

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 2.00 PM ON 9 FEBRUARY 2016
WELLINGTON HOUSE, WELLINGTON STREET, LEEDS**

A G E N D A

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF INTEREST**
- 3. EXCLUSION OF THE PRESS AND PUBLIC**

To identify items where resolutions may be moved to exclude the press and public.

- 4. MINUTES OF THE MEETING HELD ON 19 NOVEMBER 2015**
(pages 4 - 9)

Copy attached.

- 5. EXTERNAL AUDIT UPDATE**
(pages 10 - 23)

To consider the attached report

- 6. INTERNAL AUDIT PROGRESS REPORT**
(pages 24 - 37)

To consider the attached report.

- 7. INTERNAL AUDIT PLAN 2016/17**
(pages 38 - 53)

To consider the attached report.

8. INTERNAL CONTROLS AND FINANCIAL MONITORING
(pages 54 - 94)

To consider the attached report.

9. 2016/17 BUDGET AND TREASURY MANAGEMENT POLICY
(pages 95 - 144)

To consider the attached report.

Signed:

A handwritten signature in black ink, appearing to be 'BGM', with a horizontal line underneath it.

WYCA Managing Director

PUBLIC INSPECTION OF DOCUMENTS AND ACCESS TO MEETINGS OF THE WEST YORKSHIRE COMBINED AUTHORITY

- (a) Files containing documentation relating to items to be discussed at the meeting may be inspected by contacting the named officer as detailed below. Certain information may be confidential and not open to inspection.
- (b) The attached agenda items do not contain any exempt information as defined in Part 1 of Schedule 12A to the Local Government Act 1972.

Compilation of Agenda by:	Angie Shearon
Telephone No:	Leeds (0113) 251 7220
Date:	1 February 2016

**MINUTES OF THE MEETING OF THE
GOVERNANCE & AUDIT COMMITTEE
HELD ON TUESDAY 19 NOVEMBER 2015 IN WELLINGTON HOUSE, LEEDS**

Present: Councillor G Hussain (Chair)

Councillors G Burton and H Richards
R Marsh (WYCA/LEP)

In attendance: D Brown and B Chana (Leeds City Council)
S Appleton (Mazars)

14. Apologies for Absence

Apologies for absence were received from Mark Kirkham (Mazars) and Councillors N Barnes and S Benton.

15. Declarations of Disclosable Pecuniary Interests

There were no pecuniary interests declared by members at the meeting.

16. Minutes

Resolved: That the minutes of the meeting held on 28 July 2015 be approved.

17. Treasury Management

The Committee received a presentation on treasury management arrangements in place for the West Yorkshire Combined Authority, the operations of which were carried out between WYCA and Leeds City Council under a Service Level Agreement.

Members considered the following areas of the Authority's treasury management arrangements and discussed the adequacy of the policies and practices and the application of those policies to safeguard the Authority's funds:-

- the Treasury Team;
- the Treasury Management Framework including the legislative framework, reporting mechanisms and governance;
- the Role of the Governance & Audit Committee;

- the Treasury Strategy including work-streams, management of debt, investments and the economic environment.

Members noted that the Service Level Agreement with Leeds City Council had been in place for a number of years, but were given assurances that it had been updated to reflect the changes in arrangements since establishment of the WYCA on 1 April 2014. The Committee discussed the arrangements in place for managing the various funding streams coming into the Authority, such as the Transport Fund, Growth Deal and LCR City Deal.

Members were confident that the current arrangements were robust and ensured WYCA compliance with statutory guidance.

Resolved:

- (i) The Committee thanked David Brown and Bhupinder Chana for their presentation.
- (ii) That the Treasury Management Policy and Service Level Agreement be brought to the next meeting of the Committee for consideration.
- (iii) That the mid year review be submitted to a future meeting of the Committee.
- (iv) That the Committee be provided with information on the risk ratings of the Authority's investments, balances and yield.

18. External Audit Update

The Committee considered a report which provided an update on external audit matters.

External Audit 2014/15

It was reported that, at its meeting on 17 September, the WYCA had approved the annual accounts for 2014/15 and the Auditors had issued their audit opinion and certificate on 30 September. As expected, a clean audit opinion had been received on both the accounts and the value for money conclusion.

Members noted the Annual Audit Letter, appended to the submitted report, which concluded the external audit process. The Letter set out the work undertaken during the year and the audit conclusions, including the conclusions on the risk matters identified at the start of the audit and fee payable. It was reported that there were no matters of concern raised in the Letter.

Appointment of External Auditors/Fees

Members noted that Mazars had been appointed auditors to the WYCA from 1 April 2015 and would be carrying out all future external audit work. Initial discussions had commenced on the work to be undertaken for the 2015/16 year end.

It was reported that a letter, commencing consultation on the proposed work programme and scale of fees for the 2016/17 audit, had been received from Public Sector Audit Appointments, the body responsible for managing audit contracts and fees. There were no planned changes to the proposed work programme and members were pleased to note that the fees for 2016/17 would remain the same as for 2015/16 which at £33,720 were a saving of £11,000 on the 2014/15 audit fee which in turn was £22,000 less than the previous combined WYITA and WYPTE audit fees.

It was reported that consultation on the work programme and fees for 2016/17 was scheduled to run until 15 January 2016. The letter of consultation also confirmed that the Department for Communities and Local Government (DCLG) had approved the extension of current audit contracts for 2017/18 and that the retained earnings of the Audit Commission would be paid out to all audited bodies; it was understood this was likely to be in the order of 15% (£6,500).

Resolved -

- (i) The Committee noted the Annual Audit Letter.
- (ii) The Committee noted that there was no change to the work programme for 2016/17 and welcomed that there would be no increase in fees.

19. Internal Audit Progress Report

The Committee considered a report on work undertaken by the Internal Audit Section from 1 July 2015 to 31 October 2015 and the key issues which had been identified were outlined in paragraphs 4.3.1 to 4.3.4 of the submitted report.

Review

English National Concessions Travel Scheme (ENCTS)
SmartCard & Information Programme -
Web 1 Project Healthcheck
Payzone Sales System
Anti-Fraud

Opinion

Controlled

Requires Improvement
Requires Improvement
Well Controlled

The Committee was given a brief overview of the key elements of each of the Audit Reviews, the purpose of which was to:-

- (i) identify the objectives and key risks associated with the Audit entity;

- (ii) determine controls which Internal Audit would expect to be present to mitigate risk;
- (iii) review the existence and operation of controls through a combination of substantive and compliance testing.

Members noted the arrangements which were in place to monitor the implementation of audit recommendations and considered the information, contained in Appendix B, relating to a number of overdue high priority recommendations. A suggestion was made that it would be useful to have a further column included in the schedule at Appendix B to indicate a revised date for any overdue recommendations.

Details of progress made to date in completing the Audit Plan 2015/16 were provided in Appendix A of the submitted report. It was also noted that work on this year's audit plan was on schedule with only a slight over-run forecast.

It was reported that in addition to completion of the above audit reviews, audit testing work had been concluded in relation to Purchasing, Transport Fund Scheme Appraisal, Castleford Bus Station Project Healthcheck, Health & Safety and Low Moor Rail Station Project Healthcheck. A summary of the results from those reviews would be provided to the Committee at the next meeting.

Resolved:

- (i) That the report be noted.
- (ii) That the Committee receive confirmation at its next meeting that the high priority recommendations listed as overdue, as detailed in Appendix B of the submitted report, have been fully implemented or be notified of a revised implementation date and the reasons for the delay.

20. Internal Controls and Financial Monitoring

The Committee considered a report on any changes to the internal control arrangements since the last meeting and to consider the current financial position.

Internal Controls

It was reported that since the last meeting there had been no significant changes to the arrangements for internal controls within the Combined Authority. Members noted that regular governance meetings continued to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management being carried out jointly with Leeds City Council.

Key Indicators

The Committee considered the 'key indicators' specifically with regard to accidents to date in 2015 and noted that there were no matters of concern. Since the Committee last reviewed the data available for the period 1 January to 30 June 2015, there had only been

one reportable accident to the HSE with no particular accidents or near misses which would require further work/investigation.

Financial Monitoring – Revenue Budgets

Members were provided with a summary of the latest forecast position for 2015/16 in relation to the budget agreed at the WYCA meeting in January and noted that work was underway on preparing the detailed budget for 2016/17.

Members asked for clarification on the saving of £300,000 on concessionary travel that related to young persons' concessions and reflected changes that had arisen following revisions both to the type of tickets available and the way in which schools transport had been provided. It was reported that the WYCA had now approved an extension to the scheme, effective from 1 November, to provide concessionary travel to all young people aged 16-18, not just those in full time education. The expected costs were included in the forecast provided in the submitted report, although members noted that these were best estimates as take up of the offer was not yet known but would be closely monitored.

It was reported that the budget forecast for 2015/16 included both the transport levy and budget as approved by the WYCA at its meeting on 29 January together with the budget and funding for the Leeds City Enterprise Partnership which passed to the WYCA on 1 April 2015 and the inward investment function of Leeds and Partners transferring to the LEP/WYCA on 1 April 2015. These budgets had been consolidated and would be reviewed by the Combined Authority's Finance Working Group to ensure that all available funding was being utilised to best effect. The Finance Working Group would also be looking at identifying opportunities and options for reducing expenditure from 2016 onwards and the medium term financial strategy, with a view to ensuring a balanced budget for the coming 3 years without an increase in costs to the District Councils.

Financial Monitoring – Capital Budgets

It was reported that delivery of the Transport Fund and Local Growth Fund projects was being monitored by the Investment Committee and appropriate organisational arrangements for the delivery of a much enhanced capital programme of both transport and economic regeneration projects were being progressed.

Risk Management

Members noted that there had been no significant changes to risk management arrangements since the last meeting of the Committee and the detailed risk registers and corporate risk register continued to be monitored.

It was reported that in response to an issue raised in the internal audit review of risk management in 2014/15, a risk appetite statement had been drafted and was appended to the submitted report for the consideration of the Committee. This, alongside the risk management strategy statement, was intended to support the organisation in ensuring everyone understood the extent to which risk would be tolerated in different areas.

An element of risk previously identified related to the delivery of the Local Growth Deal and the need to ensure expenditure was achieved and properly managed. It was reported that measures in place to support this (including the Assurance Framework and the Single Appraisal Framework) were currently under review to ensure they remained relevant.

Officers from all five District Councils had been working collaboratively to develop a Finance handbook which would set out details of how schemes within the West Yorkshire plus Transport Fund should be costed, how to seek approvals, how funding would be advanced and the responsibilities and accountabilities of different parties working on schemes. Early drafts of the handbook had been presented to the District Portfolio Holders and a final draft would be considered by the Investment Committee early in 2016 prior to submission to the WYCA for approval.

Members were informed that the intention was that the Assurance Framework, Single Appraisal Framework and Finance handbook would form part of a suite of guidance documents intended to assist in mitigating the risks to delivery of complex projects and input would be sought from the Committee at a future meeting once the documents had been further developed.

Resolved:

- (i) That the report be noted.
- (ii) That the Authority's risk management arrangements be kept under review.

ITEM 5

Report to: Governance and Audit Committee

Date: 9 February 2016

Subject: External Audit Update

1. Purpose

- 1.1. To provide the Committee with an update on external audit matters.

2. Information

- 2.1. At its previous meeting the Committee considered the final element of the 2014/15 audit by receiving the annual audit letter from Deloitte. Deloitte's work is now complete and all external audit issues are now the responsibility of Mazars.
- 2.2. Mazars have commenced their planning process for the 2015/16 audit and have met with officers to continue the process begun before Christmas in understanding the organisation and its risks. An interim audit is planned for February following which they will compile their Audit Strategy Memorandum which will set out their approach to the work, the scope of the work they will undertake, the risks they will be addressing and provide confirmation of the expected audit fee.
- 2.3. Mazars will present the Audit Strategy Memorandum to the next meeting of this Committee. In the meantime they have provided a progress report which is attached as Appendix A.
- 2.4. The Department for Transport (DfT) has carried out an audit of the Special Rail Grant for 2014/15. This would previously have been undertaken by the external auditors but under new arrangements the DfT have retained this audit. It has been verbally confirmed that there are no issues arising from this work and this should be confirmed in writing shortly.
- 2.5. There are no further grant audits required for 2014/15 expenditure.

3. Financial Implications

- 3.1. None arising directly from this report. The audit fee is included in the 2015/16 budget.

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 Committee notes the position with the external audit work.

West Yorkshire Combined Authority



Appendix A

External Audit Progress Report
9 February 2016

Contents

- 01 Purpose of this paper
- 02 Summary of audit progress
- 03 Value for Money Conclusion guidance
- 04 Publications
- 05 Contact details

Our reports are prepared in the context of the Audit Commission's 'Statement of responsibilities of auditors and audited bodies'. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the Authority and we take no responsibility to any member or officer in their individual capacity or to any third party.

Mazars LLP is the UK firm of Mazars, the international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England with registered number OC308299.

01

Purpose of this paper

This paper updates the Governance and Audit Committee on progress in meeting my responsibilities as your external auditor. It also highlights key emerging national issues and developments which may be of interest to you.

If you require any further information please contact Mark Kirkham or Steve Appleton using the contact details at the end of this update.

Finally, please note the website address www.mazars.co.uk

which sets out the range of work Mazars carries out across the UK public sector. It also details the services provided within the UK and abroad.

02

Summary of audit progress

We are currently planning the audit for 2015/16 which covers :

- the audit of your financial statements;
- our work to conclude on your arrangements for securing value for money ; and
- a programme of work specified by NAO in respect of your Whole Government Accounts submission.

Our planning involves assessing the risks of material misstatement in the financial statements and the risks relating to the value for money conclusion and developing a plan of audit procedures to address the identified risks.

We do this by:

- identifying the business risks facing the Combined Authority, including assessing your own risk management arrangements;
- considering the Combined Authority's financial performance;
- assessing internal control, including reviewing the control environment;
- evaluating and testing the IT control environment;

- assessing the risk of material misstatement arising from the activities and controls within the information systems; and
- walking through the key controls within the key financial systems.

We are holding planning meetings with senior managers to inform our planning risk assessments and to better understand the priorities and challenges the Combined Authority faces.

We will present our Audit Strategy Memorandum to the next Governance and Audit Committee. This document will set out the significant audit risks we have identified, for both the opinion on the statement of accounts as well as the value for money conclusion, and our approach to the audit.

03

Value for Money Conclusion guidance

Summary

The National Audit Office has published updated guidance in respect of the Value for Money (VfM) conclusion. The guidance sets out the revised criterion applying to 2015/16 audits and consists of an overarching document, along with a local authority-specific paper which provides details of supporting background information on key issues facing local authorities.

Revised criteria

In previous years, auditors were required to reach their statutory conclusion on arrangements to secure VfM in respect of two main criteria; these have now been replaced by one overall criterion, supported by three sub-criteria, as set out in the tables below

New overall criterion	Sub-criteria
In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.	<ul style="list-style-type: none">• Informed decision-making.• Sustainable resource deployment.• Working with partners and other third parties.

Previous criteria

Previous criteria	Focus
The Combined Authority has proper arrangements in place for securing financial resilience.	The Combined Authority has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
The Combined Authority has proper arrangements for challenging how it secures economy, efficiency, and effectiveness.	The Combined Authority is prioritising resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Sub-criteria – further detail

In both local government and the NHS, organisations are already required to have arrangements in place to ensure proper governance, resource and risk management, and internal controls, and to report on the design and operation of those arrangements through Annual Governance Statements.

The recently issued guidance draws on relevant requirements applicable to each sector and aligns the scope of proper arrangements with those that responsible parties are already required to have in place and to report on through documents such as annual governance statements and annual reports.

Drawing on the relevant requirements applicable to local bodies, proper arrangements cover the following:

Sub criteria

Sub-criteria	Guidance
Informed decision-making	<ul style="list-style-type: none"> • Acting in the public interest, through demonstrating and applying the principles and values of sound governance. • Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management. • Reliable and timely financial reporting that supports the delivery of strategic priorities. • Managing risks effectively and maintaining a sound system of internal control.
Sustainable resource deployment	<ul style="list-style-type: none"> • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. • Managing and utilising assets effectively to support the delivery of strategic priorities. • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> • Working with third parties effectively to deliver strategic priorities. • Procuring supplies and services effectively to support the delivery of strategic priorities.

04

Publications

The following pages outline for your attention some significant publications by Public Sector Audit Appointments in respect of:

- Results of auditor's work 2014/15: local government bodies; and
- Statement of Responsibilities of Auditors and Audited bodies.

