

Auditor's Annual Report

Manchester City Council

For the year ending 31 March 2024

26 February 2025

Contents

- 01 Introduction
- 02 Value for money arrangements work
- 03 Other reporting responsibilities

01 - Introduction

Purpose of the Auditor's Annual Report

Our Auditor's Annual Report (AAR) summarises the work we have undertaken as the auditor for Manchester City Council ('the Council') for the year ended 31 March 2024. Although this report is addressed to the Council, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 and the Code of Audit Practice ('the Code') issued by the National Audit Office ('the NAO'). The remaining sections of the AAR outline how we have discharged these responsibilities and the findings from our work. These are summarised below.

Opinion on the financial statements

We issued our audit report on 26 February 2025. Our audit report includes a disclaimer of opinion. This means our audit report does not express an opinion on the financial statements and no assurance will be provided. It is necessary to issue a disclaimer of opinion as amendments to the Account and Audit Regulations introduced a statutory deadline for publication of the Council's financial statements. We are unable to complete the audit procedures necessary to obtain sufficient appropriate audit evidence on which to base our opinion before the date the Council published its audited financial statements.

Wider reporting responsibilities

We did not receive any objections to the accounts and had no reason to use our wider reporting powers.

We cannot formally conclude the audit and issue an audit certificate until the National Audit Office has communicated the work we are required to undertake as component auditors for the Whole of Government Accounts.

Value for Money arrangements

We did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources. Section 3 provides our commentary on the Council's arrangements.

02 - Value for Money arrangements work

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services.

Governance - How the Council ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Our work is carried out in three main phases.

Phase 1 - Planning and risk assessment - At the planning stage of the audit, we undertake work so we can understand the arrangements that the Council has in place under each of the reporting criteria; as part of this work we may identify risks of significant weaknesses in those arrangements.

We obtain our understanding or arrangements for each of the specified reporting criteria using a variety of information sources which may include:

- NAO guidance and supporting information.
- Information from internal and external sources, including regulators.
- Knowledge from previous audits and other audit work undertaken in the year.
- Interviews and discussions with officers.

Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest there are further risks of significant weaknesses.

Phase 2 - Additional risk-based procedures and evaluation - Where we identify risks of significant weaknesses in arrangements, we design a programme of work to enable us to decide whether there are actual significant weaknesses in arrangements. We use our professional judgement and have regard to guidance issued by the NAO in determining the extent to which an identified weakness is significant.

We have not identified any risks of significant weakness in arrangements in 2023/24.

Phase 3 - Reporting the outcomes of our work and our recommendations - We are required to provide a summary of the work we have undertaken and the judgments we have reached against each of the specified reporting criteria in this Auditor's Annual Report. We do this as part of our Commentary on VFM arrangements which we set out for each criteria later in this section. We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Council.

We have not identified any significant weaknesses in arrangements or made other recommendations. We include out commentary on the following pages.

Overall commentary on Financial Sustainability

Manchester's operating environment

During 2023/24 the Council continued to face significant challenges, against a backdrop of an adverse national economy and a cost-of-living crisis, the Council continued to see significant increase in demand for its services.

The financial impact of the pandemic on the Council continues to feature with loss of income and additional costs. The Council has continued to work to understand the longer-term impact of the pandemic, and to adapt its financial plans over the medium term.

In response to these pressures, it is essential the Council has timely and accurate financial reporting to members and senior management, and decision makers make prompt decisions to maintain the financial sustainability of the Council.

2023/24 Financial performance

We have undertaken a high level analysis of the published financial statements, including the Movement in Reserves Statement and the Balance Sheet.

The most significant change in the balance sheet relates to movement in the Council's share of the pension fund net asset/liability, which has moved from a net pensions asset of £645 million in 2022/23, to a net nil pensions asset/ liability position after taking into account the pensions asset ceiling adjustment. It is not unusual to see material movements in the net pension asset/ liability and this is consistent with our experience at other local authorities. The net asset position was also typical across the sector for the 2022/23 financial year.

