
REPORT OF THE CHIEF FINANCE OFFICER

TO AUDIT & ACCOUNTS COMMITTEE

ON 26 June 2019

TITLE: STATEMENT OF ACCOUNTS 2018/19

RECOMMENDATIONS:

It is recommended that members:

- note the draft 2018/19 statement of accounts presented to Mazars for audit;
 - note the audit timeline;
 - note their responsibility to authorise the statement of accounts at the conclusion of the audit;
 - seek further information or explanations from officers about any part of the document;
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EXECUTIVE SUMMARY:

The 2018/19 statement of accounts and supporting working papers have been prepared and were authorised for issue by the Chief Finance Officer on 31 May 19. They were presented to Mazars, the appointed auditor, on that date and the accounts were electronically circulated for information and consideration by the committee members and published on the council's internet pages. The audit process will conclude in July and the committee will receive the auditor's report at its meeting on 24 July alongside a revised draft of the accounts, incorporating any changes agreed during the audit. At that point, the committee will be asked to give approval for the revised draft to be published as the council's formal audited statement of accounts for 2018/19.

The opportunity for members to seek further information on the accounts will extend throughout the audit.

BACKGROUND DOCUMENTS:

- Draft statement of accounts
- Code of practice on local authority accounting in the UK (CIPFA) and associated guidance

- Final accounts working papers held in the Finance Division and shared with auditors.
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KEY DECISION: NO

DETAILS:

1. Background

- 1.1 In accordance with the requirements of the Accounts and Audit Regulations, the council must prepare a statement of accounts each year and the Chief Finance Officer (CFO) should authorise it for issue to the appointed auditor by 31 May.
- 1.2 The statement of accounts is then subjected to audit. A revised version, incorporating any changes agreed during the audit, is to be authorised for issue by the CFO and a designated committee by the end of July.
- 1.3 The council's designated committee is the Audit & Accounts Committee. The appointed auditor is Mazars.

2. Process

- 2.1 The accountancy teams within the Finance division follow an established and robust timetable to prepare high quality accounts by the due dates.
- 2.2 The preparation of the statement of accounts by 31 May allows accountants to switch attention as soon as possible to other aspects of financial management, in particular in support of service group savings targets including transformation and re-design.
- 2.3 In accordance with the agreed plan, the 2018/19 statement of accounts and supporting working papers have been prepared and were authorised for issue to Mazars by the CFO on 31 May 19. The draft statement has been electronically circulated for information and consideration by committee members and published on the council's internet pages.
- 2.4 The detailed audit of the accounts will now follow, culminating in the July meeting of this committee which will consider and approve the audited version, revised as necessary.
- 2.5 The accounts are also open to public inspection. The public are able to exercise their right to inspect the accounts in a formal window between 3 June and 12 July. In practice, officers will always attempt to provide a response to reasonable requests outside of this timescale.

3. Content

- 3.1 As in 2017/18, officers have determined that there would be no material difference between the single entity and group statements and have therefore not produced group accounts. Officers have been careful to ensure that the reader is still able to obtain a full picture of the council's risk position and its

relationship with other group entities, and a full explanation of related organisations is included. In fact, we believe that the single entity-only accounts present a clearer picture to the reader than would comparable group accounts.

- 3.2 The accounts comprise comprehensive disclosure notes and four main statements:
- a. Movement in reserves statement
 - b. Comprehensive income & expenditure statement
 - c. Balance sheet
 - d. Cash flow statement

4. Items of particular note

- 4.1 The outturn position was balanced as set out below.

2018/19 budget				
	Original estimate	Outturn Budget	Actual	Variance from outturn
	£m	£m	£m	£m
Net Expenditure				
People (Childrens services)	85.1	118.0	123.8	5.8
People (Adults)	64.0	69.4	69.4	0.0
Place	45.0	80.7	80.7	0.0
Service reform	11.3	8.9	8.8	(0.1)
Public Health	21.3	21.1	20.8	(0.3)
Precepts, Levies and charges	39.1	41.8	41.5	(0.3)
Capital financing	34.8	47.4	47.3	(0.1)
Other budgets	(77.0)	(154.4)	(159.4)	(5.0)
Contributions to (from) general fund balances	0.0	0.0	0.0	0.0
	223.6	232.9	232.9	0.0
Funded By				
General government grants				
RSG	0.0	0.0	0.0	0.0
Business rates top up	43.8	43.8	43.8	0.0
Local taxation				
Council tax payers	99.8	99.9	99.9	0.0
Business rate payers	80.0	89.2	89.2	0.0
	223.6	232.9	232.9	0.0

Net worth

- 4.2 The council's net worth has reduced by £48m since 31 March 2018. The first £5m arises through revised statutory accounting practice, so the like-for-like reduction is £43m. Net worth is the balance of all the assets and liabilities of the authority and is held in reserves. The council has 2 types of reserves; usable and unusable. The use of usable reserves is within the gift of the authority, but unusable reserves are technical reserves: their use is governed by accounting practice and they may not be drawn on to support expenditure.