Publications

Summary	Possible action
<p>Results of auditor's work 2014/15: local government bodies, <i>Public Sector Audit Appointments Ltd, December 2015</i></p> <p>This is the first report for local government bodies published by Public Sector Audit appointments Ltd (PSAA), and it summarises the results of auditors' work at 509 principal bodies for 2014/15. The report covers the timeliness and quality of financial reporting, auditors' local value for money work, and the extent to which auditors utilised their statutory reporting powers.</p> <p>The timeliness and quality of financial reporting for 2014/15 remained broadly consistent with the previous year for both principal and small bodies. Against a background of financial challenges, the sector is clearly working hard to achieve appropriate standards in its stewardship of resources.</p> <p>Auditors at 97 per cent of principal bodies were able to issue the opinion on the 2014/15 accounts by 30 September 2015, with 23 bodies receiving an unqualified audit opinion by 31 July 2015. For the second year in a row there have been no qualified opinions issued to date to principal bodies. The number of qualified conclusions on value for money arrangements remained consistent with the previous year at 4 per cent.</p>	<p>The report can be found at http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/reports-on-the-results-of-auditors-work/</p>

Publications

Summary	Possible action
<p>Statement of Responsibilities of Auditors and Audited Bodies, Public Sector Audit Appointments Limited</p> <p>This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of the audited body in certain areas. It replaces the previous statement issued by the Audit Commission and applies to audit engagements in respect of 2015/16.</p> <p>The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code. Nothing in the Statement is intended to limit or extend those responsibilities.</p> <p>The statement covers the following areas:</p> <ul style="list-style-type: none"> • responsibilities in relation to the financial statements; • responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources (the VfM conclusion); • specific powers and duties of auditors (public interest report, referral to Secretary of State); • reporting the results of audit work; • ad hoc requests for auditors' views; and • access to information, data security and confidentiality. 	<p>The statement can be found at http://www.psaa.co.uk/wp-content/uploads/2006/08/Statement-of-responsibilities-of-auditors-and-audited-bodies-2015_16.pdf</p>

05

Contact details

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ITEM 6

Report to: Governance and Audit Committee

Date: 9 February 2016

Subject: Internal Audit Progress Report

1. Purpose

1.1. To inform the Authority of the work undertaken by the Internal Audit Section.

2. Information

2.1. This report provides details of activities undertaken by the Internal Audit Section in the period from 1 November 2015 to 31 January 2016 and summarises the objectives of reviews undertaken, audit opinion and the key issues resulting from this work.

2.2. The Internal Audit Section has undertaken work contained within the West Yorkshire Combined Authority's (WYCA's) Audit Plan through the performance and release of the following audit reports:

- Treasury
- Purchasing
- Low Moor Rail Station Development – Project Healthcheck
- Castleford Bus Station Development – Project Healthcheck
- Health & Safety
- Payroll & Personnel Records
- Debtors
- Payzone System Review Follow-up

3. How Control is Reviewed

3.1. There are three elements to each internal audit review. Firstly, the objectives and key risks associated with the audit entity are identified. Secondly, controls which internal audit would expect to be present to mitigate risk are determined and finally

an audit programme is developed to review the existence and operation of those controls through a combination of substantive and compliance testing.

- 3.2. An evaluation of the effectiveness of controls tested is provided within each audit report along with an indication of any residual risk. This is then used as the basis for forming an audit opinion of the entity. Details of audit opinion assurance categories are provided below:

Assurance Level	Definition
Well Controlled	<p>There is a robust control framework in place for the system.</p> <p>All necessary controls are in place and are operating effectively.</p> <p>Any recommendations made are low risk and relate to enhancements of existing controls.</p>
Controlled	<p>There is an acceptable control framework in place. Key controls are in place and operating effectively.</p> <p>Some changes to controls and how they operate would be beneficial.</p> <p>Recommendations made are moderate or a combination of moderate and low risk, including the development of existing controls, and do not relate to key controls.</p>
Requires Improvement	<p>Controls in place for some elements of the system are not always appropriate or effective or are not consistently applied.</p> <p>Recommendations made are of high or a combination of high and moderate risk concerning the operation of key controls.</p>
Poorly Controlled	<p>There is an inadequate control framework.</p> <p>Key controls are absent or not operating.</p> <p>The operation of the system is currently providing an unacceptable risk.</p> <p>Recommendations made are high risk concerning the operation of key controls.</p>

4. Audit Summary

- 4.1. Overall the performance of individual audit assignments is substantially in line with the Plan with a forecast overrun of 31 days. The majority of this difference is due to the intentional over-programming in the Plan which was approved by the Combined Authority at their meeting in March 2015, (26 days in year). Details of progress made to date in completing the Audit Plan 2015/16 are provided in **Appendix A**.

- 4.2. The reviews undertaken in the latest period were assessed as well controlled or controlled with 3 reviews evaluated as requiring improvement.

A summary of the internal audit reviews performed along with details of any significant issues identified and respective audit opinions are provided in sections 4.3.1 to 4.3.8 of this report.

- 4.3. Progress in implementing all audit recommendations is monitored through Internal Audit's outstanding recommendations tracking system. Information relating to the number of recommendations issued by internal audit and the status of management responses is provided below:

	Priority High	Priority Medium	Priority Low
Number of Audit Recommendations Issued 2015/16	32	35	2
Number of Audit Recommendations Fully Implemented.	14	18	0
In Progress Audit Recommendations	14	12	2
Overdue Audit Recommendations.	4	5	0

The majority of the overdue medium priority recommendations have an implementation date of 31 January 2016 and are partially implemented at the date of writing this report. WYCA's directorate management teams will continue to overview and report progress to internal audit on these matters.

Information relating to the overdue high priority recommendations is provided in **Appendix B** of this report.

4.3.1. Treasury

Opinion – "well controlled"

There is robust control framework in place.

Objectives

The review considered the presence and operation of the following key controls:

- Evidence and review documentation to support transactions performed.

- Regular statements of assurance from LCC concerning the accuracy of financial information provided.
- Financial strategy including evidence of governance meetings and compliance with prudential code requirements.
- Verification of transactions provided by LCC to movements and balances on the Authority's bank account.
- Monitoring and review of cash flow forecasts.
- An adequate contingency plan is in place in the event of an IT failure.
- IT systems are secure and backed up at frequent intervals.
- Bank account (Lloyds link) access rights are limited.
- Assurance of source documentation being kept at LCC with regards to the cashbook transactions.

Observations

There were no significant observations identified as a result of this review.

4.3.2. Purchasing

Opinion – “requires improvement”

Evidence concerning the award of tenders must be improved.

Objectives

The review focused on the reliability of systems operating for procuring goods and services and arrangements for the disposal of assets. The scope of the audit included the testing of procedures for ordering, receipt and authorisation of payments, compliance with Financial Regulations and EU directives, systems interfaces and reporting arrangements.

Observations

The primary recommendations concerned the provision of evidence to demonstrate the appropriate approval of tenders and the development of arrangements for the capture and maintenance of information required for the control of contractors.

4.3.3. Low Moor Rail Station Project Healthcheck

Opinion – “requires improvement”

Key PRINCE2 project management strategies were not provided. However it should be noted that this project commenced before the organisation formally adopted the PRINCE2 framework.

It is also accepted that the nature of rail infrastructure schemes means that a significant degree of tailoring is required to meet rail industry project management requirements.

Objectives

The objectives of this review were to assess the project management arrangements against the PRINCE2 framework.

Observations

There are a number of PRINCE2 strategy documents that have not been produced for this project. The principal points to consider include the completion and updating of the PID, Benefits Review Plan, Lessons Learnt Log and the identification of project tolerances.

The principal recommendation was that for Rail infrastructure projects guidance be produced which maps PRINCE2 strategies and documentation to the equivalent GRIP framework items. This can then be referred to by project boards and managers to inform tailoring of the PRINCE2 framework for any future schemes of this nature.

4.3.4. Castleford Bus Station Development Project Healthcheck

Opinion – “well controlled”

Based upon our project healthcheck our overall opinion is that the Castleford Bus Station Development Project management arrangements were well controlled. Key PRINCE2 project management methodology was demonstrated however a number of generic issues were identified for consideration for project boards throughout WYCA.

Objectives

The objectives of this review were to assess the project management arrangements against the PRINCE2 framework.

Observation

The Project Board and Project Manager should demonstrate that they are actively

controlling the Project Initiation Document (PID) throughout the lifecycle of the project.

4.3.5. Health & Safety Management

Opinion – “requires improvement”

Controls applied to the management of WYCA’s Health & Safety activities in relation to risk assessments and infringements require improvement.

In addition, emergency procedures at WYCA facilities must be updated.

Objectives

The objective of the review of Health & Safety was confined to the existence and operation of a framework of measures to enable Health & Safety functions to be provided to WYCA.

The objective and scope of the Health and Safety review was to assess the arrangements in place to comply with organisational policies and the principles of internal control (segregation of duties, organisational, authorisation, personnel, management, accounting, physical and supervision).

The review considered the presence and the operation of the following key elements;

- Health and Safety Policy
- Risk assessments
- Tenant compliance checks
- Incidents and accidents
- Emergency procedures (Bomb and Fire)
- Legal Register
- Inspections and investigations

Observations

The key issues emerging from this audit concerned;

- The development of a communications protocol for ensuring that employees are aware of the Health and Safety policy and understand it should be considered.
- That the Health & Safety Committee review their arrangements to facilitate the reporting, monitoring and resolution of actions required as a result of risk assessments undertaken, actions resulting from infringement reports provide direction and consider if further mitigations are required.
- That fire and bomb procedures be updated to ensure that they are ‘fit for purpose’ and consider co-ordination with Local Authorities.

- That the procedures that link into and support the updating and inform the level of compliance with items of statute within the Legal Register be developed.

4.3.6. Payroll & Personnel Records

Opinion – “controlled”.

There is an adequate control framework in operation.

Objectives

The review focused on the reliability of systems operating for the calculation, production and maintenance of WYCA’s payroll. The audit examined arrangements for the separation of duties between members of staff responsible for the preparation of payroll and the processing of payments to employees, authorisation of prime documentation and system validation and review.

Observations

The Principal recommendation was that a review should be performed to ensure all TUPE employees evidence the required right to work documentation. Checks should be re-performed where existing records fail to meet Home Office criteria, a copy should be retained of the documentation supplied and a record made of the date all right to work checks are performed.

4.3.7. Debtors

Opinion – “well controlled”

There is an acceptable control framework in place. Key controls are in place and operating effectively.

Objectives

This audit considered arrangements in place for ensuring that debtors are adequately processed. The audit included a review of procedures for the creation and authorisation of debtor invoices, receipting and allocation of income received and debt management.

Observations

There were no significant issues identified as a result of audit tests undertaken.

4.3.8. Payzone System – Follow up

Objectives

In early 2015 a review of the IT processes in place at Yorcard Limited to manage payments made to WYCA from Payzone ticket sales and the data generated supporting these sales was undertaken. The report was issued in July 2015. Since that time management responses have been recorded and updated on the Covalent audit recommendation tracking system. Given the significance of the data processed it was decided to follow up the stated management actions and review those where no progress has been made. This follow up included discussions with WYCA and Yorcard Limited representatives and an examination of any evidence provided to support action taken.

Observations

Of the 18 audit recommendations originally issued, it was established that 4 high priority and 2 medium priority audit recommendations had been implemented. However, 5 high priority and 7 medium priority recommendations remain outstanding, 4 of the high priority and 6 of the medium priority recommendations were overdue at the time of the follow up review. Details of the high priority overdue recommendations are included in Appendix 'B' of this report.

5. Other Activity

- 5.1. In addition to the completion of scheduled audit reviews provided in section 4 of this report, audit testing work has been concluded in relation to Tendered Subsidised Bus Services, Risk Management, ICT Data Security, Prepaid Tickets & Concessionary Travel, Creditors and CHASE CRM Audit Follow-up. Final release of these audit reports is now subject to quality reviews of the audit files and the agreement of recommendation implementation actions. A summary of the results from these reviews will be provided to this Committee at the next meeting.

6. Financial Implications

- 6.1. None relating directly to the Internal Audit function.

7. Legal Implications

- 7.1. The Accounts and Audit Regulations establish requirements relating to systems of internal control and the review and reporting of those systems. Accordingly, the Authority must have in place a process for establishing, maintaining and reviewing the system of internal control and risk management. The regular reporting by the Internal Audit Manager forms part of these arrangements.

8. Staffing Implications

- 8.1. The performance of ICT systems audits requires the buy-in of third party specialist services.

9. Recommendations

- 9.1. That the Internal Audit progress report be noted.

Appendix A

Audit Plan Progress

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
Passenger Services	Unannounced Visits	Unannounced visits to Travel Centres to check cash and ticket stocks.	5	0	Outstanding
Cross-Cutting	Pro –Active Anti- Fraud Exercise	Statistical analysis for duplicate payments, data matching for creditor payments into inappropriate bank accounts. Sample review of changes to bank payment master records.	5	5	Completed
Passenger Services	English National Concessions Travel Scheme (ENCTS)	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data. Validation rules for applicants to provide evidence of identity, residency and a photo. NFI checks have been performed with other datasets. System is secure and backed up at frequent intervals with limited access rights, satisfactory contingency plan is in place.	20	20	Completed
Cross-Cutting	AGS	Completion of Annual Report and internal audit opinion	2	2	Completed
Development	Local Transport Plan Capital Programme Management	Review of arrangements to identify, monitor, control and report on the Capital Programme.	15	15	Completed
Development	Interreg Carbon Responsible Transport Strategies (CARE NORTH)	Head of IA assurance. Periodic report and claim review and certification.	5	5	Completed
Development	Interreg Improving Transport & Accessibility through new Community Technology (ITRACT)	Head of IA assurance. Periodic report and claim review and certification.	5	5	Completed
Passenger Services	Better Bus Area Fund	Head of IA assurance. Periodic report and claim review and certification.	5	5	Completed
Passenger Services	Bus Services Operators Grant	Head of IA assurance.	5	5	Completed
Passenger Services	Cycle City Grant	Head of IA assurance.	5	3	In Progress

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
		Periodic report and claim review and certification.			
Development	Transport Fund	Head of IA assurance.	10	2	In Progress Declaration Mar 2015
Resources	Purchasing	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e-procurement, purchasing cards.	12	12	Completed
Resources	VAT	Arrangements for the accounting and submission of VAT returns to HM Revenues & Customs.	5	5	Completed
Resources	Data Security/ Protection	Arrangements for the protection of data from loss. System penetration testing.	25	9	In Progress
Passenger Services	Smart Card & Information Programme (SCIP) Smart transactions Web Customer Hubs and Service Experience (CHASE)	Review to provide independent assurance. Business change – benefits realisation back office operations.	15	15	Completed
Enterprise Partnership	Economic Development	LEP understanding the entity and assurance mapping. Local Growth Fund *Business Growth Programme *Skills Gap * West Yorkshire Broadband	30	18	In Progress
Development	LTP	Head of IA assurance. Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	10	10	Completed
Cross-Cutting	Health & Safety	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording accidents, illness and first aid, use and maintenance of work equipment, control of exposure to	15	17	Completed

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
		hazardous substances, electrical equipment, noise and radiation. Provision of protective clothing or equipment, Reporting of injuries, diseases and dangerous occurrences to the enforcing authority (RIDDOR). The control and management of asbestos, management of contractors, smoke free legislation, alcohol and substance abuse.			
Passenger Services	Prepaid Tickets & Concessionary Travel	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments. Consider controls for smartcard transactions. Payzone sales system.	20	18	In Progress
Passenger Services	Tendered Subsidised Contracts	Tendering arrangements, batches, de minimis contracts, insurance, operator's licenses, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services.	15	17	In Progress
Passenger Services	Passenger Facilities/Contract Monitoring	Bus station repairs, maintenance, cleaning and security. Shelter cleaning & repairs.	15		
Resources	Payroll	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's allowances, expenses & deductions.	12	13	Completed
Resources	Treasury Management	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances, prudential code.	15	14	Completed
Cross-Cutting	Fraud Awareness	Maintaining employees' awareness of WYCA's counter- fraud arrangements.	2		
Resources	I.C.T. Governance	Systems security - Back-ups, recovery plans, data integrity, email, internet controls, monitoring, access, ICT strategy, control of ICT equipment. Service desk.	20	5	In Progress
Passenger Services	Metro Travel Centre Operations	Ticket sales, stock, cash handling security, reconciliations & reviews performed. Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations. New arrangements for Castleford and Pontefract	15	12	In Progress
Cross-Cutting	Risk Management	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training.	15	10	In Progress

Directorate	Milestone Description	Summary	Estimated Days	Actual Days	Milestone Completed
Development	Transport Fund – Business Case	Review of operation of Strategic assurance framework. Assessment and scrutiny of business cases - Quality Assurance.	20	6	Review of mandates
Resources	Main Accounting – General Ledger	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, Haven, and payroll. VAT.	8		
Resources	Creditors	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls, and sub-contractors records.	8	2	In Progress
Resources	Debtors	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting.	6	6	In Progress
Resources	On-line Payments	Review of controls for the processing of on-line payments and credit/debit card payments received.	8	3	In Progress
Cross- Cutting	Fraud Investigations	Contingency for fraud investigation.	10	3	Conduct referral
Resources	ICT Services	Consideration of VfM aspects of processes.	10		
Cross-Cutting	Audit Follow-up	Follow up on implementation of key audit recommendations	20	24	Completed
Passenger Services	Survey Monitoring	Robustness of systems to identify changes in bus network in a timely manner. Changes to monitoring arrangements and move to smart.	12	5	In Progress Migration to smart data
Development	Castleford Bus Station Development	Project Healthcheck		15	Completed
Development	Low Moor Rail Station Development	Project Healthcheck		10	Completed
			425	316	

Available Remaining Resource to 31/3/2016

101

Required to Complete Plan

132
31

Planned over programming

26

Appendix B

Overdue High Priority Audit Recommendations

Title	Recommendations	Action	Due Date	Priority
M/SD/P29/AR265 Payzone - Daily Checks	Daily Checks Management at Yorcard Limited should ensure daily checks are completed as expected and evidence to support the task is available. Yorcard indicated that this would be addressed and escalated to the General Manager.	Concessions & Integrated Ticketing Manager	31-Jul-2015	High
M/SD/P29/AR267 Payzone - Data Loss	Data Loss A documented process should be drawn up for handling any data loss / other significant issues including the recovery of prime files from the Payzone environment. This process should include alerting senior management if necessary. Discussions highlighted that a notification email exists however, there is no documented process regarding escalation. Steps are required to document steps that would occur.	Concessions & Integrated Ticketing Manager	31-Jul-2015	High
M/SD/P29/AR268 Payzone - Price Changes	Price Changes A formal process should be agreed and documented relating to price / product changes. At all stages WYCA stakeholders should sanction (in writing / email) their agreement. Discussions confirmed a process has yet to be documented and agreed.	Concessions & Integrated Ticketing Manager	31-Jul-2015	High
M/SD/P29/AR269 Payzone - Authorised Personnel	Authorised Personnel Going forward a list of authorised personnel should be agreed between Yorcard Limited and WYCA of those members of staff who can set / change prices / product. A high level document was provided relating to authorised personnel. However, this is not dated and has no approval status and is therefore incomplete.	Concessions & Integrated Ticketing Manager	31-Jul-2015	High

ITEM 7

Report to: West Yorkshire Combined Authority

Date: 9 February 2016

Subject: Internal Audit Plan 2016/17

1. Purpose

- 1.1 To consider the content of the Internal Audit Plan 2016/17.