We also note an increase in property, plant and equipment (PPE) and investment property asset balances, from £2,716 million to £2,901 million, as a result of PPE additions worth £280 million and revaluation of the Council's assets in year. The level of borrowing has increased by £388 million from £1,052 million as at 31 March 2023 to £1,340 million as at 31 March 2024.

The Council's usable reserves have decreased from £720 million at 31 March 2023 to £640 million at 31 March 2024. During the 2023/24 year reserves held for capital purposes have decreased by £32 million in line with the delivery of the planned capital programme and reflects capital receipts received to be utilised in future years in line with the approved capital strategy.

The budget for 2023/24 assumed a transfer from general reserves of £674,000 to support the budget. The 2023/24 revenue outturn position was an overspend of £5.3 million, which brought the total transfer from general reserve to £5.976 million. The General Fund Reserve stands at £19.9 million as at 31 March 2024 (£25.8 million as at 31 March 2023). Each year as part of the budget setting process the City Treasurer carefully considers the level of the General Fund reserve to be held to ensure it is sufficient.

The Council's reserves provide some mitigation against future financial challenges. However, the Council will need to ensure that any use of reserves to smooth the financial position over the next few years is properly planned. This is because reserves cannot be relied on to provide a long-term solution to funding gaps.

The Council's financial planning and monitoring arrangements, including budget setting

In March 2023, the Council set a balanced budget for the 2023/24 financial year with a total net budget for Council services of £736 million. This required an increase in Council Tax of 2.99% and a 2% increase in the Adult Care precept. Throughout the year the Council regularly updated its budget forecast, enabling budgets to remain up-to-date. The budget for 2023/24 included £25 million of savings proposals and £17 million use of reserves. Of this, £7 million relates to Business Rates grant, £1 million from the remaining airport dividend reserve, £1 million for the

delivery of the adult social care new care models and £6 million supporting the transport levy. The final revised net budget reported for the year was £765 million.

We have reviewed the supporting evidence relating to the preparation of the 2023/24 budget and these demonstrate the arrangements are consistent with the previous year, were detailed and robust, and were properly applied.

The Council's financial planning and budgeting arrangements are well established and include a wide range of activities and consultations. The budget setting process includes engagement with senior Council officers and incorporates discussion about the delivery of statutory services/priorities, the Council's Corporate Plan, and the impact on resources of emerging challenges and risks. Where additional resources are required these are scrutinised and challenged before they are included in the budget estimates. Engagement with directorates and members are key parts of the budgeting arrangements, and from our review of the output and discussions with officers, these are detailed and extensive.

The Council reported its revenue outturn position for 2023/24 as an overall overspend of £5.3 million. The main drivers of the overspend are pressures on Children's external residential placements costs; home to school transport demand; Adult social care long term care placements demand and cost pressures; and lower than budgeted income from markets and car parking, driven by changes to commuter behaviour post-pandemic. However, these pressures are partly offset by the receipt of an extraordinary airport dividend (£3.5 million) and return of nationally held surplus on the Business Rates Levy account (£1.5 million).

The Council provided regular reports of its financial position to Executive through the year. We have reviewed a sample of the reports presented for 2023/24. These reports were detailed and comprehensive and incorporate monitoring of the revenue budget, the capital programme and a wide range of other financial measures. The Council follows an established timetable for reporting to Executive which includes reporting to directorate management teams and the strategic management team.

The Council has a very significant capital programme and continues to play a lead role in developing the City. In 2023/24 the capital budget approved in March was £427 million, with a final revised capital budget of £510 million reported in the year-end outturn report. Actual spending against the budget was £353 million. During 2023/24 the Council had over 300 live capital projects progressing. The Council delivered several new schemes including; Aviva Studios – Home of Factory International; The full refurbishment of the National Cycling Centre; 69 affordable low carbon homes in Newton Heath; along with upgrades to roads, cycle paths and walking routes. Other major projects have continued during 2023/24 including the Town Hall Project, highways investments and the continuation of the Council's ICT investment programme.

The capital budget monitoring and reporting mirrors the revenue budget monitoring. We reviewed a sample of these reports and this confirmed they provide timely detailed monitoring reports to key decision makers in the governance structure.

