

**Manchester City Council  
Report for Resolution**

**Report to:** Audit Committee – 30 July 2019

**Subject:** Annual Accounts 2018/19 and Letter of Representation

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

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**Summary**

To seek Members' approval of the revised accounts containing the amendments detailed in the report and to seek their approval and acknowledgement of the letter of representation. These accounts are updated from those reported to the June Committee and take account of any changes that have arisen since that time including the findings of external audit.

**Recommendations**

The Committee is asked to –

- Note the amendments made to the annual accounts since they were reported to the Audit Committee in June.
  - Approve the revised annual accounts including the accounting policies contained within them.
  - Agree to not amend the pensions figures included in the accounts following the receipt of a revised IAS19 report as detailed in paragraph 17. This is below the materiality level.
  - Approve and acknowledge the letter of representation in Appendix 1 which will be signed by the Deputy Chief Executive and City Treasurer and the Chair of the Meeting.
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**Wards Affected:** All

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**Background documents (available for public inspection):**

Working papers – consolidation of 2018/19 accounts working papers  
Report of the City Treasurer to Audit Committee 11 March 2019 – Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty  
Report to Audit Committee 11 June 2019 - Annual Accounts 2018/19  
Report of External Auditors, Mazars to Audit Committee 30 July 2019 – The Audit Findings for Manchester City Council

## **Introduction**

1. Members will recall that the draft Annual Accounts were reported to Audit Committee on 11 June 2019 following their approval by the Deputy Chief Executive and City Treasurer on 31 May 2019.
2. 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.

## **Changes to the Main Accounting Statements**

3. It is pleasing to note that at the time of writing this report there are no changes to the Single Entity primary statements. However, at this point the external audit is ongoing particularly in relation to the valuations of property, plant and equipment and review of the group accounts. The main changes to the accounts to date compared to the draft circulated to the June Audit Committee are set out in the following paragraphs.
4. The accounting statements provided by Manchester Airports Holdings Ltd (MAHL) as reported in the Group Accounts, were an unaudited draft as the audited accounts were not available at the time of preparation. Audited accounts have now been provided and the Group Accounts have been updated accordingly.
5. The audited MAHL accounts have required the following changes to the Group Accounts Statements:-
  - The group deficit on the provision of services has reduced by £1.704m to £25.669m. This is due to an improved share in the operating results of MAHL of £2.343m offset by increased tax expenses of £0.639m.
  - The share of other comprehensive income and expenditure has reduced by £142k.
  - The group income and expenditure reserve in the group balance sheet has increased by £1.562m.
  - The related notes have also been amended for these changes.
6. During the audit it has been identified that the land and buildings valuations provided for Destination Manchester (DML) and Manchester Airports Holdings Ltd duplicated the value of the freehold element of the land value, as this was also included in the single entity accounts.
7. When consolidating the MAHL and DML accounts within the group, in order to have consistent accounting policies, the Council commissions an external valuation of the MAHL and DML land and building assets. This valuation included the freehold land element that was already in the single entity accounts.
8. Therefore when these accounts were brought together the freehold element, only, was duplicated. The Council's single entity, MAHL and DML accounts are

correct and remain unchanged so there is no effect on their individual financial positions.

9. MAHL is a joint venture of the Council; only the Council's share of MAHL reserves (35.5%) matched by a long term investment are shown on the group balance sheet.
10. As a result of the removal of the duplicated land value from the Council's share of MAHL's assets, the long term investments on the balance sheet have reduced by £87.009m at 31 March 2018 and £92.770m at 31 March 2019. The group income and expenditure reserve has been reduced by the same amount. The Group Movement in Reserves Statement and relevant balance sheet notes have been amended to reflect these changes.
11. In relation to DML the value of Property, Plant and Equipment has been reduced by £19.062m at 31 March 2018 and £15.17m at 31 March 2019 to remove this double counting. The group income and expenditure reserve has been reduced by the same amount. The Group Movement in Reserves Statement and relevant balance sheet notes have been amended to reflect these changes.

#### **Changes to Disclosure Notes**

12. In addition to the amendment above there have been the following changes to disclosure notes.
13. An overstatement of business rates income and a corresponding understatement of council tax income of £2.47m has been corrected. This affects the disclosure notes 12 (expenditure and income analysis) and 18 (taxation and non-specific grant income) in the single entity accounts together with the pie charts in the narrative report and note 10 (expenditure and income analysis) in the group accounts.