2. Information

- 2.1. The Audit Universe identifies all potential areas of internal audit activity and is used as the basis for compiling annual audit plans.
- 2.2 International Auditing Standards require the Head of Internal Audit to establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's objectives. The input of senior management and the Board should be considered as part of this process. Public Sector Internal Audit Standards, as applied to WYCA in the Internal Audit Charter, define the Board as the Governance and Audit Committee.
- 2.3 The risk of each auditable entity has been assessed and scored to produce a high, medium or low risk rating. Some work will be required to comply with legislative requirements and the production of statements in published annual accounts. These areas are identified as fundamental and audit assurance in these areas should be prioritised.
- 2.4 A provisional assessment performed by internal audit has identified audit assignments which should be included within the Audit Plan in 2016/17. These are highlighted with a tick in the audit universe document attached to this report. At this stage, the resource requirement has been allotted to each assurance block based on previous audit performance. This will be refined through the allocation of audit days against each audit entity, once the plan has been fully determined.
- 2.5 The final Audit Plan is to be presented to the March 2016 meeting of the Combined Authority. It is proposed therefore that the final plan be circulated to Members of this Committee prior to submission to the Combined Authority. The plan will be tabled at the April meeting of this Committee for information and to recognise any amendments agreed by the Combined Authority at its meeting.

3. Financial Implications

- 3.1. If a programme of audit work is identified which is greater than the output possible from the existing Internal Audit structure, then other means of providing assurance, including co-sourcing and the buying-in of specific audit services, will be considered. The Internal Audit Manager has requested that WYCA allocate adequate budget provision to allow for these services to be procured in 2016/17.

4. Legal Implications

- 4.1. The Accounts and Audit Regulations 2011, Regulation 6, requires relevant bodies to maintain an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. The regulations recognise proper internal audit practices as those contained in the Code of Practice for Internal Audit in Local Government, issued by the Institute of Internal Auditors.

5. Staffing Implications

- 5.1. The Internal Audit Section consists of 3 full time posts. The resource necessary to deliver the Audit Plan and to deliver the level of assurance required by WYCA will be assessed once the plan has been fully determined.

6. Recommendations

- 6.1. Members of the Governance and Audit Committee are asked to review the audit universe, as provided in the appendix to this report, and identify any further specific engagement priorities to be considered for inclusion in the 2015/16 Audit Plan.
- 6.2. That the final version of the internal audit plan for 2016/17 be circulated by email to Members of this Committee prior to submission to the Combined Authority on 31 March.
- 6.3. That Members note the requirement for Internal Audit to be allocated independent and adequate budget provision in 2016/17 to deliver the Audit Plan.

Audit Universe/Draft Audit Plan 2016/17

Risk Assessment

	FACTOR
MR = Materiality/value risks	2
CR = Control weakness or none existence/operation – (CAKE)	3
PR = Political risk of failure or none performance and adverse publicity	1
LR = Legislative risks, illegal operations	3
OR = Opportunity risks, missed opportunities for improvements.	1

Risk Score Key

>5 = High
4 - 5 = Moderate
1 - 3 = Low

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Core Business Activities			80 days	
Prepaid Tickets & Concessionary Travel	MR, PR, LR 6 HIGH	Arrangements for accounting for stocks, cash, Haven system controls and reporting, calculations of prepaid ticket pool and distribution, concessionary fares reimbursements, on account payments and quarterly adjustments. Consider controls for smartcard transactions. Payzone sales system.	√	Audit Plan 2016/17
Metro Travel Centre Operations	MR, PR, LR 6 HIGH	To review the adequacy of Ticket sales, stock, cash handling security, reconciliations & reviews performed. Cash collected is administered and properly controlled to reduce the risk of loss or fraud. Associated back-office operations.	√	Audit Plan 2016/17
Tendered Subsidised Contracts	MR, PR, LR 6 HIGH	Tendering arrangements, batches, de minimis contracts, insurance, operator's licences, lost mileage, payment calculations and processes. Arrangements support and provide contract compliance. Public and education services	√	Audit Plan 2016/17
Passenger Facilities/Contract Monitoring	LR, PR, CR, MR 9 HIGH	Bus station repairs, maintenance, cleaning, repairs and security. Shelter cleaning & repairs.	√	Audit Plan 2016/17
English National Concessions Travel Scheme (ENCTS)	MR, PR, PR 6 HIGH	Data handling and protection requirements, access rights to ENCTS database, agreements with the third parties concerning the handling and maintenance of ENCTS data. Validation rules for applicants to provide evidence of identity, residency and a photo. NFI checks have been performed with other datasets. System is secure and backed up at frequent intervals with limited access rights, satisfactory contingency plan is in place, Assurance from the third party that data will be obtained and held securely and in compliance with the	√	Audit Plan 2016/17

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
		Data Protection Act. Awareness and communication of requirements of Concessionary Bus Travel Act		
Transport Fund – Business Case	Fundamental	Review of assurance framework.	√	Audit Plan 2015/16
Economic Development	MR, CR, PR, LR 9 HIGH	<p>Review of processes and controls for the provision of economic development functions for West Yorkshire.</p> <p>Growth Deal Access to Capital Grants Programme</p> <p>Skills Capital Projects Round 1 Projects Wakefield College (round 2) Selby College (round 2) Shipley College (round 2) Bradford College (round 2)</p> <p>Resource Efficiency Fund including ESIF</p> <p>Energy Accelerator Projects including European Investment Bank funding (ELENA)</p> <p>Aire Valley Park and Ride</p> <p>West Yorkshire Broadband</p>	√	Audit Plan 2015/16

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Data Sharing	LR, PR, CR, MR 9 HIGH	Arrangements for data sharing with other organisations and stakeholders including contracts/agreements methods of physical data transfer and information sharing protocols.		Last reviewed in 2014/15
Accessbus	PR,CR, OR 5 MODERATE	Contract compliance, CRB checks, monitoring of taxi costs, processing of operator payments, refunds and penalty points are adequately applied. Accessbus booking system, Vehicle run sheets, customer details are effectively processed and active customers are accurately captured. Cancellations are adequately processed; each passenger has a unique registration number. Effective management of vehicle assets.		Moderate risk assessment
Education Services	PR, LR 4 MODERATE	Route risk assessment/management, CRB checks, commercial; hire systems, data protection, and vehicle operating requirements.		Moderate risk assessment
Rail Services/ Franchise	PR, LR 4 MODERATE	Administration of franchise agreement – top sliced for Rail North housing.	✓	New arrangements established in 2016/17
Realtime/Service Information	MR, PR, OR 4 MODERATE	Operational reports produced from the system in terms of checking timetable information and asset verification, Arrangements for reporting issues and faults in relation to SMS, website and display units. Maintenance arrangement for checking displays units at bus stations and shelters. Arrangements to allow operational issues to be identified		Moderate risk assessment

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
		and managed effectively. Contingency arrangements operate in relation to data management and resilience of equipment and network connections		
Yorcard Ltd	MR, CR, PR, LR 9 HIGH	Procurement procedures. Smart transaction development including processing through payzone. Governance arrangements.		Governance and systems development reviewed in 2015/16.
Income Generation	OR 1 LOW	Maximisation of existing and identification of new income streams. (excludes grant income funding)		Low risk assessment
Financial Systems			71 days	
Main Accounting – General Ledger	Fundamental	Review of the operation of key controls including System user rights, review, control, adequacy and timeliness, budgetary control, systems interface – education, bleep, and payroll. VAT.	✓	Audit Plan 2016/17
Creditors	Fundamental	Review of the operation of key controls including segregation, authorisation, reconciliation of statements, BACS controls, and sub-contractors records	✓	Audit Plan 2016/17
Debtors	Fundamental	Test arrangements for write offs, requisitioning, reporting, review of accounts, debt age monitoring and reporting	✓	Audit Plan 2016/17
Payroll	Fundamental	Review of the operation of key controls including arrangements for starters, leavers, pay points, member's	✓	Audit Plan 2016/17

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
		allowances, expenses & deductions		
Procurement	LR, MR, OR 6 HIGH	Review of the operation of key controls including tendering, ordering, commitments, compliance with Standing Orders and Financial Regulations, e-procurement, purchasing cards. Review of consultancy framework arrangements	√	Audit Plan 2016/17
Treasury Management	Fundamental	Review of the operation of key controls including treasury management, segregation, review, authorisation, third part services and assurances	√	Audit Plan 2016/17
On-line Payments	LR, MR, OR 6 HIGH	Review of controls for the processing of on-line payments and credit/debit card payments received over the phone.	√	Audit Plan 2016/17
Management & Business Support Functions			40 days	
I.C.T. Administration & Governance	MR, CR, PR, LR, 9 HIGH	Systems security - Back-ups, recovery plans, data integrity, email, internet controls, monitoring, access, ICT strategy, control of ICT equipment. Service desk. Network penetration testing Information Technology Infrastructure Library (ITIL.)	√	Audit Plan 2015/16
Data Security/ Protection	MR, CR, PR, LR, 9 HIGH	Arrangements for the protection of data from loss in light of changes to working initiated by the introduction of mobile and flexible working arrangements	√	Audit Plan 2015/16

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Human Resources	LR, OR 4 MODERATE	Induction, training, development, disciplinary, capability, strategy, exit interviews, employment law compliance. Human Rights, Equal Opportunities, Living Wage		Moderate risk assessment
Corporate Planning	OR, PR 2 LOW	WYCA business planning cycle, identification of key objectives.		Corporate plan under review/development in 2016
Complaints Procedure	PR, LR 4 MODERATE	Compliance, policy, awareness, responsibility.		Moderate risk assessment
Escrow	PR, LR 4 MODERATE	Independent review of Escrow arrangements. Evidence of funds held in Escrow accounts.		Moderate risk assessment
Corporate Governance			50 days	
Risk Management	Fundamental	Effectiveness of risk management processes, risk management guidance and support, Identification of risk, risk evaluation, risk mitigation and control, monitoring risks, reporting the status of key risks and controls, recording the management of risks, including the effectiveness of the controls and other responses to them, risk awareness and training	√	Audit Plan 2016/17
Health & Safety	LR, PR, MR 6 HIGH	Health & Safety Policy meets legal requirements as provided in the Health & Safety at Work Act and other relevant Acts. Workplaces and welfare requirements, recording	√	Audit Plan 2016/17

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
		accidents, illness and first aid, use and maintenance of work equipment, control of exposure to hazardous substances, electrical equipment, noise and radiation. Provision of protective clothing or equipment, Reporting of injuries, diseases and dangerous occurrences to the enforcing authority (RIDDOR). The control and management of asbestos, management of contractors, smoke free legislation, alcohol and substance abuse.		
Annual Governance Statement	Fundamental	Financial reporting including compliance with relevant standards and codes of corporate governance. The establishment, monitoring and reporting on the systems of internal control.	v	Audit Plan 2016/17
Corporate Ethics	PR. LR, OR 5 MODERATE	Steps to ensure that senior officers exercise leadership through high standards of behaviour. The establishment of mechanisms to ensure that officers are not influenced by prejudice, bias or conflicts of interests. Officer delegations.		Moderate risk assessment
Code of Corporate Governance	PR. LR, OR 5 MODERATE	Arrangements to ensure compliance with applicable statutes and relevant statements good practice, appropriate arrangements for the safeguarding and accountability of public funds, clear and effective communication with the WYCA's stakeholders, clearly defined roles and responsibilities at the head of the organisation.		Moderate risk assessment

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
		<p>The framework of strategic control including matters reserved for the collective decision of the Authority and arrangements for delegated decision making.</p> <p>The appointment and roles of Authority members.</p> <p>Operation of the audit committee for the independent review of internal control and external audit process.</p> <p>Arrangements to ensure objective and professional relationship are maintained with external auditors.</p> <p>Disclosure of Personal and Pecuniary Interests</p>		
Scrutiny	PR, LR, OR 5 MODERATE	<p>Scrutiny Committees have agreed and regularly review their terms of reference, that members of the Scrutiny Committees are appropriately experienced and that opportunities are provided to develop skills required for members to effectively discharge their roles.</p> <p>That the Scrutiny Committees are provided with the opportunity to consider and, if necessary, review decisions before they are implemented, that corporate governance processes allow members of the public to make requests for scrutiny, that reviews of WYCA functions and policies are subject to scrutiny, arrangements for implementing and monitoring recommendations of the Scrutiny Committees which have been agreed with the WYCA.</p>		Moderate risk assessment
Legislative Compliance	MR, CR, PR 6 HIGH	<p>Freedom of Information, copywrite, employment legislation, statutory functions of WYCA.</p> <p>Publication scheme, Transparency code.</p>		Reviewed in 2014/15

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Business Continuity	PR, LR, OR 5 MODERATE	Review of plan to be implemented in the event of incident(s) which impact on Metro being able to operate.		Reviewed in 2014/15
Counter Fraud, Bribery & Corruption			29 days	
Fraud Investigations	Fundamental	Contingency for fraud investigation	√	Audit Plan 2016/17
Pro –Active Anti- Fraud Exercise	PR, LR, OR, CR 8 HIGH	Statistical analysis for duplicate payments, data matching for creditor payments into staff inappropriate bank accounts. Sample review of changes to bank payment master records.	√	Audit Plan 2016/17
Fraud Awareness	PR,LR 4 MODERATE	Maintaining employees awareness of WYCA'S counter fraud arrangements	√	Audit Plan 2016/17
Gifts, Hospitality & Interests	PR,LR 4 MODERATE	Adequacy of arrangements, review of records, procedures, controls.		Moderate risk assessment
Operator Farebox Revenue Audit Checks	MR, PR 3 LOW	To ensure the farebox revenue statements provided by operators can be verified and substantiated to the financial records maintained by the operator.		Low risk assessment plus annual independent certification of revenue required.