The Council's arrangements for identifying, managing and monitoring funding gaps and savings

The financial planning for 2023/24 recognised the importance of setting a balanced one year budget, alongside demonstrating the long term financial resilience of the Council. The 2023/24 budget approach was for a one-year budget, following the Government's Autumn Statement on 17 November 2022, the provisional local government finance settlement on 19 December 2022 and final local government finance settlement on 6 February 2023.

A key element of the budget setting process is identifying savings and funding gaps. The budget reporting to Executive and Council provides significant detail on the savings plans, in-year monitoring and outturn delivery at

the year end. The budget report to Council in March 2023 set out the detailed savings plans and proposals for each directorate, along with the proposed impact on the Council's reserves until 2025/26.

The Council's budget setting process, which begins in the summer, is a detailed and comprehensive process. There is detailed consultation and discussion with officers and members on the assumptions and principles on which the budget is to be based. As part of the budget setting process, the Council explicitly identifies its savings requirements for the following years through detailed consideration of the budgetary pressures, funding estimates, and impact of national and local initiatives and policies. We reviewed a range of the budget preparation documents and meetings held as part of the budget setting process. Our review confirmed the documents were comprehensive and detailed and the discussions were timely and delivered the intended outcomes to assist with the budget preparation.

Based on the above considerations we are satisfied that the Council's has in place the expected arrangements in relation to its financial sustainability.

Overall commentary on Governance

The Council's risk management and monitoring arrangements

The Council has an established risk management framework in place and embedded in the governance structure of the organisation. The Corporate Risk Register is part of this framework and is an articulation of the key risks impacting the Council. It is used to inform decision making, provide assurance over actions being taken to manage key risks and to inform directorate level risk management planning and mitigation activities

The Council has a risk management strategy sets out the Council's risk appetite and context to its risk management. The risk management arrangements incorporate service and directorate risk registers informed by detailed assessments of the key risks impacting on each area. These registers inform the Council's corporate risk register which sets out the key strategic and corporate risks. The risk registers apply a risk score alongside the Council's target score for each risk. The register includes the controls in place to mitigate the risks along with other sources of assurance, and enables the Council to manage the risks actively and take action where necessary. We have reviewed the risk management strategy along with examples of risk registers. Our review confirms the strategy is clear, and the registers appear comprehensive, containing sufficient and appropriate detail for Council officers and members to discharge their responsibilities.

The Council reports its risk registers through its governance framework, culminating in reports to the Audit Committee. Our attendance at the Audit Committee meetings has confirmed the Committee understands its role in the risk management framework. It provides challenge to management on the risk registers and corresponding risks and mitigating actions.

In early 2024 the Strategic Management Team approved a revised risk management strategy which will strengthen the review process, involve the use of risk appetite statements and introduce new formats of reporting for 2024/25. Following the new format of reporting from April 2024 risk updates are reported to the Senior Management Team and the Audit Committee throughout the year.

The Council has a team of internal auditors, led by the Head of Audit & Risk Management, who provide assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud. The annual Internal Audit plan is agreed with management at the start of the financial year and is reviewed by the Audit Committee prior to final approval. In 2023/24, the Audit Plan was presented to the Audit Committee in June 2023.

The Internal Audit plan is based on an assessment of risks the Council faces and is planned to ensure there is assurance on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control. The planned work is supplemented by ad hoc reviews in respect of suspected irregularities and other work to respond to emerging risks and issues. We have reviewed the Internal Audit plan for 2023/24 and confirmed it is consistent with the risk-based approach. The Council has comprehensive anti-fraud and corruption policies which are updated as required.

Internal Audit progress reports are presented to Audit Committee meetings routinely, including follow up reporting on recommendations from previous Internal Audit reports. From our attendance at meetings, we have observed how this allows the Committee to effectively hold management to account. At the end of each financial year the Head of Audit & Risk Management provides an opinion based on the work completed during the year. For 2023/24 the Head of Audit & Risk Management concluded a reasonable level of assurance could be given that the Council's overall framework of governance, risk management and control remains appropriate and had been complied with. This is an equivalent opinion to that issued in the previous seven years and reflects that overall governance, financial management arrangements and core systems and processes within the Council remained largely effective. The Council continues to respond to a wide range of risks and issues with areas for further improvement identified through audit and other assurance work, but these are counterbalanced by a number of key strengths.