4.3 The *main* changes in reserves are shown below (the £5m arising from statutory accounting changes is included in the values)

Reserve	Balance 31/03/18 £000	Balance 31/03/19 £000	Change £000	Reason for change
Capital grants unapplied Usable	15,892	20,349	4,457	Highways maintenance, and children's basic maintenance grants received before their use on specified expenditure.
Revaluation reserve Unusable	237,426	331,346	93,920	Revaluations of non-current assets, showing a general increase in the value of the council's assets – to be considered in totality with the capital adjustment account below.
Capital adjustment account Unusable	(64,269)	(107,319)	(43,050)	Net movement on depreciation, capital financing, revaluations – to be considered in totality with the revaluation reserve above.
Financial instrument adjustment account/reserve Unusable	(54,029)	(73,231)	(19,202)	Premium costs linked to redemption of debt as part of treasury management strategy. The amount paid in 2018/19 has been "stored" in the reserve without an immediate charge to revenue. It will be charged gradually to the income & expenditure account over time.
Pensions reserve Unusable	(399,245)	(487,521)	(88,276)	Increase in the net pension liability. This represents a measured shortfall at a point in time in the value of the council's share of GMPF compared to the amounts that will ultimately be paid out. Statutory arrangements mean that the liability will be met over time through employee and employer contributions and returns on assets.

4.4 On the face of it, the reduction in net worth/reserves appears to be cause for concern. However, as can be seen from the table above, the reduction is primarily driven by "technical" transactions and does not affect the status of the council as a going concern. However, the council does need to ensure that its reserves strategy for general fund and earmarked reserves (usable reserves) supports its medium term financial plans and maintains adequate cover against unplanned expenditure.

IFRS 9 Financial instruments

4.5 For the 2018/19 statement of accounts the code of practice adopted the accounting requirements of IFRS 9 financial instruments. Previously the council carried loans to third parties on its balance sheet at the amount owed.

The carrying value was only written down when there was sufficient evidence of impairment ie after the event. Under IFRS 9 the carrying values are written down in advance of the loans being defaulted upon. This is an accounting adjustment and not the expectation of the council.

- 4.6 The impact of these statutory accounting changes is to reduce the reported value of the amounts owed to the council. However, the reserves set aside to meet that circumstance are applied commensurately so that there is no net impact on revenue or the balance sheet. Assuming that the loans are ultimately repaid, the council will receive a benefit in excess of the currently-reported values.

Share valuation

- 4.7 Another area affected by IFRS9 was the “valuation category” for the shareholdings of the council, namely Manchester Airport Group, COSCOS Ltd and Manchester Science Park. There were two possibilities: fair value through profit and loss whereby changes in the valuation of the shares would be reflected by a change in the general fund balance, or fair value through other comprehensive income and expenditure where changes in the valuation of the shares would be reflected in an unusable reserve. As the council’s shareholdings are held for strategic purposes, rather than trading, all the council’s shares have been categorised as fair value through other comprehensive income and expenditure. This accounting treatment avoids any detrimental impact on the revenue account.

Deficit

- 4.8 The comprehensive income and expenditure statement (CIES) is the council’s “profit and loss account”. It shows a net deficit for the year of £43m, reconciling directly to the change in net worth detailed above.
- 4.9 The position arises from any in-year surplus or deficit on normal operations, plus the movement in reserves. As members are aware, the 2018/19 outturn was, after the application of certain contingencies, brought in on target, so the operational surplus/deficit was nil. The £43m deficit therefore arises solely from the movement in reserves as detailed above, ie primarily from the movement on unusable reserves.
- 4.10 Unfortunately, the figures on service lines in the comprehensive income and expenditure account will not be familiar. The CIES is prepared on a statutory accounting basis, while the council’s budget is prepared on the basis of what are statutory charges to the general fund. The Expenditure and funding analysis note 1 to the accounts and Note 8 to the accounts show the reconciliation of these difference). They are very complex, but the differences arise in the main from recognising “notional” expenditure and income items:
- Pension accounting
 - Depreciation

- Revaluations
- Gains/losses on disposal of assets
- Financial instruments adjustments

4.11 The difference between the CIES and operational budget are in a sense cosmetic. They arise from the same base data, only presented very differently, with many entries being applied for accounting reasons and then reversed for statutory reasons. Members may find the service analysis within the narrative statement by the chief financial officer in the preamble to the accounts (reproduced at 4.1) more useful as a presentation of the outturn position. It shows the achievement of a balanced position at the end of 2018/19.