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Anti- Fraud, Bribery & Corruption Policy	PR,LR 4 MODERATE	Assess adequacy of anti-fraud & corruption policy and Whistleblowing policy. Completion of annual fraud return		Moderate risk assessment. Annual fraud return completed by Head of Internal Audit.
Projects			50 days	
Local Transport Plan Capital Programme Management	Fundamental	Review of arrangements to identify, monitor, control and report on the Capital Programme	√	Audit Plan 2016/17
Smart Card & Information Programme (SCIP) Smart transactions Web Customer Hubs and Service Experience (CHASE)	MR, CR, PR, OR 8 HIGH	Review to provide independent assurance. Business change – benefits realisation back office operations	√	Audit Plan 2016/17
Project Governance Framework	PR, LR, OR, MR 7 HIGH	Compliance with project and programme principles provided in PRINCE2 Operation of portfolio board	√	Provided on selected individual projects
Quality Contracts	CR,PR 4 MODERATE	Review to provide independent assurance		Subject to project progression/status

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
NGT	PR, LR, OR, MR 7 HIGH	Review to provide independent assurance		Subject to project progression
Low Moor	PR, LR, OR, MR 7 HIGH	Review to provide independent assurance		Reviewed in 2015/16
Mirfield Station Car Park	PR, LR, OR, MR 7 HIGH	Review to provide independent assurance		Rail infrastructure scheme subject to light-touch project management by WYCA
Wakefield Kirkgate Station	PR, LR, OR, MR 7 HIGH	Review to provide independent assurance		Rail infrastructure scheme subject to light-touch project management by WYCA
Pontefract & Monkhill Station Car Park	PR, LR, OR, MR 7 HIGH	Review to provide independent assurance		Rail infrastructure scheme subject to light-touch project management by WYCA
CHASE Customer Relationship Management (CRM)	PR, CR, MR, OR 7 HIGH	Review of project management arrangements. Testing of system functionality Review of Value for money aspects of project delivery		Reviewed in 2015/16
Pay & Grading/Job Evaluation	PR, LR, OR, MR 7 HIGH	Review to provide independent assurance Benefits realisation	√	Scheduled for completion in 2015, review to be undertaken in 2016/17
Safeguarding Assets			5	

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Verification	CR,PR 4 MODERATE	Physical verification of selected assets, primarily, land, buildings and vehicles		External audit coverage
Unannounced Visits	CR,PR 4 MODERATE	Cash ups, stock counts throughout WYCA.	√	Moderate risk assessment, levels of cash reducing due to introduction of smart technologies.
Inventory	PR, OR 2 LOW	Compliance with Financial Regulations office equipment, I.T., mobile phones etc. ICT equipment – evidence of verification.		Low risk assessment
Grant Certification			65 days	
LTP	Fundamental	Head of IA assurance. Periodic report and claim review and certification. Systems and procedures to control the allocation of payments and provide evidence of eligible expenditure.	√	Audit Plan 2016/17
Interreg Carbon Responsible Transport Strategies (SHARE NORTH)	Fundamental	Head of IA assurance. Periodic report and claim review and certification	√	Audit Plan 2016/17
Interreg Improving Transport & Accessibility through new Community Technology (ITRACT)	Fundamental	Head of IA assurance. Periodic report and claim review and certification	√	Audit Plan 2016/17

ACTIVITY	PRIORITY	DESCRIPTION	RESOURCE	COMMENTS
Better Bus Area Fund	Fundamental	Head of IA assurance. Periodic report and claim review and certification	√	Audit Plan 2016/17
Cycle City Grant	Fundamental	Head of IA assurance. Periodic report and claim review and certification	√	Audit Plan 2016/17
Bus Services Operator Grant	Fundamental	Head of IA assurance. Periodic report and claim review and certification	√	Audit Plan 2016/17
Transport Fund	Fundamental	Head of IA assurance.	√	Audit Plan 2016/17
Value for Money			15 days	
ICT Services	CR,PR 4 MODERATE	Consideration of VfM aspects of processes	√	Audit Plan 2015/16
Audit Follow-up			20 days	

ITEM 8

Report to: Governance and Audit Committee

Date: 9 February 2016

Subject: Internal Controls and Financial Monitoring

1. Purpose

- 1.1. To consider any changes to the arrangements for internal control in the West Yorkshire Combined Authority since the last meeting of the Committee and to consider the current financial position.

2. Information

- 2.1. This paper is provided to each meeting of the Governance and Audit Committee and provides information and assurance on governance issues. Any changes to, or failures of, internal control will be reported along with significant risk issues and an update on the budget position for the current year.

Internal controls

- 2.2. There have been no significant changes to internal controls in the period. Regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments, treasury management being carried out jointly with LCC. Some amendments to the treasury management arrangements have been approved at the last meeting of the WYCA and these are set out in item 9 on this agenda.

Key indicators

- 2.3. The Committee has requested regular information via key indicators, specifically with regard to accidents. Set out overleaf are the figures for 2015.

2015 Statistics chart:

2015 Month ending	Accidents	YTD	Near Misses	YTD	Collisions	YTD	First Aid	YTD	Abuse	YTD	RIDDOR S	YTD
January	4	4	4	4	0	0	8	8	-	-	0	0
February	4	8	3	7	3	3	16	24	-	-	0	0
March	5	13	5	12	3	6	10	34	-	-	2	2
April	16	29	11	23	5	11	24	58	-	-	2	4
May	9	38	5	28	2	13	15	72	-	-	1	5
June	12	50	6	34	3	16	19	91	-	-	0	5
July	6	56	11	45	2	18	15	106	6	6	1	6
August	6	62	11	56	5	23	16	122	2	8	0	6
September	8	70	7	63	4	27	16	138	2	10	0	6
October	7	77	9	72	3	30	10	148	0	10	0	6
November	5	82	6	78	3	33	13	161	0	10	0	6
December	6	88	8	86	2	35	10	171	0	10	0	6

2.4. Of the reported accidents the RIDDOR column at the end shows how many of these were reportable to the Health and Safety Executive (HSE). The Committee has previously considered the incidents to the end of September. Since then there has been no reportable accidents to the HSE and no particular increase in accidents or near misses that would require further work and investigation.

2.5. Other key indicators monitored include the suite of financial controls undertaken monthly in both the finance and concessions and integrated ticketing team. These are both up to date as at the time of writing this report.

Financial monitoring – revenue budgets

2.6. The latest forecast position for 2015/16 is set out overleaf and is as reported to the WYCA as part of the budget report of 4 February 2016. The budget for 2016/17 is set out as part of agenda item 9 which also includes a detailed commentary on the individual budget blocks and the reserves position.

Combined Authority			Budget	Forecast
				Outturn
			2015/16	2015/16
<u>Transport</u>				
Concessionary travel			55,474	55,339
Subsidised Services			19,632	19,354
Passenger Services			7,791	6,928
Prepaid Tickets			31,000	29,000
Rail - Franchise Costs			43,155	44,371
Policy and delivery			485	502
<u>Economy</u>				
Policy and delivery				1,720
Trade and inward investment				1,544
<u>Shared/corporate</u>				
Pensions			1,406	1,356
Financing costs			7,081	6,891
Corporate			5,722	5,763
			171,746	172,768
Prepaid Tickets			-31,000	-29,000
Special Rail Grant			-43,155	-44,371
LEP funding				-2,913
Enterprise Zone receipts				0
Interest receivable			-378	-708
Transport levy			-96,198	-96,198
Use of reserves			1,015	-422
Remaining reserves at year end			6,515	8,366

- 2.7. The main changes to the 2015/16 outturn since the last report to this Committee are the receipt of a one off sum arising from an option exercised by a supplier to extend an advertising contract in place (shown against the passenger services line) and a change in the expected level of Enterprise Zone receipts. There has also been a revision to the presentation of the budget to better reflect the new shape of the WYCA.
- 2.8. Since the last meeting further work has been undertaken on the timing of the receipt of the business rates resulting from new businesses on the Aire Valley Enterprise Zone. The LEP Board has agreed that income from this can be used to fund the budgeted trade and inward investment activities of the WYCA/LEP this year and for the subsequent three years. It was originally expected that significant sums would start to be received towards the end of 2016/17. It is now apparent that this is more likely to be later in 2017/18 and it is therefore proposed that WYCA utilise its cash balances and reserves to manage this timing issue. This is set out in more detail in

the budget report which forms item 9 on this agenda. This also sets out the situation with reserves and how they can be utilised in the coming year.

Financial monitoring – capital budgets

- 2.9. Delivery of the Transport Fund and Local Growth Fund projects is being monitored by the Investment Committee and dashboards showing progress on these are available on the WYCA website.
- 2.10. The budget paper included as part of agenda item 9 includes full details of the capital expenditure in 2015/16, the expected expenditure in 2016/17 and the funding available to the Authority and how it is proposed to be utilised.

Risk management

- 2.11. There have been no significant changes to risk since the last meeting of this Committee. The detailed risk registers and corporate risk register continue to be monitored by officers.
- 2.12. As advised at the last meeting a key element of risk previously identified relates to the delivery of the Local Growth Deal and the need to ensure expenditure is achieved and that all expenditure is properly managed. A number of measures are in place to support this including the Assurance Framework and the Single Appraisal Framework. These are currently being reviewed to ensure they remain relevant as the delivery of the Growth Deal develops and to bring together the Transport Assurance Framework and the LEP Assurance Framework into one document.
- 2.13. In support of this work has been undertaken to develop a Finance handbook which sets out details for how schemes within the Growth Deal should be costed, how approvals are sought, how funding will be advanced and the responsibilities and accountabilities of different parties working on these schemes. Production of the handbook has been a collaborative piece of work, led by an officer from Bradford Council and involving finance officers and senior highways officers from all West Yorkshire Districts. Their comments have been reflected in the draft which is attached as **Appendix A**. The handbook was initially drafted to manage the schemes within the West Yorkshire plus Transport Fund but following the receipt of Growth Deal funding for both transport and non-transport schemes the remit of the handbook has been broadened to be all Growth Deal projects. There is some further refinement of the handbook required to fully address the particular issues relating to the non-transport schemes but the principles within the handbook remain valid. The final draft will be considered by a future meeting of the Investment Committee prior to submission to the WYCA for approval.
- 2.14. The handbook provides a robust way for WYCA to ensure that it can demonstrate compliance with central government requirements for control of funding. It ensures consistency in dealings with all partners both in terms of costing schemes and in reporting progress against plans. The handbook also contains a suggested scheme of

delegation to enable projects to progress more rapidly through the gateway process. This, along with all other elements of the handbook, would be subject to final approval by the WYCA.

- 2.15. The intention is that the Assurance Framework, Single Appraisal Framework and Finance handbook will form part of a suite of guidance documents that will assist in ensuring the risks relating to delivery of complex projects are mitigated. Input to the other documents will be sought from the Governance and Audit Committee when the documents are further developed.

3. Financial implications

- 3.1. As set out in the report.

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 Committee note the report.
- 6.2. That the Committee provide any feedback on the Finance handbook.

WYCA Growth Deal Finance Handbook

19 January 2015

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This document has been drafted by: Tom Gifford (WYCA) & Richard Young (Bradford City Council), with support from Ben Whitaker (WYCA) & Jacqui Elliott (WYCA)

The document has been subject to review from colleagues across West Yorkshire.

PART 1: Introduction / Overview

1. Purpose of the Finance Handbook

- 1.1. The purpose of this Financial Handbook ('The Handbook') is to provide the financial governance and accounting procedures that are required to be followed for all Growth Deal investment schemes. This document is a key element of the broader WYCA Assurance Framework; its principles are designed to complement the Growth Deal Assurance Framework.
- 1.2. The Handbook exists to ensure arrangements are in place to protect the use of public funds applied to major projects/programmes. The Handbook is intended to provide practitioners with guidance at an operational level.
- 1.3. WYCA is under a duty to provide value for money; having regard to economy, efficiency and effectiveness, the authority is expected to make continuous improvements in the delivery of its functions. Fundamental to the operation of achieving value for money and continuous improvement is determining accurately the costs of the prioritised schemes. The guidance set out in this document summarises the financial requirements and obligations for all schemes.
- 1.4. The Handbook should be read alongside the WYCA and relevant Promoters Finance Regulations; this handbook is not intended to be a replacement to them.
- 1.5. In time, this Handbook is anticipated to become the handbook used for all WYCA schemes and not just those included within the Growth Deal.
- 1.6. The Handbook will be subject to periodic update.

2. Authority

- 2.1. It will be the responsibility of the Growth Deal Senior Responsible Officer ('SRO') in consultation with the WYCA Director of Resources for ensuring compliance with the Handbook. However, it will be responsible for individual Promoters to demonstrate that they have complied with the Handbook's requirements.
- 2.2. All Growth Deal Investment projects/programmes will be financed in accordance with this Handbook.
- 2.3. Variations to the procedure set out in this handbook can only be approved within the scope of the 'Scheme of Delegations' for the Senior Responsible Officer ('SRO') and WYCA Director of Resources. Any other variations will require approval from full WYCA.

3. Scheme of Delegation

- 3.1. The SRO of the Growth Deal in consultation with the WYCA Director of Resources shall have the following delegated authorities:
 - 3.1.1. For any already prioritised scheme with a value up to £50m, authority to grant financial approval of up to £5m for development costs and construction costs of up to £45m, at Gateways 1, 2 and 3 approval stages.
 - 3.1.2. Authority to grant advanced or emergency payments up to £5m in total at any point in the development/construction of a gateway scheme.
 - 3.1.3. Authority to allocate and grant approval to spend the centrally held Contingency fund, to a specific gateway scheme of up to £20m.
- 3.2. The WYCA Director of Resources in consultation with the SRO of the Growth Deal shall have the delegated authority to approve the terms of any Grant Funding Agreement in respect of the grant of funding which has previously been approved by WYCA or under the scheme of delegated approval.
- 3.3. Any project or programme requiring expenditure outside of the tolerances set above will require full WYCA approval.
- 3.4. Approval to all Mandates, plus any scheme substitution or new scheme inclusion will require full WYCA approval.

Application of Delegations

- 3.5. Figure 3.1 illustrates two case studies for project costs, with case studies of the various approvals presented below

Figure 3.1 Application of Scheme of Delegations

Scheme Costs £m			Case Study A		Case Study B	
Programme Contingency (Based on Promoter's Optimism Bias Assumption)		Retained by WYCA		£4m		£20m
Scheme QRA				£2m		£8m
Inflation		Provided to Promoter at Gateway 3 Approval		£10m		£60m
Project Contingency						
Other Costs						
Post Construction Costs						
Utilities						
Construction costs		Provided to Promoter at Gateway 1 / 2 Approval				
Land Acquisition & Compensation						
Development costs						

- 3.6. For Case Study A, the Project Cost is £10m and the scheme Mandate has already been approved by full WYCA:
- 3.6.1. The SRO of the Growth Deal, in consultation with the WYCA Director of Resources, would have delegated authority to grant Gateway Approval for all Gateway stages, subject to assurance requirements being met. This includes approval to commence construction at Gateway 3 stage.
 - 3.6.2. The SRO of the Growth Deal, in consultation with the WYCA Director of Resources would have delegated authority to grant approval to spend both the £2m Quantified Risk Allocation (QRA) and also the £4m Programme Contingency
 - 3.6.3. The SRO of the Growth Deal, in consultation with the WYCA Director of Resources would have delegated authority to grant approval to advanced or emergency payments up to £5m in total at any point in the development/construction of the scheme
- 3.7. For Case Study B, the Project Cost is £60m and the scheme Mandate has already been approved by full WYCA:
- 3.7.1. The scheme would require full WYCA approval for all Gateway stages
 - 3.7.2. Following Gateway 3 approval by WYCA, the SRO of the Growth Deal, in consultation with the WYCA Director of Resources would have delegated authority to grant approval to spend the £8m Quantified Risk Allocation

(QRA) and also delegated authority to spend £12m of the allocated Programme Contingency of £20m. If additional funding is required beyond this level, this would require full WYCA approval.

- 3.7.3. The SRO of the Growth Deal, in consultation with the WYCA Director of Resources would have delegated authority to grant approval to advanced or emergency payments up to £5m in total at any point in the development/construction of the scheme

PART 2: Background to the WYCA Growth Deal

4. Introduction to the Growth Deal

- 4.1. The City Deal agreed in outline between the West Yorkshire Local Enterprise Partnership (LEP), the West Yorkshire authorities and Central Government in 2012 included plans for a transformational programme of investment to drive growth in the West Yorkshire economy.
- 4.2. This resulted in the creation of the West Yorkshire Combined Authority (WYCA). The WYCA was formally established on 1st April 2014 to join together governance and strategic decision-making on economic development, regeneration and transport across the area.
- 4.3. The City Deal agreement with Government contained a commitment to establish a “Single Appraisal Framework” (SAF). The SAF is a consistent, robust appraisal process in line with HM Treasury guidelines and a key component of our Growth Deal Assurance Framework. It will enable the LEP and WYCA to develop, assess and appraise investment proposals that come forward from a ‘pipeline’ of potential projects for consideration, and to take investment decisions on the basis of the best return for the public pound.
- 4.4. Through the SAF, all significant discretionary projects and programmes funded from Government or local sources that flow through the LEP and the WYCA as the accountable body will be subject to comprehensive but proportionate assessment, wherever it is practicable, so as best to promote efficient resource allocation.
- 4.5. This document sets out from a finance perspective the financial governance and accounting procedures that are required to be followed for all Growth Deal investment schemes.
- 4.6. The Growth Deal with Government is with the LEP. However, the LEP cannot act as the accountable body for public expenditure that supports the Growth Deal (and wider Strategic Economic Plan), as it is not a legal entity in its own right. The WYCA is the accountable body for the LEP, and will be the vehicle through which the Growth Deal (and SEP) will be implemented. The West Yorkshire Combined Authority therefore owns and manages the Growth Deal, which includes the West Yorkshire Plus Transport Fund.

5. Eligibility of schemes

- 5.1. The schemes chosen for delivery by WYCA were identified using the Single Appraisal Framework (SAF). All schemes were benchmarked and prioritised using the GVA return per £1 of whole life net cost to the Fund.
- 5.2. Scheme selection followed an iterative process to ensure the final package of proposed investments target strategic transport corridors and therefore generate the highest returns in terms of employment outcomes and GVA.

- 5.3. A range of different types of schemes are included within the Growth Deal including Transport schemes, Business growth, Regeneration and Skills).