Throughout the year we have attended all Audit Committee meetings. These meetings have received regular updates on both internal audit progress and risk management. Audit Committee members engage with the reports and challenge the papers and reports which they receive from management, internal audit and external audit.

Council arrangements for budget monitoring and budgetary control

The Council has established budget monitoring arrangements in place. The Finance service is configured to align to the Council's management portfolio structure. Members of the Finance Team are assigned to specific service areas and work closely with cost centre managers to review, discuss and agree the financial pressures/ issues impacting on specific service areas. At the end of each month, a Portfolio dashboard is prepared which contains all relevant financial information. Forecasts are produced for cost centres, service areas and the whole Portfolio. These are discussed and agreed with relevant Directors and managers.

There is a detailed budget monitoring timetable to which the Finance service works to ensure reports are timely. Overall financial monitoring reports are prepared encompassing the whole Council position for both Capital and Revenue. The format of the reports ensures relevant information is available. We have reviewed a range of the reports and conclude they are appropriately detailed and comprehensive to provide members with the current financial position and the future challenges and risks ahead.

Council decision making arrangements and control framework

The Council's decision making arrangements are established in the Council Constitution. Decisions are either made by members (Council, Executive, or other decision making committees) or delegated to Executive portfolio leads, or officers. The Constitution sets out clearly the approach to decision making. The Council also has a range of overview and scrutiny committees and sub-groups that challenge and scrutinise Council decisions.

Reports provided to support decision making include an assessment of the revenue and capital financial impacts and other key impact areas such as risk management, legality and equal opportunities.

The Council operates an Audit Committee which has the appropriate status in the organisation to challenge management and obtain assurance on the operation of the internal control framework. The Committee has an agreed workplan and, where necessary, asks management to report on specific internal control issues. This includes asking management to attend meetings to answer questions. The Audit Committee met regularly throughout the year and routinely considered key reports on internal controls.

Based on the above considerations we are satisfied the Council has the expected arrangements in place in relation to its governance.

Overall commentary on Improving Economy, Efficiency and Effectiveness

The Council's arrangements for assessing performance and evaluating service delivery

The Council prepares performance monitoring and financial monitoring reports which are regularly reported through the year. The monitoring of the achievement of the Corporate Plan priorities is supported by accessible detailed dashboards. These are presented alongside narrative reporting of the actual performance, progress to achieving targets, current and known future challenges and an assessment of how the Council is doing. The financial monitoring position is reported separately to performance monitoring but both provide a detailed and insightful summary of the Council performance and provide up to date evidence to inform decision making. The monitoring is also used to identify service delivery challenges, for example where increased costs are incurred to address service backlogs or underlying underperformance. Where such issues are highlighted through financial monitoring, the resources required as an investment to address this are identified.

The Council produces a range of value for money analysis, including annual benchmarking of outcomes and unit costs against similar councils. The Council uses benchmarking tools to inform its understanding of its performance. As well as using some off the shelf benchmarking tools, the Council also has a corporate Performance, Research & Intelligence service. This service provides a valuable source of advice on performance monitoring methodologies for projects and directorates, as well as interpreting data and performance monitoring information.

The Council's arrangements for effective partnership working

The Council's key partnerships include a wide range of organisations, as expected for a very large and complex council. These include service delivery partnerships, statutory partnerships, and commercial partnerships.

The Council monitors its delivery through key partnerships including an ongoing assessment of risk as set out in its Register of Significant Partnerships which is reported to the Audit Committee annually. This summarises the significant partnerships the Council has alongside a rating of assurance the Council considers the partnership arrangements provide. This is informed by discussions and assessments involving the partnership link officer, moderated by Council officers from a range of service areas. The register presented to Audit Committee in July 2024 included 46 significant partnerships, only three of which was reported as having limited assurance of controls over the partnership, and 40 were rated as having the highest level of assurance. This position is largely consistent with the previous year and provides good information to the Council on the level of risk in its partnership working.