#### **Other Changes**

14. There have been various presentational changes made to improve the understanding of the accounts.
15. However, the only significant amendment is the re-categorisation of loans and receivables from fair value through profit and loss to amortised cost, which is shown in note 1 to the accounts. This relates to short term debtors of £98.997m held by the Council. In determining the categorisation in the draft accounts the Council followed the Accounting Code and guidance as written. It has subsequently been identified during the audit that the guidance is incorrect in relation to short term debtors.
16. The post balance sheet event relating to transfers of Housing Investment Fund loans to the Greater Manchester Combined Authority have been updated as a result of additional transfers since 31 May 2019.

## **Pension Liabilities**

17. The draft accounts were prepared using the information provided by the Pensions Actuary (Hymans Robertson LLP). These figures did not take account of implications from the McCloud case or the guaranteed minimum pension.
18. The McCloud case relates to age discrimination in the transitional arrangements of the judges and fire fighters pension schemes. The Local Government Pension Scheme has similar transitional arrangements to these two schemes.
19. The guaranteed minimum pension (GMP) issue relates to when employers were able to contract out of the second tier of state pension (SERPS). Employers and members of such pension schemes paid lower national insurance contributions and in return the employer was required to provide a pension scheme promising a level of benefits (i.e.GMP) which was broadly equivalent to the second tier pension. Although GMPs ceased to accumulate from April 1997 and contracting out was abolished in April 2016, accrued GMP's were not altered and therefore many schemes have historic GMP liabilities. GMPs are unequal for a number of factors, including different retirement ages for men and women. The High Court ruling rules that pension funds have a duty to amend the schemes in order to equalise benefits for men and women.
20. A revised report has been obtained from the pension fund's actuary to consider the financial of these two issues and it is estimated that the pension liability would increase by £21.1m. The accounts have not have adjusted for this revised estimate as it is not material. If adjusted it would be treated as a past service cost, increasing the net cost of services in the Comprehensive Income and Expenditure Statement and increasing the minus unusable pensions reserve. Audit Committee is requested to approve the accounts not being adjusted for this change in estimation.

## **Next Steps**

21. At the time of writing this report the audit of the 2018/19 accounts is ongoing.
22. Subject to the satisfactory conclusion of the outstanding work, an unqualified opinion on the single entity and group accounts is expected to be issued by the statutory deadline of 31 July.
23. If any further amendments to the accounts are identified prior to the Committee meeting they will be reported at the meeting.
24. The revised Annual Accounts for 2018/19 are appended to this report.

## **Letter of Representation**

25. The Council is required to provide a letter of representation to its External Auditors. These representations are required to be approved and

acknowledged formally by a committee of the Council. A copy of this letter is attached to this report.

### **Recommendations**

26. The recommendations are listed at the front of this report.

## APPENDIX 1



**MANCHESTER  
CITY COUNCIL**

**Corporate Services  
Carol Culley**

Deputy Chief Executive and City Treasurer

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PO Box 314 Town Hall  
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Karen Murray  
Director  
Mazars LLP  
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31 July 2019

Dear Karen

### **Manchester City Council and Group - audit for year ended 31 March 2019**

This representation letter is provided in connection with your audit of the financial statements of Manchester City Council and Group (the Council and Group) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

#### **My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

#### **My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;

- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council and Group you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Deputy Chief Executive and City Treasurer and s151 officer that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

### **Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council and committee meetings, have been made available to you.

### **Accounting policies**

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council and Group's financial position, financial performance and cash flows.

### **Accounting estimates, including those measured at fair value**

I confirm that any significant assumptions used by the Council and Group in making accounting estimates, including those measured at current or fair value, are reasonable.

I confirm the following matters regarding estimation uncertainty:

- the appropriateness of the measurement process, including related assumptions and models, used in determining accounting estimates under IFRS, and the consistency of application of the process;
- that disclosures related to accounting estimates are complete and appropriate under IFRS;
- that no subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

### **Contingencies**

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable

possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no contingent gains which should be disclosed.

All material matters, including un-asserted claims, that may result in litigation against the Council and Group have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

There are no contingent liabilities.

### **Laws and regulations**

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Council and Group has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

### **Fraud and error**

I acknowledge my responsibility as Section 151 Officer for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council and Group involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council and Group's financial statements communicated by employees, former employees, analysts, regulators or others.

### **Related party transactions**

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council and Group's related parties and all related party relationships and transactions of which I am aware.

### **Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

### **Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

### **Going concern**

To the best of my knowledge there is nothing to indicate that the Council and Group will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

### **Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Yours faithfully

Carol Culley  
Deputy Chief Executive and City Treasurer