6. Sources of Funding for the Growth Deal

- 6.1. The Core Package to be delivered through the Fund has a capital cost of £1 billion, of which approximately 20% is to be financed through borrowing supported by direct local contributions collected through the transport levy and funded through Council Tax. The remainder is funded through the pooling of devolved local sources such as the Single Local Growth Fund (SLGF). The SLGF falls within the scope of the WY+TF following agreement with government on a City Deal and subject to satisfying a gateway review process at five yearly intervals the WY+TF has secured grant funding of £600m for 20 years up to 2034/35.
- 6.2. Direct contributions delivered from districts through the West Yorkshire Combined Authority Transport levy mechanism (and under special arrangement from City of York Council) is critical because it is the only mechanism that enables the authorities to raise incremental income and turn it into upfront capital buying power through a long term commitment. The Direct local contributions therefore represent a significant commitment and risk on the part of the authorities. The third funding element is a regional share of the national Major Transport Scheme Funding which amounts to £183m.
- 6.3. Funding beyond 2021 would be subject to 5 yearly reviews, starting in 2019. These reviews are required to be undertaken by an independent panel that will assess the economic impacts of the schemes delivered as well as considering the success of delivering on time and on budget.
- 6.4. The funding conditions of the Local Growth Fund require it to be spent on capital purposes. The contributions from Promoters originate from revenue therefore can be used for contributions to capital or revenue. Therefore the relative contributions for capital and revenue expenditure will require consideration in the business planning arrangements included below.

7. Business Case Approval Stages & Peer Reviews

- 7.1. In order to meet the requirements of different government departments, agencies and funding providers which will be contributing to the Growth Deal, WYCA have developed a robust, transparent and proportionate approach to project development and prioritisation, through a staged approach to appraisal with a number of decision 'gateways'. The Growth Deal Assurance Framework sets out that all schemes prioritised for inclusion in the Growth Deal are required to be developed in accordance with the following Approval Process.
- 7.2. This staged approach set out in the table below has been developed in line with the HM Treasury 'Five Cases Model'. This model has been refined and tested over many years and provides a clear framework for considering spending proposals. It provides a practical "step by step" framework to aid the development of business cases, using an approach which is both scalable and proportionate, and which offers a structured process for appraising, developing and planning to deliver best public value.

Approval Stage	Documentation Submitted	Purpose
Mandate	Mandate Document	<ul style="list-style-type: none"> To set the scene for the problem and why something needs to be done
Gateway 1: Development Approval	GW 1 Business Case	<ul style="list-style-type: none"> To set out the scope of the options under consideration across all 5 elements of the business case To define the maximum funding requirement from WYTF
Gateway 2: Conditional Approval	GW 2 Business Case	<ul style="list-style-type: none"> To confirm that any statutory powers (e.g. CPOs for land acquisition) have been granted; To gain approval for the procurement strategy (for large/complex schemes only) <p>Subject to the above not being relevant and with the agreement of the Growth Deal SRO, this Approval Stage can be bypassed, and schemes can move straight to GW3.</p>
Gateway 3: Implementation Approval	GW 3 Business Case	<ul style="list-style-type: none"> To set out the affordability of the tender prices received. To demonstrate the specification/scope of the project is compliant and consistent with Gateway 1 / 2 approval.
Gateway Stage 4: Scheme Close	Evaluation Report	<ul style="list-style-type: none"> To measure and demonstrate whether the expected benefits of the scheme were realised.

- 7.3. A key element of the Growth Deal is non-infrastructure schemes, which is often used for skills capital projects. The Promoter would be the organisation/team coordinating the funding/bidding opportunity. The Approver would be WYCA, unless delegated to Growth Deal SRO.

- 7.3.1. Prior to issuing the tender documentation to the market, the Promoter would be required to gain Gateway 1 approval. This would be based around a tailored Business Case covering all five elements of the Business Case.
- 7.3.2. Prior to awarding tenders, the Promoter would be required to submit a Gateway 3 Business Case, which would be an updated version of the Gateway 1 Business Case, but based on tender documentation received from bidders.
- 7.4. The Assurance Framework sets out that at each Gateway submission stage, the Approving Body shall consider all aspects of the Business Case as part of the decision making process for approving/declining whether the scheme can proceed to the next Gateway stage. A Peer Review will be held for each scheme submitted for approval. From a Financial perspective, the Peer Review panel will identify whether the Promoter has complied with the Assurance Framework, including compliance with the Finance Handbook. The Financial questions which will be asked at each Gateway Review are outlined in Appendix Two. If the Gateway Review concludes that a scheme should not be progressed, this will trigger the substitution/re-prioritisation process to be followed as outlined in the Assurance Framework. The substitution process is owned by the SRO of the Growth Deal.

Portfolio Management Office (PMO)

- 7.5. The specification and functionality of the PMO is currently being developed and it is expected that the role of the PMO will increase over time. At present the PMO meets at periodic intervals to manage the routine progress of each stage of the project approval process. On a quarterly basis the PMO will carry out Portfolio Peer Review of all schemes. Supporting financial information is to include standard WYCA cost estimation templates specified by the Handbook for the Gateway process and full financial working papers along with narrative, conclusions and recommendations. Periodic monitoring data at scheme level and aggregated at Promoter level will be considered at PMO but also be available following each Portfolio Peer Review.
- 7.6. Scheme promoters are required to submit to the PMO Quarterly Claim Form tracking the financial progress of the schemes in line with the financial reporting calendar. These declarations will include robust forecasts of expected spend in future quarters. A certified year end project outturn statement will be required as part of financial accounts closedown processes.
- 7.7. In addition to the above, Promoters will be required to provide regular highlight reports to the PMO. Promoters will be expected to use this reporting to provide early warning of any financial issues as they arise.

8. Re-prioritisation and Project Substitution of schemes

- 8.1. It is recognised that the prioritised list of schemes included with the Growth Deal may change over time. The Assurance Framework sets out the approach for dealing with project changes during either the appraisal or delivery stages

PART 3: Finance Management and Cost Management

9. Programme Revenue Budget

- 9.1. From 1st April 2015 WYCA has direct control and management of the Local Growth Fund relating to the four pillars of the City Region Strategic Economic Plan including the WY+TF budget relating to transport activities as agreed under the recent Leeds City Region Growth Deal. It is WYCA chief finance officers' duty to report on robustness of estimates and adequacy of reserves (under section 25 of the Local Government Act 2003) when the authority is considering its budget requirement. Further special arrangements are made for partner authorities such as the City of York.
- 9.2. WYCA is responsible for approving an annual revenue budget of the Authority within the terms of its Budget and Policy framework, including;
- Setting of a levy through negotiation with local Districts as precept authorities under the Local Transport Act 2008.
 - Making estimates for income and expenditure under powers that are the same as that for local authorities
 - Grants/loans to be made under the same conditions as that for local authorities
 - Finance provided to the Private Sector
- 9.3. Estimates for the Annual Level of Expenditure for the Growth Deal are included in the Annual WYCA Business Plan and Budget.

10. Programme Capital Budget

- 10.1. In line with the investment decisions of WYCA, capital funding made available to the Growth Deal is set out in the annual indicative capital programme reflecting the agreements under the City Growth Deal. The capital estimates are agreed by WYCA annually in line with the process as outlined for the Revenue Estimates approvals.
- 10.2. The aggregate of schemes appear in the annual West Yorkshire Combined Authority Business Plan and Budget Annual Report.

PART 4: Gateway Submission Requirements

11. Overview

- 11.1. At all necessary¹ Gateway submission stages the Promoter must provide robust, consistent and evidenced cost information to enable decisions to be made on investment. It is critical that the cost inputs are generated on a consistent basis and as such outturn costing is required at all gateway stages. This approach ensures a common approach to matters such as price base, inflation, contingency, operating and maintenance costs and for all schemes. For example, future maintenance liabilities must be identified and incorporated within the Business Case submission in order for Districts to align future financial planning compared with national maintenance allocations.

12. Specification of Costs in Gateway Submissions

- 12.1. It is expected that at each gateway stage, there will be changing levels of detail within the scheme cost plan. For example, typically:
- 12.1.1. Gateway 1 would be based on an outline design with industry standard unit rate assumptions;
 - 12.1.2. Gateway 2 would be based on a detailed design with detailed unit rate information; and
 - 12.1.3. Gateway 3 would be based on tender prices received.
- 12.2. It is noted that non-infrastructure schemes (e.g. funding/bidding competitions) may have different approaches to cost profiles. In consultation with the Growth Deal SRO, the Promoters of such schemes can tailor the cost tables provided to reflect individual requirements.
- 12.3. Where changes in the cost profiles occur, these are to be reported to the PMO and formally confirmed through the quarterly claims process and then any increase or decrease from the previous Gateway Submission profile is required to be explained.
- 12.4. Table 12.1 is a template and should be included within all Gateway submissions. Where appropriate, sub-tables (for example setting out development costs in more detail) should be included.

¹ As set out in the Business Case Guidance, schemes which do not require Land Acquisition and do not have complex procurement strategies may pass direct from Gateway 1 submission to Gateway 3 submission.

Table 12.1: Project Cost Table - Worked Example

Value £m	Mandate – Gateway 1	Gateway 1 – Gateway 2	Gateway 2 – Gateway 3	Post Gateway 3	Total
Development	£1.0	£2.0	£2.0		£5.0
Land Acquisition & Compensation		£0.5	£0.5	£5.0	£6.0
Construction				£40.0	£40.0
Utilities				£5.0	£5.0
Post Construction				£2.0	£2.0
Other				£0.0	£0.0
Project Contingency @ 10%	£0.10	£0.25	£0.25	£5.20	£5.8
Total project cost	£1.1	£2.8	£2.8	£57.2	£63.8
Inflation @ 4% p.a.					£5.2
Risk (QRA)					£2.0
Outturn Scheme Cost	-				£69.0

12.5. A description of each of the cost items is provided below:

Development Costs

12.6. Development costs are expected to include all costs between Mandate and Gateway 3 associated with preliminary designs, concept design, engineering, architectural and environmental assessments, estimating costs, surveys, investigations, business case preparation, supporting studies, exhibitions, consultations, stakeholder management, project management, insurance and governance.

12.7. Development costs should also include Internal Staff Costs, Professional Advisors, and other management costs associated with the project. Internal revenue costs are to be identified and calculated in a format that will make clear what services are being supplied, the rates these are based on and the methodology for the calculation of the rate, including a schedule of works being supplied with expected relevant outputs or outcomes.

Land acquisition and compensation

12.8. Land acquisition and compensation costs should include a full Property Cost Estimate including:

- 12.8.1. All costs associated with developing the land acquisition strategy and negotiation with affected land owners/stakeholders;
 - 12.8.2. Costs of promoting a compulsory purchase order including public inquiry;
 - 12.8.3. Land purchase costs including land value, land registration fees and SDLT;
 - 12.8.4. Statutory compensation;
 - 12.8.5. Professional fees of stakeholders/affected land owners;
 - 12.8.6. Any opportunity costs associated with incentives and time savings through favourable negotiations with affected land owners demonstrating value for money.
- 12.9. Reference should be made to relevant legal and consultation policies (DCLG guidance refers) including relevant authority to acquire. The valuer and valuation date must be identified. Include detail on land class (development, brownfield, green field), land referencing, land clearance, remediation and preparation costs. Include revenue costs associated with holding assets including security, maintenance and all other associated holding costs. Any valuation method must be fully outlined, e.g. comparison values, residual value.

Construction Costs

- 12.10. Construction costs are expected to include all costs associated with the physical implementation of the scheme. This includes all standard construction cost elements, preliminaries, site clearance, fencing, drainage, earthworks, structures, pavements, signing and lining, specialist structures, substructures, power supply, street lighting and electrical connections estimates, statutory undertakers costs, Promoter design, preparation, staff and supervision costs, UTC/CCTV estimate, telecommunications, third party liaison (e.g. Network Rail, Highways England, Property Owners), mitigation costs and landscaping. Third party contributions s106, s.278 liabilities and all other funding.
- 12.11. In addition to those costs common to highways schemes, rail schemes would also include rail specific items including risk / fee fund payments.
- 12.12. Costs associated with 'Green Streets' infrastructure elements should also be included. Include any public realm enhancements including cultural additions, such as public art work.

Utilities

- 12.13. Utilities – the WYCA recommended approach for estimating utilities costs is to refer to the standardised method for calculating budget estimates under the New Road Works and Street Works Act 1991 (NRASWA 1991), section 'C3'. Estimated statutory undertaker costs can be supplied at GW1 but detailed estimates for GW2 should follow section C4 of NRAWSA.

Post Construction Costs

- 12.14. Post Construction Costs will include testing and assurance, acceptance testing, technical certifications, inspection on and off site up to operational handover, legal and technical fees associated with approvals by 3rd parties and statutory approvals as a result of the project operational mobilisation and ramp up including training, cost of handover.
- 12.15. It will also include costs associated with delivering the monitoring and evaluation strategy to establish whether the benefits of the scheme have been realised.
- 12.16. This will also include the valuation of the land and estimates for compensation payments, for example, claims identified under Part 1 of the Land Compensation Act for all relevant years after construction has been completed.

Other Costs

- 12.17. Any costs associated with the construction of the scheme which are not included above.

Contingency

- 12.18. Promoters may include a contingency within the cost plan to reflect the 'unknown unknowns' within a project. This would typically be expected to be up to 10%.
- 12.19. The management of the use of this contingency is the responsibility of the Promoter.

Risk

- 12.20. At all Gateway submissions Promoters should include a quantified risk allowance (QRA). The QRA is based on a monte-carlo analysis undertaken on the risk register. It would typically be expected that the Promoter would include either the P50 or P85 value. The value would be decided by the Promoter and would depend on local circumstances associated with the Project.
- 12.21. WYCA recommend a standard approach to be followed. Promoters are expected to include a risk assessment of the probability of events for their scheme along with estimates of likely maximum and minimum costs associated with each event. A Monte Carlo simulation will typically be applied and a cost probability curve calculated.
- 12.22. The agreed probability value shall give a QRA value for inclusion in the cost estimate. Normally promoters will usually take the P80 value (80% chance of it costing within estimate). Standard risk models may be used.
- 12.23. As outlined in Figure 3.1, the QRA amount will be held by WYCA. After Gateway 3 approval, the Promoter may apply to WYCA for payment for all or part of the QRA

where the expenditure is forecast to exceed the budget as set out within the budget and funding profile. Payment will be subject to the agreement of WYCA.

- 12.24. Promoters should consider undertaking a Quantified Schedule Risk Analysis (QSRA) to estimate the probability of alternative scheme end dates at different confidence levels.

Optimism Bias

- 12.25. Optimism Bias is not part of the methodology for calculating project costs and should not be included in any cost estimates provided to WYCA. Optimism Bias should however be included in the economic assessment of the scheme (ie within the GVA/BCR calculations). Further guidance around the application of Optimism Bias can be found in the Business Case guidance as well as in the Treasury Green Book.

Operating, Maintenance and Renewals Costs

- 12.26. The Promoter is responsible for, maintenance liabilities, operating costs or any other whole life costs associated with the Scheme. The Growth Deal Fund Contribution cannot be used towards any of these costs. However, these costs should still be reported in the scheme business case.

Inflation and outturn costs

- 12.27. Where components of the costs are expected to change over the lifespan of the scheme at differing inflation rates, appropriate inflation rates for the components are to be indexed. Indexation will be applied according to prescribed classes and will be consistent for input to a Growth Deal/WY+TF Finance Model (see below)
- 12.28. All Gateway Business cases should include both the rates of inflation applied and total amount of inflation included within the outturn scheme capital cost. Unless specific information is available or more up to date advice is provided by WYCA, inflation should be assumed to be at 3.76% p.a. (This is the generic inflation used at the Growth Deal Package level). Costs should be inflated to the mid-point of each financial year. Changes to the standard rate or where inflation is provided for, for example, construction cost, fuel, labour or any other costs must be clearly and separately identified with justification.

Gateway 3 specific scheme cost information

- 12.29. The costs presented at Gateway 3 will reflect the tender prices received from contractors for the delivery and implementation of the scheme. To achieve Gateway 3 approval contracts are to be agreed.

13. Specification of Funding Requirements in Gateway Submissions

13.1. Table 13.1 should be used as a template and included within all Business Case submissions.

Table 13.1: Project Funding Template Table – Worked Example

£m	Outturn Project Cost (including QRA)	WYTF Funding Contribution	Third Party Funding Contribution	Local Authority Funding Contribution
2015/16	£5.0	£5.0		
2016/17	£10.0	£5.0		£5.0
2017/18	£20.0	£15.0		£5.0
2018/19	£32.0	£20.0	£12.0	
2019/20	£2.0	£2.0		
2020/21				
TOTAL	£69.0	£47.0	£12.0	£10.0

14. S151 Officer Approval

- 14.1. At each of the WYCA gateway stages, the SRO & named Section 151 Officer will be required to provide written confirmation that the costs and funding for the scheme in their business case are a true and accurate statement.
- 14.2. The s151 Officer must also confirm that their Authority has the ability to underwrite all third party funding required in order to deliver the schemes according to the estimates supplied.

15. Funding Approval conditions

- 15.1. A funding agreement will need to be in place prior to funds being released by WYCA. A specimen example is provided at Appendix 1 which sets out the standard terms and conditions which apply to grant funding. The funding conditions are based on a typical grant finance approach and it is noted that other finance approach may need a tailored set of these conditions.
- 15.2. In order to satisfy legislative requirements for the distribution of public funds under the Local Government Act the following funding approval conditions will typically need to be met.
- 15.3. The funding terms and conditions that WYCA require from the scheme promoter include the following:
- 15.3.1. Each scheme will have an identified promoter in the form of either WYCA or one of the 6 councils. The promoter will be responsible for ensuring accurate estimates of costings are provided throughout the project process as detailed in Part 3 of the Handbook headed 'Finance'.