In November 2022, the Council's internal audit team reported issues to the Audit Committee relating to outstanding audit recommendations as well as management and governance arrangements at one of the Council's significant partnerships, the tenant management organisation (TMO) AVRO Hollows. In February 2024 the Council arranged for an independent review to be completed and an action plan issued to the TMO Board. The review highlighted serious governance, financial management and service provision failings and in May 2024 provided an action plan for improvement, which comprised of over 70 actions, which the TMO started to implement. The Council are committed to working closely with the TMO to improve arrangements, but officers have been unable to provide assurance to the Audit Committee that the TMO has addressed the issues identified. The Audit Committee have highlighted this as a key risk for tenants and for the Council, particularly given lessons learned from the Grenfell Inquiry and changes in social housing standards and regulation. The Audit Committee will receive regular updates on the TMO from the Assistant Director of Strategic Housing and the Head of Internal Audit, on the progress against the action plan and proposals to secure improvement in arrangements

The "Our Manchester Forum", which is chaired by the Council's leader, supports development of effective relationships across leaders of the city's key private, public, voluntary and community sector organisations and our

residents. The Our Forum oversees the Council's other city-wide governance boards and has strategic oversight and coordination of the work delivered by the city's main partnership boards.

The introduction of the Integrated Care System (ICS) arrangements at Greater Manchester level continues to drive the next phase of health and social care integration between the Council and the NHS. The operating model for Manchester's health and social care integration is key to enabling further progress towards achievement of the priorities for the city. The Council, along with other Greater Manchester Council's and the ICS, have ambitions for the city to significantly improve health outcomes, tackle health inequalities and develop a financially and clinically sustainable system. In June 2023 the Manchester Partnership Board was established as a public committee, which is subcommittee of the NHS GM Integrated Care Board (ICB), and brings together the senior leaders of the City Council, NHS (primary, secondary and community and mental health services) and the voluntary, community and social enterprises (VCSE) from across the city. Its role is to focus on shared priorities to improve the health and well-being of the people of Manchester.

Following a delivery model assessment, in November 2024 the Council made a 'Decision in Principle' to return Adult Mental Health statutory functions and duties from Greater Manchester Mental Health Foundation Trust (GMMHT) to the Adult Social Care Directorate working within the Manchester Local Care Organisation. Work is ongoing to draft a report outlining the proposals for a new delivery model for this service.

The Council's arrangements for procurement and commissioning services

The Council's Constitution contains a chapter on the Contract Procurement Rules. This sets out the detailed process the Council must follow when procuring goods or services. We have reviewed the procedure rules and this confirms they are comprehensive and cover the procedures, the quotation and tender process, using frameworks, post tender evaluation and contract monitoring procedures.

To support procurement, the Council has centralised procurement team. This team provides a key source of procurement expertise. The team are required to be involved in procurement contracts above £30,000 and lead the procurement process in many cases. The Council controls in place to manage procurement effectively include completion of a pre-tender form to evidence the approval for the procurement and that financial and legal requirements have been followed. The support provided by the procurement team includes training to officers involved in the procurement process, enabling a clear common understanding of the approach and compliance requirements. The Council appoints contract managers who have responsibility for managing the contract. Directorates record their contracts in registers to track all the contracts within their portfolio.

Based on the above considerations we are satisfied the Council has in place the expected arrangements in relation to improving economy, efficiency and effectiveness in its use of resources

03 - Other reporting responsibilities

Matters we report by exception

The Local Audit and Accountability Act 2014 provides auditors with specific powers where matters come to our attention that, in their judgement, require specific reporting action to be taken. Auditors have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to the law; and
- issue an advisory notice.

We have not exercised any of these statutory reporting powers

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We did not receive any such objections or questions. We did however receive correspondence from the public which we treated as information obtained during the course of the audit. We had no matters to report.

Reporting to the NAO in respect of Whole of Government Accounts consolidation data

We cannot formally conclude the audit and issue an audit certificate until the National Audit Office has communicated the work we are required to undertake as component auditors for the Whole of Government Accounts.

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