Director and author: Angela Taylor, Director, Resources

WEST YORKSHIRE COMBINED AUTHORITY

Report to: **Governance and Audit Committee**

Date: **3 August 2017**

Subject: **Approval of Annual Accounts for 2016/17**

1. Purpose

1.1. To present to the Committee for their approval the annual accounts for 2016/17 for the West Yorkshire Combined Authority (WYCA).

2. Information

2.1. There is a statutory requirement for approval of the annual accounts by 30 September. Mazars and WYCA have worked together to complete this work to an earlier deadline, reflecting the timing of the audit work and the fact that in previous years work has been completed on the actual accounts well ahead of the 30 September date. It should be noted that the September date is being brought forward over the coming years.

2.2. The accounts have been presented for audit and Mazars have completed their audit work. This report provides the information required to consider the accounts for approval. The following appendices are attached:

Appendix 1 Final accounts of WYCA
Appendix 2 Treasury management statement
Appendix 3 Audit completion report

2.3. The accounts have been prepared on an International Financial Reporting Standards (IFRS) basis in accordance with the CIPFA Code of Practice on Local Authority Accounting UK. This is the third year of accounts for WYCA and the second that include the impact of being the accountable body for the Leeds City Region Enterprise Partnership (LEP) and the second set of accounts audited by Mazars.

2.4. There are a number of accounting matters in the accounts which are drawn to the Committee's attention below.

2.5. **International Accounting Standard (IAS)19 Employee Benefits** requires a particular accounting treatment of pension costs and liabilities. In effect the accounts provide

a snapshot in time of the organisation's element of the West Yorkshire Pension Fund at the balance sheet date, based on information from the actuaries. In common with most local authorities this results in a deficit on the scheme but under the Account and Audit Regulations (England) 2011 this apparent deficit is funded by the creation of a corresponding reserve. The reality is that the deficit in the scheme is being addressed through the annual employer contribution rates set by the actuary and will reduce within the required timescales. The liability will only crystallise should either the West Yorkshire Pension Fund cease to exist or WYCA cease to exist without a successor organisation to take on the liability. The Fund has undergone its triennial valuation and employer rates have been reset for the next three years and underlying assumptions revisited. The deficit has increased during the financial year 2016/17 from £61.2m to £72.4m as a result of the financial actuarial assumptions changing over the course of the year.

2.6. **The going concern principle** is always required to be considered as part of the year end process. The outcome of the accounting entries for pensions set out in the previous paragraph often results in a negative balance sheet which would ordinarily give rise to a question regarding going concern. For 31 March 2017 this is not the case, due to an increase in both cash and short term investments and the capital grants unapplied reserve which are increasing the total assets at the year end. In any event it is not thought likely that the pension deficit will crystallise and the authority is making contributions to address this deficit as determined by the actuary. The IFRS Code's underlying assumption is that accounts shall be prepared on a going concern basis where the functions of the 'authority' will continue in operational existence for the foreseeable future. WYCA's accounts have therefore been prepared on a going concern basis.

2.7. **Impairment –** officers have considered, in preparing the accounts, whether there are any circumstances arising in the year that would trigger the need for an impairment review of the carrying value of the properties of WYCA. The conclusion is that there are none and this was also supported by the property valuation undertaken by independent surveyors Lambert Smith Hampton.

2.8. Note 17 to the accounts sets out the details regarding the impairment of one of the growing places loans in recognition of the operating difficulties under which the company is operating. It is recognised that there is a higher level of risk attached to these types of loans and there is no impact on reserves as this is fully funded by external grant.

2.9. **Accounting policies –** these have not changed from those approved in previous years.

Final accounts of WYCA (Appendix 1)

2.10. WYCA's accounts comply fully with the required accounting standards. Whilst this year sees some changes in the format and presentation of the income and expenditure account this statutory format of the income and expenditure account does not require a comparison against budget. The narrative statement to the accounts shows perhaps a more useful presentation comparing the actual results

against the budget detail as agreed at WYCA's budget meeting. In both instances the key figure to note is the use of reserves figure which is the same in both presentations.

2.11. The final position for 2016/17 is a decrease in the use of reserves figure from the budgeted position of £4.1m to £2.7m. This 'saving' against budget is a net position made up of £1m saving on concessionary travel reimbursement, a £700k overspend on bus tendered services and a number of smaller savings across a range of budget heads including staffing vacancies, recharges and pensions.