- 15.3.2. The Portfolio Management Office will oversee obtaining approval to allocate funding for WY+TF schemes from the appropriate committee and WYCA, and will track overall expenditure against the budget.
- 15.3.3. The scheme promoters will be responsible for ensuring the necessary local approvals are in place to incur expenditure against the fund schemes.
- 15.3.4. Gateway approvals are recommended to the Combined Authority. All approvals to spend can only be made by delegated officers within the scheme of delegation approved by WYCA (refer to the section headed 'Scheme of Delegations' of the Handbook)
- 15.3.5. All funding released will be subject to periodic checks and tracking against project delivery milestones in line with the process set out in the WYCA Finance Handbook
- 15.3.6. The promoter and PMO will follow the processes identified in the Handbook for approving, monitoring and recording capital expenditure and hence will maintain financial records of expenditure at project level. The specified documentation is made up of;
- 15.3.7. Signed Funding Agreement
- 15.3.8. WYCA headed scheme cost determination input worksheet and supplementary input sheets
- 15.3.9. WYCA headed Quarterly Claim Form
- 15.3.10. An annual declaration certifying expenditure will be required from the promoter Districts, signed by their chief internal auditor and their section 151 officer.
- 15.3.11. Funding to scheme promoters will be capped at the maximum level agreed in Gateway Approval 3;
- 15.3.12. Any potential over spends (costs exceeding the agreed tolerances) will be escalated by the Portfolio Management Office to WYCA. WYCA will consider the appropriate options which will include a requirement for the Business Case to be re-worked and represented back to WYCA for further consideration. If the scheme fails to have an adequate Business Case it will be assessed against the conditions specified for re-prioritisation. There will be some contractual arrangements that cannot be terminated e.g. Rail Template Agreement. The risk of entering on to these will need to be considered as part of the Gateway Review Process;
- 15.3.13. WYCA may arrange for local audit of schemes to detect any mis-use of funds. Overall, WYCA's Internal Audit arrangements will sign off all total expenditure as part of the Annual Audit process. Promoter's Chief Internal

Auditor to provide assurance and to certify all expenditure on an annual basis as is the case for LTP expenditure;

- 15.3.14. The terms and conditions include provision for claw-back to ensure funding is only to be spent on the specified scheme and that any cost savings achieved on the completed scheme are returned to the Fund.

16. Changes to Funding Requirements from WYCA

- 16.1. Individual project funding allocations are limited to the level that has been approved at the Gateway Stage, in accordance with the budget decisions agreed by WYCA. Where the WYCA funding requirements rise above that originally agreed, the Promoter will apply to the WYCA to request additional funding.
- 16.2. Any request to fund cost overruns from Promoters schemes, will be considered by WYCA following a refreshed Business Case submission, and in line with the Business Case Gateway Guidance, scheme of substitution and scheme of delegations.
- 16.3. Where the Promoter does not require all of the WYCA funding, this shall be reallocated back to WYCA for delivery of the Programme overall, whereby the approach to re-allocating funding as set out in the Growth Deal Assurance Framework will be applied.

17. Reimbursement of Costs upon Scheme Cancellation

- 17.1. If a scheme has followed the Assurance Framework/Finance Handbook requirements but is cancelled at any time, or not approved at a Gateway submission, WYCA will not seek to reclaim Growth Deal funding from the Promoting Authority.

18. Changes to Funding Requirements from WYCA

- 18.1. Where Third Party funding is required, the Promoter is required to underwrite this funding requirement and is also responsible for putting in place the necessary legal/financial agreements with the third party.
- 18.2. If the third party funds do not materialise then the Promoter must provide such funding from its own resources. Depending on the timing of such payments the promoter may be required to meet interest costs on delayed capital payments.
- 18.3. Promoters may include third party funding in a prioritised scheme where that funding is from developers under planning obligations for Education, Recreation or Highways infrastructure under Community Infrastructure Levy or section 106 powers (Section 106 of the Town and Country Planning Act 1990). The 3rd party

contribution must be confirmed through delegated or executive resolution supported by signed protocol between WYCA and the Promoter.

19. State-aid

- 19.1. It is the responsibility of the Promoter to ensure that State Aid regulations are complied with. Ultimately if the state aid rules are found to have been breached, the funding must be reclaimed from the Promoter.
- 19.2. A failure to comply with State Aid terms and conditions (e.g. funds incorrectly used) can result in fines, penalties, repayment of funds and reputational damage. In order to reduce the risk of non-compliance with state-aid the WY+TF has access to state aid legal expertise. Additional support will be provided if needed and will usually be identified from project business cases and as part of the overall programme peer review.
- 19.3. Expert detailed advice will need to be engaged to advise whether the Fund may be able to rely on any exemptions to State Aid regulation in order to avoid falling foul of the State Aid rules. Any State Aid will need to be assessed on a case by case basis and the most relevant exemption(s) considered and applied. It may be that the Promoter needs to take professional advice to determine which exemptions should apply in any given scenario and should set out any scenarios that are known in advance before the Department of Business Innovation and Skills (BIS).

20. Special Arrangements for bodies outside WY+TF

- 20.1. City of York Council subsequently joined the Fund initiative as a partner reflecting the close economic links between York and the West Yorkshire region. The Fund became known as the WY+TF.
- 20.2. The co-funding principles for schemes of mutual York and WY benefit are;
 - 20.2.1. York Schemes being considered for inclusion in the fund programme are prioritised on the basis of their forecast impact on the agreed WY objectives per £ of net whole life cost to the fund
 - 20.2.2. York agrees to contribute to the Fund pro-rata to population. The scale of the local contributions and thus the size of the fund overall ensure a balance in the prioritisation of benefits across the Region and proportional funding.

21. Purchasing and Procurement

- 21.1. Promoters will be required to comply with all their own procurement processes and legal requirements for delivery of schemes.
- 21.2. For WYCA, value for money principles will be achieved through the procurement process of WYCA in accordance with internal policies and procedures (Standing

Orders and Financial Regulations (*SOFR*), Procurement Law governing procurement within the United Kingdom and EU Public Procurement Directives.

PART 5: Financial Management

22. Introduction

- 22.1. Financial tracking of the progress of the Growth Delivery is undertaken by the Combined Authority Portfolio Management Office according to a timetable aligned with external reporting requirements. A set of financial reports are to be supplied (based on Promoter returns) according to the following schedule.

Quarter	Quarterly Audit Declarations from Promoters	Finance update
Q1	July	August
Q2	October	November
Q3	January	February
Q4	April	May

- 22.2. The prime documents for the financial statements are held by the promoters. The financial statements used for reporting purposes are drawn up from WYCA standard cost estimate input sheets and from the quarterly tracking returns sent to promoters as part of Growth Deal reporting arrangements. The financial statements include the following reporting parameters (tables below are for illustration only).
- 22.2.1. Forecast outturn statements based on year end statements from promoters confirming outturn expenditure in the completed financial year;
- 22.2.2. Cash Flow Forecast with cash flow profiles built up from Promoter Update templates;
- 22.2.3. Medium term and Long Term Expenditure and Income Forecasts; and
- 22.2.4. Cumulative approved budget compared with actual expenditure.
- 22.3. The financial statements will be accompanied by an explanatory narrative and working papers splitting down the profile of the scheme details. The objectives of the statements will be to give the officer steering group and members an overview of the financial performance of the programme. In addition, performance and progress of schemes can be measured.
- 22.4. Budget variations in schemes can be examined by exceptions prompting action potentially for refining or re-prioritising schemes. Toward the year end budget performance will support future resource planning and budget setting for subsequent years.

PART 6: Capital Accounting

23. Finance Working Group

- 23.1. The FWG is a group tasked with providing financial advice to WY+TF relevant Member Groups and the Officer Steering Group.
 - 23.1.1. Lead the discussion on funding in scope
 - 23.1.2. Provide shortlist of funding streams
 - 23.1.3. Develop potential funding scenarios
 - 23.1.4. Review assumptions whereby schemes are financially assessed on a consistent basis
 - 23.1.5. Establish arrangements for growing the fund including how Promoters outside the immediate West Yorkshire region can be accommodated
 - 23.1.6. Recommend arrangements to implement an agreed funding and delivery plan
 - 23.1.7. Advice on financial management of the fund
 - 23.1.8. Support the financial operation of the fund through the Development Phase to Operational Implementation

24. Programme Capital Accounting

- 24.1. The next section summarises the main rules for scheme capital accounting and scheme capital financing. The intention is to give guidance to scheme sponsors on the treatment of chargeable items to schemes. It is set against the rules for capital financing
- 24.2. Capital accounting is based on accounting standards (International Financial Reporting Standards – IFRS) as implemented by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code). Transactions such as the purchase and disposal of assets, depreciation and revaluation are recorded in the accounts in the same way as in the private sector.

25. Capital Expenditure

- 25.1. The framework for accounting for capital in local government is set out in the Local Government Act 2003. The Local Government Act 2003 allows councils to capitalise expenditure under two circumstances:
 - 25.1.1. In accordance with proper accounting practice
 - 25.1.2. Under statute

- 25.2. Capital expenditure is expenditure which results in the acquisition, creation or enhancement of a fixed asset of the authority.
- 25.3. There is no definitive list of items of expenditure, split into capital and revenue. The correct split depends on local context and policies. In helping to define capitalisation for the WY+TF objectives with particular regard to achieving a high standard in continuous value for money the Finance Working Group can assess matters of interpretation with reference to the available guidance.

26. WYCA Capital Accounting Policy

- 26.1. Legislation requires WYCA to follow accounting standards which define Capital Expenditure as follows. The basic provisions are that expenditure can be capitalised where the costs relate to:
 - 26.1.1. Acquisition, reclamation, enhancement or laying out of land
 - 26.1.2. Acquisition, construction, preparation, enhancement or replacement of roads, buildings and other structures
 - 26.1.3. Acquisition, installation or replacement of movable or immovable plant, machinery, apparatus, vehicles or vessels.
- 26.2. The legislation also allows us to treat grants to other bodies as capital – this is known as Revenue Expenditure Funded for Capital under Statute (REFCUS)
- 26.3. The useful economic life must be greater than one year and the value over the de-minimis level of £10,000
- 26.4. Some expenditure in relation to non-current Assets will clearly be revenue, such as buying paper for photocopiers and filling vehicles with petrol. Beyond this, a judgement is required for each situation. An area that most commonly need interpretation is the capitalising of staff time. The following recommended guidance is therefore given.

27. Capitalisation of Employee Costs

- 27.1. International accounting standards guidance is adopted for helping to determine the cost of employee contributions to the creation of WY+TF assets. Paragraph 22 of IAS 16 confirms that the cost of self-constructed assets should be determined using the same principles as for an acquired asset.
- 27.2. IAS 16 requires that only labour costs that relate to the time spent by employees on constructing or acquiring a specific asset should be capitalised. Therefore, time spent on other potential acquisitions or developments cannot be included.
- 27.3. Only time spent on the realised asset may be accounted for
 - 27.3.1. Recognised measurable evidence (which can include the WYCA Cost Input Sheet for 'Promoters Internal and Management Costs') may be required

including for when an officer works on multiple projects, working papers supporting the WYCA Cost Input Sheet should be available for audit (held at the scheme promoters site)

- 27.3.2. Full employee costs can be included but not on costs such as payroll admin charges
- 27.3.3. Other administration, overhead charges or support charges should not be included unless the costs would have been avoided if the asset had not been constructed, such as temporary accommodation
- 27.3.4. Direct supervision costs can be included, time sheets should be kept
- 27.3.5. Training costs can not be capitalised as these are operating costs (an officer may leave on short notice, their training costs would not meet the definition of an asset)
- 27.3.6. Employee costs can only be attributed to the asset up to the point that the asset is brought into use (but also including the acceptance, evaluation and 'defect' period), after that the costs should be treated as revenue, such as monitoring, maintenance or post implementation review costs

PART 7: Treasury Management

28. Treasury Management

- 28.1. Capital financing is based on legislation, in particular the Local Government Act 2003 and its related regulations. This legislation provides the basis for concepts such as Minimum Revenue Provision and the limitations on the use of capital receipts, defining along the way the amounts that are chargeable to WYCA 'General Fund' and therefore to revenue budgets, and those that are chargeable to capital budgets. The specific additional transactions needed to reflect this framework in the accounts are unique to public sector (local authorities) capital accounting, and most of them are enacted in the Movement in Reserves Statement (MiRS), resulting in a Balance Sheet that reflects the combined requirements of the accounting standards and legislation. The management of the capital financing tends to be the preserve of the treasury management function.
- 28.2. The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby WYCA is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (amended 2009 and 2011), The treasury management function is undertaken in conjunction with Leeds City Council. WYCA is required to prepare an annual prudential statement, setting out treasury activity in the year, the arrangements in place and details of the funding position.
- 28.3. The current treasury management arrangements have been regularly reviewed to ensure they are appropriate for the organisation. The next year will see significant change, with increases in funding arising from the LEP activities including the Growth Deal and the development of the WY+TF. This will necessitate a review of the arrangements to ensure they are still best meeting the needs of WYCA. Any proposed changes will be progressed through the Governance and Audit Committee

29. Principles of borrowing and the role of the 'Levy'

- 29.1. The capital funding requirement for the WY+TF will be fulfilled, in the main from the City Deal Single Local Growth Fund grant, plus using prudential borrowing, DfT devolved Major Scheme Funding and other third party contributions, which will be supported through a number of resource streams (including the 'Transport Fund Levy' from the aforementioned authorities) that will pay interest, cover MRP and subsequently repay the outstanding principal balance.

30. Levy

- 30.1. Forecast contributions are based on population size. Contributions based on building up the local contribution element of the fund to £217m will be set out in the annual WYCA Budget report ;

- 30.2. Additional contributions may be required based on scenarios for increasing the level of investment into the Fund according to agreed requirements.
- 30.3. The Public sector match funding commitment for planning purposes is currently assumed to raise debt at a rate of 5% over an average maturity period of 30 years. It is anticipated that the Public Works Loan Board will provide a substantial proportion of the required prudential borrowing. However, subject to satisfying value for money criteria, other funding sources, including, but not limited to the European Investment Bank, financial markets, Bond placements and revenue balances may also be used to maximise benefits and minimise risk.
- 30.4. Under current investment powers WYCA has authority to borrow money from third parties and is based on the overall level of revenue that the authorities have committed to service the debt. This aggregate approach through one body enables WYCA to optimise the level and tenor of the debt being held in order to efficiently deliver the individual schemes, based on the aggregated profile of the debt funding requirement. Where borrowing applies, WYCA distributes the borrowings, by way of a capital grant, to the delivery body.
- 30.5. Full itemised statements of borrowings can be found in the Annual Treasury Management Strategy Statement, Borrowing Limits and Annual Investment Strategy Report. The report provides specifically the following information;
- 30.5.1. Table of debt facilities
- 30.5.2. Drawdown dates
- 30.5.3. Repayment dates
- 30.5.4. Interest rate and loan period ('tenor')
- 30.6. WYCA is required to make provision for repayment of an element of the accumulated capital spend for WY+TF assets each year through a revenue charge (the 'Minimum Revenue Provision')

31. MRP

- 31.1. The WYCA is required by statute to charge a MRP each year for the repayment of debt. From 2007/08 onwards the statutory requirement is to make a prudent level of provision. The Government have issued statutory guidance, where there must be due regard to setting a prudent level of MRP. The guidance allows for providing flexibility in determining a prudent level. WYCA determines that prudent MRP is calculated by using the asset life method. Using this approach the amount of cash set aside to provide for MRP is equal to the principal part of an annuity to repay borrowings on the individual schemes over the life of each underlying asset. For all schemes, a single annual MRP provision is made in the March of each relevant year.

- 31.2. MRP provisions are calculated on a scheme by scheme basis, with provision being made over a period that is the shorter of either the asset life of the scheme or 33 years.
- 31.3. The release of provisions in the MRP account is equal to the profile of principal repayments in the model – i.e. MRP is used to repay borrowings, as required by local authority accounting rules.

32. Reserves policy (package funding facilities)

- 32.1. WYCA Chief Finance Officer is to advise the CA about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use. Reserves should not be held without a clear purpose.
- 32.2. The Combined Authority will establish reserves for the Growth Fund following a prudent approach to budgeting that will enable the Growth Fund overall and Growth Fund schemes in specific to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. In assessing the appropriate level of reserves, the CA will ensure that the reserves are not only adequate but are also necessary.
- 32.3. The recommended view is that a generally applicable minimum level is inappropriate, when reviewing the CA medium term financial plans and preparing the annual budgets the CA will consider the establishment and maintenance of reserves. These can be held for three main purposes:
 - 32.3.1. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
 - 32.3.2. A contingency to cushion the impact of unexpected events or emergencies this also forms part of general reserves;
 - 32.3.3. A means of building up funds, often referred to as earmarked reserves to meet known or predicted requirements; earmarked reserves are accounted for separately but remain part of the overall CA Funds
- 32.4. Applying the guidance to the circumstances of the WY+TF there are a number of eventualities where reserves are expected to be built up. As schemes progress from Gateway 1 to Gateway 2 and 3 the level of QRA or Contingency will be refined. The difference between actual scheme cost determination and initial programme estimate of scheme cost will be transferred to reserves. Secondly, where expenditure is planned in future accounting periods it is prudent to set aside resources in advance. Resources will include advance revenue contributions, capital grants, third party contributions or under spends.