5. Responsibilities

5. 1 The respective roles of the Council (through this committee) and the CFO are set out in the statement of responsibilities within the accounts. Members will note that their main obligation in this committee is to, “consider and approve the statement of accounts”.
5. 2 At this stage, formal sign off by this committee is not necessary. However, in July, following the committee’s consideration of the appointed auditor’s findings, the chair of the committee will be asked to sign the statement. In the meantime, accountants and the appointed auditor are likely to agree a number of amendments to the draft accounts, which will be reported on in July.
5. 3 Before approving the statement in July, members will wish to satisfy themselves that it does, as certified by the CFO, present a true and fair view of the council’s position.
5. 4 Members are not necessarily expected to analyse every aspect of the statement in detail. rather, members will be able to consider:
- a. the robustness of the arrangements made by the CFO for the completion of the accounts;
 - b. the findings of the appointed auditor;
 - c. how their own knowledge and experience of the council’s finances is reflected in the statements;
 - d. the clarity of the data and explanations presented;
 - e. the broad implications of the figures in the statements.
5. 5 At this meeting, and if necessary at any point up to the conclusion of the audit, members are invited to ask questions and challenge the accountants on any aspect of the statement that they see fit. Such a challenge will help to demonstrate to the auditors how those charged with governance fulfil their responsibilities.

6. Conclusions

6. 1 The statement of accounts has again been prepared for audit on time and within the revised shortened timescales.

- 6.2 At the conclusion of the 2018/19 audit, members will be asked to consider and approve the audited statement, revised as necessary, in July.
- 6.3 Members can discharge their responsibilities by subjecting the accounts to challenge at this meeting and at any point up to the completion of the audit, including the meeting in July.

7. Recommendation

7.1 It is recommended that members:

- note the draft 2018/19 statement of accounts presented to Mazars for audit;
- note the audit timeline;
- note their responsibility to authorise the statement of accounts at the conclusion of the audit;
- seek further information or explanations from officers about any part of the document;

Joanne Hardman
Chief Finance Officer

KEY COUNCIL POLICIES:

Budget strategy; medium term financial strategy; treasury management strategy

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS:

None

ASSESSMENT OF RISK:

Low.

There is a risk of misstatements in the accounts. In cases of significant, unadjusted error, the appointed auditor might qualify the council's accounts, damaging the council's reputation.

Furthermore, the accounts form part of the annual financial cycle and misstatement in the accounts may contribute, for example, to poor financial management decisions.

The risks are mitigated by:

- the application of skilled resources across the finance division, supported by colleagues in directorates;
 - adherence to a final accounts process that is both well-established and subject to continual review;
 - the expertise of the appointed auditor's team reviewing the statement;
 - the healthy debate and challenge that exists between the accountant and auditor teams.
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LEGAL IMPLICATIONS: Supplied by Tony Hatton – Principal Solicitor, tel. 219 6323

In accordance with the requirements of the Accounts and Audit Regulations, the council must prepare a statement of accounts each year and the chief finance officer should authorise it for issue to the appointed auditor by 31 May. The statement of accounts is then subjected to audit. A revised version, incorporating any changes agreed during the audit, is to be authorised for issue by the chief financial officer and a designated committee by the end of July.

This report sets out the audit process that has been undertaken in order to ensure that the Council complies with the relevant requirements of the Accounts and Audit Regulations.

FINANCIAL IMPLICATIONS Supplied by Tony Thompstone – Strategic Finance Manager.

The statement of accounts shows in detail how the financial resources of the council have been used in 2018/19 and the financial position of the council at 31 March 2019.

PROCUREMENT IMPLICATIONS: Supplied by Paul Nugent, Head of Strategic Procurement.

There are no procurement implications resulting from this report.

HR IMPLICATIONS Supplied by: Stephen Hulme – Strategic HR Manager
There are no HR implications resulting from this report.

OTHER DIRECTORATES CONSULTED:

While the statement of accounts is produced within the finance division, data for each of the main statements and supporting disclosure notes is sourced from every service group in the council.

CONTACT OFFICERS:

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WARDS TO WHICH REPORT RELATES: None specifically