere on this agenda give further details on the outturn variations. These will be considered by Resources and Governance Scrutiny Committee and Executive in June.
- 4.5 The accounts are available for public inspection from 3 June 2019 to 12 July 2019. 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.

5.0 Summary of the Annual Accounts

- 5.1 The overspend on general fund (£0.293m) and the underspend on the Housing Revenue Account (£11.064m) total £10.771m underspend. This is the position in cash terms before notional accounting adjustments. The Consolidated Income and Expenditure Statement (CIES) shows a deficit of £8.367m. The difference is as a result of the notional accounting adjustments predominately relating to capital transactions and pension related costs. 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 they apply to.
- 5.2 The Balance Sheet, which summarises the value of the assets and liabilities of the Council, shows an overall increase in net worth of £0.808m as at 31 March 2019 when compared to the previous year end. This is due to an increase in usable reserves of £105.147m and a decrease in unusable reserves of £104.339m. The increase in usable reserves is mainly due to increases in the usable capital receipts reserve, capital grants unapplied and capital fund reserve to fund capital schemes for the general fund and the HRA, as well as the capital financing reserve which has been set up to fund future increases in borrowing costs as a result of the Council's capital programme. This reflects the significant size of the Council's capital programme, which is c. £1.15bn for the next 5 years, and is a product of timing issues between funding being received and expenditure being incurred.
- 5.3 Reserves have also been set aside to support the financial position for 2019/20. This follows the announcement of additional one off government funding, particularly for social care, made available through the Autumn Budget, Finance Settlement and the GMCA Budget Setting process. The one off funding is to be used over 2 to 3 years and is to be prioritised for care and

support for vulnerable people, investment in youth services, taking action on family poverty, tackling homelessness and further action to tackle litter and fly tipping. HRA reserves have also increased as a result of the underspend on the HRA as noted earlier. The decrease in unusable reserves is predominantly due to the increase in the negative pension reserve together with a reduction in the capital adjustment account. This is partly offset by an increase in the revaluation reserve from the revaluation of non-current assets, during 2018/19.

- 5.4 The Collection Fund contains a closing Council Tax Surplus of £7.175m, of which the Council's share is £5.894m the remainder being due to the Greater Manchester Combined Authority for the Police and Fire elements. This is an overall increase of £0.695m when compared to the estimate of the surplus made in January 2019 of £6.480m (Council share £5.478m). This is due to an improvement in the council tax base and a reduced requirement for bad debt provision following a review of the position at year end. The Council's share of the additional surplus is taken into account when setting the 2020/21 budget.
- 5.5 The 2019/20 budget contains the estimated share of the 2018/19 Business Rates surplus, as calculated in January 2019 which totalled £13.405m with the Council's share being £13.271m. The final Business Rates surplus in the Collection Fund as at 31 March 2019 is £15.931m (Council share £15.772m), an increase of £2.526m. This is due to a combination of additional reliefs awarded, offset by a decrease in the bad debt provision required and a reduction in the provision for appeals based on the latest information on outstanding appeals received from the Valuation Office Agency.

6.0 Timeline of the Annual Accounts Process

6.1 The timeline for the completion and audit of the 2018/19 annual accounts is as follows:

- Handover of annual accounts to External Auditors – 31 May 2019
- Submission of unaudited annual accounts to Audit Committee – 11 June 2019
- Submission of annual accounts, including amendments agreed during the external audit, to Audit Committee – 30 July 2018
- Issue of audit opinion by the Council's external auditors, Mazars – by 31 July 2018

7.0 Recommendations

7.1 The recommendations appear at the front of this report.