33. Asset Management

- 33.1. Subject to the land acquisition protocol in this Handbook; assets and liabilities arising from the operations of WYCA are owned by and are the responsibility of the Promoter delivery body (with the exception of rail schemes where the operational asset currently passes to Network Rail).
- 33.2. The code of practice for highway maintenance management provides a context for highway asset management plans. Within the overall Growth Fund prioritisation and delivery process the fund provides for the purchase of assets but then relies on capital maintenance funding formulae within central support grant mechanisms to inform future funding requirements which remain the responsibility of Promoters. Each Promoter is recommended to develop Transport Asset Management Plans in order to identify the resource planning requirements needed to keep assets operating at an optimal level.

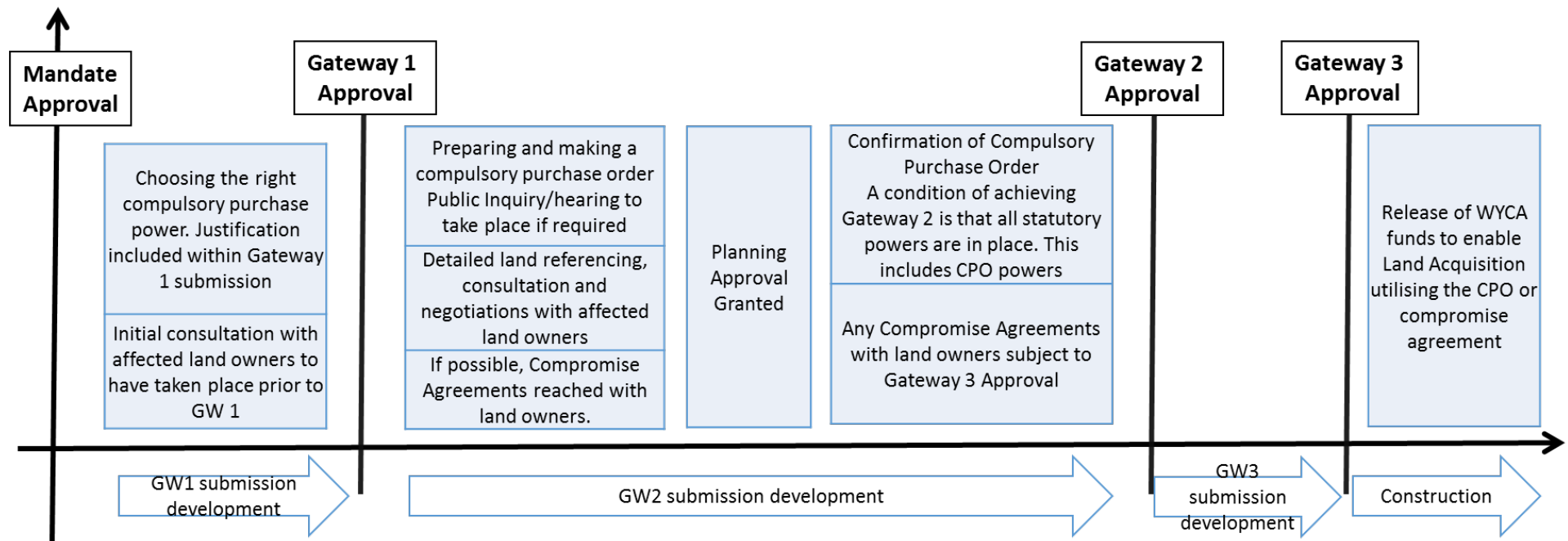
PART 8: Land Acquisition

34. Compulsory Purchase Orders

- 34.1. Where the project requires the acquisition of land or property, the Promoter is required to follow the 2015 DCLG Guidance on Compulsory Purchase Process² and any other associated specific guidance applicable to the project.
- 34.2. Statutory Powers are available to Promoters through a range of legislative options, to secure the compulsory acquisition of land. Government guidance stipulates a CPO will not be confirmed by the Secretary of State until planning permission for the scheme, to which the order relates, has been granted.
- 34.3. Figure 29.1 sets out recommended approach to land acquisition and Gateway Approval stages.
- 34.4. The CPO would typically utilise information from the Approved Gateway 1 Business Case to:
 - 34.4.1. Justify that the scheme is affordable;
 - 34.4.2. Demonstrate that there is a reasonable prospect of funding being available;
 - 34.4.3. Demonstrate that there is a need for the scheme and that options have been considered; and
 - 34.4.4. Demonstrate an economic case for the schemes exists.
- 34.5. The Gateway 2 Business Case can only be submitted once Full Planning Approval has been granted and when necessary statutory powers (e.g. CPO) have been obtained.
- 34.6. Once the Gateway 3 Business Case is approved, funding will be released to enable land acquisition utilising the CPO or from the compromise agreement.
- 34.7. Satisfactory completion of all CPO processes is entirely the responsibility of the Promoter. The role of the WYCA is to ensure that the processes and been completed as part of the Gateway Approval stages.
- 34.8. It is not expected that any properties purchased by Promoters will be passed onto ownership of WYCA. This includes if a scheme is cancelled or not progressed.
- 34.9. The terms of the compromise agreements are a responsibility of the Promoter but any key risks associated with them should be highlighted within the Gateway 2 /3 Business Case submission.

² <https://www.gov.uk/government/publications/compulsory-purchase-process-and-the-crichel-down-rules-guidance>

Figure 29.1 Land Acquisition & Gateway Stages



35. Funding of Land Acquisition Costs

- 35.1. The development costs of land acquisition to secure a Compulsory Purchase Order (CPO) or a conditional private treaty/compromise agreement will be included within the project development costs and funded as agreed at each Gateway approval stage. The process therefore begins with land acquisition development costs outlined in each gateway business case and reimbursed from the Growth Fund in a consistent manner to all other development costs. This includes all land acquisition preparation and legal costs (including costs associated with public inquiries) to put the applicants in a position of holding a conditional contract or, if later required, a CPO to acquire the land without having actually acquired the land at this stage.
- 35.2. Funding for the cost of land purchase will be not be granted until Gateway 3 approval is secured (save for agreed advance purchase as set out below).

36. Advance Purchase of Land

- 36.1. As opportunities arise there are sometimes instances when it is beneficial to secure the advance purchase of land required for Growth Fund priorities. Sometimes the timing for land acquisition will fall outside the gateway stages during the life cycle of preparing a scheme for delivery. Where it is considered the acquisition of a property asset would be prudent to avoid potential future liabilities associated with negotiation through CPO processes and with the written agreement of the WYCA, a purchase maybe made and funded through the LGF. The benefits of this approach are:
- 36.1.1. Would avoid potential CPO procedures, and their associated costs
 - 36.1.2. Would remove uncertainty over timing and land acquisition, thus overcoming a significant barrier to delivery
 - 36.1.3. Would remove the potential for the existing or new property owner to negotiate a higher price than the market value
 - 36.1.4. Would avoid bad publicity associated with not having purchased the property when it was available on the open market
- 36.2. However any advance land/property purchases carries risks:
- 36.2.1. If the project was not delivered funds would have been spent and the land would be surplus.
 - 36.2.2. The scale of the Growth Fund may be reduced and reprioritisation might lead to the project being dropped (or indefinitely delayed)
 - 36.2.3. Subsequent design work might identify that the land (some or all) is not required for the final design

36.2.4. Subsequent design, costing and appraisal work might not pass the required Gateways and the scheme might not proceed

36.3. Promoting Authorities may undertake advance purchase of land for schemes. However, they would be required to bear the risks of purchasing the land in advance of Gateway 3 approval from their own funds. Funding could only be reclaimed from the Growth Fund after successfully obtaining Gateway 3 approval.

APPENDIX ONE: Standard Conditions Of Approval

To follow

APPENDIX TWO: Peer Review Checklist for Promoters

To follow

APPENDIX THREE: Quarterly Return Form

To follow

ITEM 9

Report to: Governance and Audit Committee

Date: 9 February 2016

Subject: 2016/17 Budget and Treasury Management Policy

1. Purpose

- 1.1. To note the budget for 2016/17, the treasury management policy and the latest draft of the Service Level Agreement for treasury management purposes.

2. Information

- 2.1. The 2016/17 budget is to be approved by the WYCA at its meeting of 4 February. Attached as **Appendix A** is the budget paper as submitted to the WYCA including the prudential statement setting out the treasury management arrangements. A verbal update will be provided at the meeting as to whether the budget presented in this paper was approved unchanged.
- 2.2. The main issues to note in the budget paper with regard to the revenue budget relate to the use of reserves. Forecast reserves for the end of 2015/16 are higher than those required by the reserves policy and the approach of utilising an element of these to support the 2016/17 budget has previously been endorsed. Additionally it has now been established that there are likely to be timing delays in the receipt of business rates income from the Enterprise Zone that was to be used to support the trade and inward investment work. Whilst there is a strong uptake from businesses at the site the timing of the actual receipt of the rates is likely to be delayed until late into 2016/17 and beyond. It is proposed that WYCA manage this through the use of cash balances and reserves with the funding then received in full in subsequent years and repaid to reserves. Further work is underway to ensure this can be funded through reserves and cash balances in the short to medium term and close monitoring of expected business rates will be undertaken.
- 2.3. With respect to the capital budget the attached paper sets out the challenge of managing significant Growth Deal funding and the need to ensure it is utilised in the year – whilst the money was awarded with a high degree of flexibility it is not possible to carry it forward to future years. The budget paper sets out how the

Growth Deal funding could be applied to other elements of WYCA's overall capital portfolio rather than utilising Local Transport Plan Integrated Transport block funding which can be carried forward and then applied to Growth Deal expenditure in 2016/17. This approach has been endorsed by both WYCA's Investment Committee and by the Department for Business, Innovation and Skills who made the award.

- 2.4. At its last meeting the Committee received a presentation on the treasury management arrangements and the inter-relationship between the Authority and the treasury team at Leeds City Council that undertake the day to day management on behalf of the Authority. It was noted at that meeting that the service level agreement (SLA) in place between the organisations that sets out how this works in practice, and where the relative responsibilities and accountabilities rest, was being redrafted to recognise the changes arising from the LEP funding now being the responsibility of the Authority.
- 2.5. The latest draft of the SLA is attached as **Appendix B**. It is awaiting final comments from the legal team at Leeds City Council and any comments from this Committee are invited prior to it being finalised.
- 2.6. The Committee will recall that the discussions at the last meeting recognised the significant increases in cash balances that had arisen as a result of the timing of receipt of Growth Deal funds and that this is likely to continue with the 2016/17 funds being paid in April 2017. In order to be able to manage these sums a number of specific changes to treasury arrangements have been approved by the Authority and are set out in paragraph 14 of the Prudential Funding Statement (Appendix C of the report attached as Appendix A to this paper). These provide further opportunities to place funds but without increasing the risk above acceptable levels.

3. Financial implications

- 3.1. As set out in the report.

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 Committee note the report.
- 6.2. That the Committee provide any comments on the draft Service Level Agreement.

Originator: Angela Taylor
Director, Resources



ITEM 7

Report to: West Yorkshire Combined Authority

Date: 4 February 2016

Subject: Business Plan and Budget 2016/17

1. Purpose

- 1.1. To consider the outline business plan for the Combined Authority for 2016/17 and its strategic aims on behalf of local people.
- 1.2. To approve the proposed revenue budget and transport levy for 2016/17, the indicative three year capital programme and the treasury management statement.

2. Information

- 2.1. Since its creation on 1 April 2014 the Combined Authority has established itself as the key player in developing and driving economic growth in West Yorkshire, York and the wider City Region, in conjunction with the Leeds City Region Enterprise Partnership (LEP) and District Council partners. Its success in establishing the West Yorkshire plus Transport Fund and securing one of the best Growth Deals nationally demonstrate the benefits of having a clear, democratically rooted strategic planning and decision making body for the city region.
- 2.2. Further substantial devolution will enable the partners in the region to build upon this success and ensure further economic growth through improvements to connectivity and housing, increasing the number of good quality jobs and moving young people into employment, education or training. In bringing together the work of the former transport authority and the city region economic agenda WYCA is confident it will secure the growth of the region and demonstrate its part in the Northern powerhouse.
- 2.3. WYCA's focus has been about driving economic growth and good progress has been made to date. Drawing on the ambition set out in the Strategic Economic Plan funding has been secured through the Growth Deal to deliver a range of interventions to improve housing, skills, regeneration and transport infrastructure. An ambitious programme for the coming years has been drawn together to enable WYCA to make a positive contribution towards the plans for the wider City Region. These include the creation of job opportunities, providing training to young people,

enabling further new homes to be built, enhancing transport connections and transforming public sector partnership working.

Business plan 2016/17

- 2.4. The Strategic Economic Plan (SEP), adopted by WYCA as its overarching strategic plan, is being updated to reflect a number of significant changes in the time since it was written. Progress on this is covered under a separate item on this agenda.
- 2.5. WYCA's business plan is in the process of being developed and will set out the practical actions for WYCA in 2016 that will assist in delivering its aspirations, in support of those put forward in the SEP. The budget proposed supports the delivery of those actions.
- 2.6. The outline of the business plan is attached as Appendix A and reflects input from Members. It sets out a number of key actions, including agreeing and implementing the devolution deal, moving to the delivery phase of the Growth Deal and West Yorkshire plus Transport Fund and supporting the work on connectivity.
- 2.7. WYCA will also be undertaking further organisational development during the coming year. It has been recognised that organisational realignment and change is required to fully integrate all the teams that have been brought together under WYCA and ensure they are clearly focussed on delivering WYCA and the LEP's priorities in the most effective and efficient way. It is envisaged that operationally activities will be broadly defined in the four categories set out in the business plan ie partnerships, policy and devolution, project delivery, customer services enabling growth and resources/building capability. This will require significant organisational change that will be focused on aligning the functions that may currently be carried out in different parts of the organisation. Processes and procedures will also be updated to reflect new ways of working and ensure accountable decision making can be swiftly and flexibly made.

Revenue budget 2016/17

- 2.8. The WYCA has previously considered a number of reports on the medium term financial strategy and the budget strategy for 2015/16. This work has been informed and supported by the Finance Working Group which has considered a range of matters with regard to actual and planned expenditure on a number of budget heads.
- 2.9. When the budget was set last year WYCA had direct control and management of the budget relating to transport activities, largely funded by the transport levy on the District councils. On 1 April 2015 the WYCA became the accountable body for the LCR Enterprise Partnership which has been undertaking the economic development functions for the region for some time. This year therefore is the first time a budget has been established for the full extent of the WYCA. The LEP Board has considered and provisionally approved the budget presented for economic activities within this overall budget. Since 1 April 2015 all staff formerly employed by Leeds City Council on these activities have been TUPE transferred to the WYCA along with the inward

investment posts relating to the former Leeds and Partners. The budget presented in these papers includes the costs of these functions and reflects the growth of these teams required to deliver the challenging Growth Deal programme. As far as possible the capital budgets of the Growth Deal have been utilised to fund the costs of delivering this programme and any other associated costs.

- 2.10. Work has been undertaken to establish a robust position for 2015/16 that recognises the severe funding difficulties facing the District Councils but which enables WYCA to continue delivering and developing the services required to support economic growth and other WYCA and local authority partner objectives. The proposed budget is set out below in table 1, along with a narrative of the key movements in each block. Pay negotiations have not yet commenced for 2016/17 and a small pay award could be accommodated within the proposals should it be agreed.