2.12. In comparison to 2015/16 WYCA's balance sheet shows some significant growth in assets. As accountable body for the Leeds City Region Enterprise Partnership (LEP) WYCA has been in receipt of large Growth Deal payments as well as a number of other upfront grant payments. This has resulted in increases in capital grants unapplied of £38m and in cash balances and short term investments of £58m. Whilst good progress is being made on accelerating the delivery of the capital programme, at 31 March 2017 much of this funding had still not been approved – all projects are subject to the assurance framework and funding will only be released when the relevant information has been received and the appropriate approval is in place. The projected expenditure for 2017/18 shows, on Growth Deal alone, a minimum spend of £100m, some of which will be utilising funding already received. A number of projects that are currently spending relatively low levels of money on pre-development and feasibility are expected to get approval to move through to the delivery phase during 2017/18.

Treasury Management statement (Appendix 2)

2.13. The Treasury Management Statement for the year is set out in **Appendix 2**. The budget report to WYCA in February 2017 confirmed the treasury management arrangements in place for the year and no subsequent changes are proposed at this stage. These arrangements and prudential borrowing rules will continue to be applied throughout the coming year.

Capital expenditure

2.14. Total capital expenditure in the year was £147m, funded through a combination of income streams but primarily grants from the Department for Transport and the Department of Communities and Local Government (in relation to the Growth Deal). These included the LTP Integrated Transport block funding and highways maintenance grant totalling £41m which is then utilised by WYCA and the constituent District Councils. WYCA also applied capital grants for the Cycle City Ambition scheme of £6.7m. Some funding was carried forward from 2015/16, reflecting the change by the DfT in paying multi-year grants in advance and also reflecting some reprofiling of LTP funded projects. Similarly funding will be carried forward to 2017/18 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.

2.15. The Growth Deal funding of £127m received for 2016/17 has been applied to some £85m of projects originally identified within the programme submitted to

government. Recognising the need to reprofile some of the projects within that programme the flexibility awarded with the Growth Deal has been applied resulting in Growth Deal funding being utilised for some projects in WYCA's capital portfolio with their original funding stream being carried forward to use in 2017/18. An underspend on the Growth Deal has been accounted for in capital grants unapplied and will be utilised on projects that have been reprofiled to 2017/18.

Audit Completion Report (Appendix 3)

2.16. Mazars have completed their audit work on the annual accounts and their conclusions are set out in their Audit Completion Report which is attached as **Appendix 3**. The Committee is required to consider this report before considering and approving the annual accounts. The Audit Partner Mark Kirkham and the Audit Senior Manager Steve Appleton will be in attendance at the meeting to present their report and answer any questions.

2.17. The key messages are set out in the Executive Summary on page 3 of the report which confirm that an unqualified audit opinion, without modification, is to be given on the financial statements and an unqualified value for money conclusion.

2.18. The rest of the report goes on to consider how the significant audit risks identified at the planning stage and the key areas of management judgement have been addressed and the outcome of that work. It also sets out observations on the internal control environment. In all these areas there are no findings or deficiencies that WYCA is required to address other than a low priority requirement to work with a local authority counterparty that has treated a loan as a grant despite a signed loan agreement being in place.

2.19. **Appendix 1** on page 11 sets out some minor changes to the accounts that management agreed to make, which are largely reclassifications/presentational and therefore have no impact on the results for the year. There is one misstatement with regard to the desktop property valuation (a full revaluation was performed last year) which is shown as unadjusted as management has chosen not to alter the accounts. The auditors have accepted that this does not have to be adjusted in determining their audit opinion.

2.20. The auditors will require a representation letter to be signed by management. This is a standard part of the process and effectively provides assurances that WYCA has provided all necessary information and disclosures to the auditors. The wording of that representation letter is included on pages 15-17 of Mazars report and the Director, Resources will provide a signed copy of this to the auditors. The letter of representation also confirms that no events have occurred in the period from the completion of the audit to the date of the signing of the accounts which would require any changes to the accounts.

2.21. Mazars are required to issue an audit completion notice by the statutory date of 30 September to confirm that they have completed their work in relation to the annual accounts. The final element of this is the audit of the Whole of Government Accounts submission which will take place in August/September. DCLG have not yet

issued the pack for completion to WYCA but once it is received it will be completed as soon as practicable.

3. Financial implications

3.1. The audit fee is set nationally by Public Sector Audit Appointments Ltd (PSAA) and is included in the WYCA's annual budget. Future audit fees will be the subject of a consultation process with the PSAA.

4. Legal Implications

4.1. None arising directly from this report.

5. Staffing Implications

5.1. None arising directly from this report.

6. Recommendations

6.1. That the Treasury Management Statement in Appendix 2 be recommended for approval.

6.2. That Mazars audit completion report be considered.

6.3. That the Committee approve the attached annual accounts for the year ended 31 March 2017.