Table 1

WYCA budget		2014/15	2015/16	2015/16	2016/17
		Actual	Original	Revised	Original
<u>Transport Expenditure</u>		£000	£000	£000	£000
Concessionary travel scheme		53,736	55,474	55,339	57,003
Subsidised bus services		19,544	19,632	19,354	18,999
Passenger Services		7,617	7,791	6,928	8,216
Prepaid Tickets		29,678	31,000	29,000	29,580
Rail support		43,154	43,155	44,371	904
Policy and Delivery			485	502	634
Strategic priorities - rail/bus		0	0	0	350
<u>Economy</u>					
Policy and Delivery		0	0	1,720	1,918
Trade and Inward investment		0	0	1,544	1,778
<u>Shared/Corporate</u>					
Pensions		1,370	1,406	1,356	1,394
Financing charges		6,904	7,081	6,891	6,689
Corporate		5,944	5,722	5,763	6,049
		167,947	171,746	172,768	133,514
Less Prepaid Ticket sales		29,678	31,000	29,000	29,580
Special Rail Grant		43,154	43,155	44,371	904
Interest Receivable		291	378	708	529
	Net Expenditure	94,824	97,213	98,689	102,501
<u>Funded by:</u>					
LEP Funding		0	0	2,913	1,707
Enterprise Zone receipts		0	0	0	500
Transport levy		96,198	96,198	96,198	96,198
(Addition to)/Use of reserves		-1,374	1,015	-422	4,096
		94,824	97,213	98,689	102,501

- 2.11. The budget is presented in the current transport/economy/resources costs blocks. As further integration of functions takes place in the coming year this presentation will be revised to match the delivery/strategy/resources/customer services arrangements as set out in the business plan.
- 2.12. **Concessionary travel** – this is the largest budget line funded by the transport levy and represents the payment to bus and train operators for reimbursement of travel concessions. The largest component of this is the £46.2m reimbursement to bus operators for the statutory English National Concessionary Travel Scheme (ENCTS). The WYCA is required to reimburse operators on a ‘no better no worse’ principle which is achieved through using the Department for Transport approved reimbursement model.
- 2.13. Any changes to the costs of funding the statutory scheme are not matched by changes in funding and hence as costs have increased savings have had to be found in other areas. Three year agreements which expire at the end of 2016/17 have been negotiated with the major bus operators in order to better manage the significant risks that can arise from variations applied to the model as bus fares increase for example.
- 2.14. £10.2m of this budget funds the concession for young people. Changes have been made in recent years to the way in which these concessions have been provided, with the bus operators providing a larger commercial contribution to these costs. In support of the Authority’s clear objective to increase the concessionary offer to young people, to assist in travelling to college or training for ,n extension to the current scheme was introduced in November 2015. This extended the half fare offer to all young people aged up to 19. This supports the twin objectives of increasing gross added value and access to employment or training for those in the most deprived communities.
- 2.15. The increase in the budgeted costs for 2016/17 is in accordance with the three year agreement and reflects the modelled expected costs for the discretionary elements ie young persons’ concessions and senior rail concessions. Reimbursement of operators is now based upon smartcard readings.
- 2.16. **Subsidised bus services** – this budget line represents the net payment to bus operators for providing supported bus services, schools services and AccessBus. The major element is the £15m of non-schools tendered services which supplement the commercially run network. These services are procured in accordance with value for money criteria ie there are too few passengers for the service to run commercially but sufficient passengers to justify operating the service for the social benefits it provides.
- 2.17. A programme of area network reviews commenced in 2011 and has established a core network of services largely operated commercially and which has reduced WYCA costs by over £5m per annum. There is now little scope to further reduce these costs without cutting services and reducing the viability of the network.

- 2.18. An effective procurement strategy in renewing recent tenders coupled with low inflation rates to be applied to ongoing contracts means this budget remains stable going into 2016/17 but it will be challenging to maintain this.
- 2.19. **Passenger services** - the passenger services budget line covers the direct costs of provision of bus stations, bus shelters and passenger information across West Yorkshire. This includes the provision of 8 major bus stations with customer care staff, travel centres, toilets, CCTV, retail and electronic information. In addition WYCA operates a number of unstaffed bus stations such as Batley, Cleckheaton, South Elmsall, Hemsworth and Ossett.
- 2.20. WYCA has 14,000 bus stops and 4,500 bus shelters. An advertising contract allows for a number of these shelters to be maintained by a third party and income of £850k pa is generated through this contract as well as saving on maintenance costs. Opportunities to generate further income at bus stations continue to be explored. There is currently a high level of occupancy of the retail units.
- 2.21. This budget also covers all the direct costs of passenger information. This includes the MetroLine call centre which is open 7 days a week from 7am to 10pm, with an element of this cost being met by bus operators to bring the net operating cost down to £210k. Printed timetables are available for all bus and train services in West Yorkshire as well as printed bus stop timetable displays at 9,000 stops. Bus real time information is available through the internet based journey planner, on screens at bus stops and via text messages. Marketing campaigns to get key messages to public transport users take place periodically and support work to encourage commuters to use public transport through the Travel Plan Network. Funding is also provided to assist job seekers into employment. Automated messages and updates on changes to travel are provided through MetroMessenger. Transport operators make contributions to the costs of these services.
- 2.22. This budget also includes the costs of service monitoring (surveys to establish bus usage and adherence to conditions), support for businesses in travel planning, management and planning of bus networks and tenders and the provision of schools transport liaison through agreements with LEAs. Savings have been possible in setting the 2016/17 budget as a result of reducing costs in a number of areas. This includes the renegotiation of the contract for shelter repairs and savings in passenger information as well as an increase in the income generated by advertising on bus shelters. As part of a supplier's right to extend an existing contract a fixed some contribution of £950k has been recognised in this line in 2015/16 and will be transferred to reserves at the end of the year. Other opportunities, such as bids to funding bodies, are taken to generate income to support these activities.
- 2.23. **Rail costs** – for 2015/16 the costs of meeting the rail franchise in West Yorkshire are paid out via the WYCA but fully funded from the Department for Transport (DfT). In addition an administration grant is received which meets the costs of managing the franchise, including the rail monitoring team and producing rail timetables. For 2016/17 the rail franchising costs are to be paid via Rail North as part of the devolved franchising agenda with the Department for Transport. The administration grant continues to be received by WYCA for 2016/17 and an element of it is required to

support Rail North activities, along with other rail related activities which will continue in the short term.

- 2.24. **Policy and delivery** – these are the costs funded by revenue of the teams providing transport policy, strategy and planning. Costs, including staffing, of delivering infrastructure investment and other projects are charged to capital budgets and are included in the expenditure figures for capital set out later in this paper.
- 2.25. **Strategic priorities** – a sum of £350k has been included in the budget for 2016/17 to enable WYCA to respond to new and emerging priorities that could include for example the Buses Bill and/or the Cities and Local Government Devolution Bill. WYCA has also been supporting the work being undertaken through Transport for the North on smart ticketing for example, largely so far through the provision of staff time.
- 2.26. The **economy** block reflects the revenue costs of delivering on the economic agenda, both with regard to developing policy and strategy across the economic lead areas, supporting the LEP Board and its panels and to delivering the trade and inward investment agenda.
- 2.27. During 2016/17 this work will include revision of the Strategic Economic Plan (SEP) and continued development and roll out of activity supporting each of the four priorities in the plan. The LEP Board will be supported in its thought leadership role around the ‘good growth’ agenda, as one of the leading economies in the Northern Powerhouse. The development of an integrated approach to WYCA’s research, intelligence, appraisal and evaluation capability will be fundamental to the successful delivery of the SEP. Work will be undertaken across all parts of the organisation to ensure that key intelligence assets and capabilities are developed to support the “joined up” appraisal and evaluation of transport and economic development funding. The development of a more clearly defined intelligence capacity will improve the WYCA’s ability to use its information assets more effectively and ensure delivery choices are supported with the most robust intelligence of the needs of local businesses, communities and partners.
- 2.28. Business growth, innovation and enterprise will be supported through the continuation of the LEP Growth Service, operation of LEP grants/loans for businesses creating jobs or recovering from flood losses, including a new finance scheme accessible to start-up firms. The Innovation Strategy will be progressed into implementation, with the launch of ESIF innovation programmes. A Digital Mapping Project will complete and inform a new Digital Strategy for the city region.
- 2.29. The LEP’s three year business plan for trade and investment will be implemented by a strengthened LEP International team, including dedicated trade policy resources to conclude a joint Export Plan with UKTI. Priorities for inward investment will be the four sectors of manufacturing, finance, professional and services (FPS), health and digital, with a focus on opportunities arising from London, US and Europe.
- 2.30. With regard to the second priority of skills and jobs work will continue to address skills gaps and promote employability. This will include taking part in the West Yorkshire Area Review of 16+ provision, publishing a revised Skills Plan, rolling out

Enterprise in Education initiatives and continuing to deliver skills support for business through the LEP Skills Service and Apprenticeship programmes, including the devolved AGE grant. Close working with the Joseph Rowntree Foundation will see new approaches to progression for low paid workers developed in our joint 'More Jobs, better Jobs' programme.

- 2.31. In support of the third priority of energy and resource efficiency a new business support product will be offered providing grant support to SMEs who wish to invest in resource efficiency improvements as well as a new commercial and technical advice service for low carbon energy projects (the Energy Accelerator). Other work will include continuing to deliver energy efficiency improvements to homes across the Leeds City Region through the Better Homes programme, the launch of a white label municipal energy company across all or part of the Leeds City Region and a new, nationally significant research programme into transition to non-conventional energies, with a focus on hydrogen.
- 2.32. For the fourth priority of infrastructure and regeneration, the LCR Infrastructure Investment Framework will be developed. Work will be undertaken to establish the joint LCR Land and Assets Board with HCA and Government and develop a strategic approach to surplus public sector land and assets use and disposal. Partnership working will be enhanced with housing associations, private developers, HCA and other bodies to accelerate delivery of more new homes and to join up policy and investment, particularly in relation to health and housing. Work will be undertaken with the Environment Agency and other national and local bodies to develop a more strategic approach to flood resilience across the city region including establishing a LCR Flood Resilience Board.
- 2.33. To support the priorities of the Strategic Economic Plan (SEP) the European Structural and Investment Funds (ESIF) €392m programme, with which the investment priorities of the SEP are aligned, will enter its second year of implementation. The ESIF is spread across 9 thematic areas ranging from innovation, SME Competiveness, low carbon, environment through to addressing skills, social inclusion and employment.
- 2.34. Throughout 2016/17 work will be undertaken to progress and design Calls, working closely with the Governments Managing Authorities and the ESIF Committee, which is the process for applicants to apply for the funds, and which outline local priorities for funding. Work will also be undertaken to allow the West Yorkshire Combined Authority to take on responsibility of an Intermediate Body (IB), to fulfil its obligations to deliver the Sustainable Urban Development part of the programme as well as considering how IB status can also be secured, under the Devolution Deal for the City Region for the rest of the ESIF programme. IB will itself allow greater control and autonomy for the CA in the decision making process for ESIF and allow greater alignment of other funding coming in to the area.
- 2.35. The **corporate/resources** block reflects the costs of supporting all the above activities. Further detail is set out below.
- 2.36. **Pensions** - the pension costs are a fixed sum payable to the West Yorkshire Pension Fund in relation to former bus employees prior to 1986; whilst this figure will reduce

over time it is a commitment that must be met. The ongoing pension costs of current employees are included in the relevant budget lines to their activity.

- 2.37. **Financing costs** - the financing charges relate to the interest and minimum revenue provision for the WYCA's loan book of £79m. The loans in place are part of the capital financing undertaken in the years prior to receiving capital funding as grant and are all at low rates of interest. Decisions on the means of funding the West Yorkshire plus Transport Fund will have an impact on this budget line in future years but for 2016/17 it is assumed that no borrowing will be required for this purpose. Further information is set out in the prudential funding statement at appendix C.
- 2.38. **Corporate** - the corporate budget line covers all central costs including accommodation and all the costs of ICT, HR, finance, public relations and communications, business planning and legal and democratic services, including staffing, insurance and Members allowances. Savings and efficiencies have continually been sought in these areas through staffing reviews and renewals of contracts.
- 2.39. The total staffing figure for WYCA expressed as full time equivalents is 416, an increase of 24% compared to last year reflecting the impact of the TUPE transfer in of the LEP, Leeds and Partners trade and inward investment function and Regional Economic and Intelligence Unit and the need to increase the number of project posts in order to deliver the Growth Deal interventions. Much of the increase in headcount is funded by capital or other grant with the total revenue staffing budget for 2016/17 only increasing by 8%. There has been an increase in funding from the transferred- in functions which is meeting these costs. A vacancy target is set each year and a process to challenge all vacancies before proceeding to recruitment is in place.
- 2.40. The funding for the revenue activities set out above is shown in the lower section of table 1. It can be seen that the funding for rail activities reduces in line with the changes in expenditure set out in paragraph 2.23 above and the income is in relation to the administration grant only. Funding for economic activities is provided through a range of income streams including contributions from the city region authorities, funding from central government, top slicing various grants and most significantly through the use of Enterprise Zone receipts. The LEP Board has set their 2016/17 contributions from member authorities at the same level as 2015/16.
- 2.41. Whilst it has been agreed that the business rates income from the Enterprise Zone can be used to fund the work of LEP International, the trade and inward investment arm of the LEP, there is an initial commitment to meet development costs of the site and then an issue with regard to timing of these receipts, both of which result in a short term funding shortfall. There are projections for significant income and growth of income on the site, but the initial receipts will only commence in 2016 and will be insufficient to provide the full level of income to WYCA required in 2015/16 and 2016/17. Latest calculations forecast income to WYCA for 2016/17 of £500k but with the possibility that other businesses will commence operations in that timescale, making further receipts available.

- 2.42. There is little doubt that future years will see significant millions of income from the Enterprise Zone and the ongoing work of the LEP International should result in further growth on the site. The delay in receiving this income is a matter of a timing issue and the approach of managing this situation through utilisation of reserves has previously been endorsed. The current level of reserves is such that this is a viable position for 2015/16 and 2016/17 although by the close of 2016/17 reserves are forecast to be slightly below those set out in the reserves strategy. It should be noted however that EZ receipts may exceed the budgeted level in 2016/17; if this is not the case, and other savings are not forthcoming during the year as part of the usual close monitoring of expenditure, it is proposed that an element of the £5m levy contribution to the West Yorkshire plus Transport Fund in 2016/17 be utilised to support reserves pending the receipt of business rates in the following year. At this stage it is not expected that this contribution would be required in full in 2016/17 to fund WY+TF investment.
- 2.43. The reserves position following the adjustments set out for above is set out in table 3 and shows a significant use of reserves in 2016/17. An approach whereby some £2m of reserves were to be utilised to support planned expenditure has previously been endorsed by the Authority. The timing issue with regard to business rates income from the Enterprise Zone requires the utilisation of a further £1.9m of reserves which will be returned back in subsequent years as receipts flow. Further work on cuts, savings and efficiencies would be required during next year to enable a balanced three year medium term strategy to be set for subsequent years and it is anticipated that this work will again be overseen by the Finance Working Group.

Reserves policy

- 2.44. The budget proposals must be supported by an appropriate reserves policy. Good practice is that such a policy should be based on a risk assessment of the different areas of spend and as such will vary from year to year and from organisation to organisation. The Finance Working Group and the Governance and Audit Committee have considered the calculation of the policy, taking into account the related risks for each of WYCA's budget blocks. The workings are set out in Table 2 below with the reserves position arising from the proposed budget set out in table 3 below.

Table 2								
Reserves Policy Calculation for 2016/17								
						Budget £m	Reserves £m	
Risk on Concessions	Total ENCTS Budget					47.0		
	2.5% contingency for volatility of ENCTS agreements					43.0	1.1	
	5% contingency for volatility of ENCTS non-agreements					4.0	0.2	
	Young Persons Concession					10.0		
	5% contingency re patronage volatility						0.5	
Subsidised services	Tendered service budget					20.0		
	7.5% contingency re contract inflation/renewal rate/BSOG						1.5	
Risk on expenditure on other activities	Passenger Services					8.2		
	Development/corporate					6.9		
	Financing charges					6.7		
	LEP					3.7		
	5% contingency for other spend areas -capacity /income/ interest risk						1.1	
	10% contingency economic - risk/volatility on EZ funded exp						0.4	
							4.8	

Table 3				
Reserves				
		2014/15	2015/16	2016/17
		Actual	Latest	Budget
			projection	
		£000	£000	£000
	brought forward	6,570	7,944	8,366
	movement in year	1,374	422	-4,096
	carried forward	7,944	8,366	4,270

- 2.45. The projected reserves for the end of 2015/16 are higher than those previously assessed as required, due largely to savings achieved in 2014/15 over those budgeted. This effectively provides the opportunity to release £4m of reserves to support the 2016/17 budget, both to fund general expenditure and to cover the timing difference with regard to Enterprise Zone receipts. This will then enable the time for a considered approach to be undertaken in the coming year with regard to cost reductions. The reserves policy will be kept under review to ensure it is kept at the optimum level to meet the requirements of WYCA and the District Councils.

Transport levy

- 2.46. The transport levy for normal transport activities has been either reduced or frozen for a number of years, a position that has been agreed between WYCA and the District Councils who are served by the public transport network. Cost reductions over recent years have been achieved against a background of an increasing workload with the development and implementation of the Single Transport Plan,

Combined Authority developments and work towards bus strategy, rail devolution and the WY+TF. In 2013/14 the Government clarified that the transport levy falls within the council tax referendum limit for the District Councils that pay the levy.

- 2.47. Small increases to the levy have been made to respond to the demands of the West Yorkshire plus Transport Fund (WY+TF). These have been kept in a ringfenced reserve and released solely to fund WY+TF activities. As part of the negotiations with government regarding a payment by results approach to the WY+TF Districts agreed to a small annual increase in the levy for a ten year period. For 2016/17 that increase is £419k, a 0.41% levy increase. Further information on the position with the WY+TF is set out in the capital programme section of the report.
- 2.48. The levy proposal for 2016/17 has been previously endorsed by the WYCA and is that the levy for normal transport purposes remains unchanged. This position is supported by a use of reserves and will enable the WYCA to set a balanced and robust budget for 2016/17 which will see current service levels and activities maintained, supported by reserves at a level which is in accordance with the proposed reserves policy.
- 2.49. Adjustments have been made to the levy for a number of years to enable an equitable distribution of funding that has been paid to Districts when formerly it was paid directly to WYCA the former WYITA. This includes for example concessionary fares funding that was paid to the Districts on a different formula basis than population. These adjustments were agreed with the Districts and ensure that they each 'passport' through to the Authority any relevant direct funding received. The mechanism involves setting a gross levy and providing a rebate to each District in the year to compensate for any over-recovery. In order to ensure consistency in respective levy payments these agreements have been presumed to continue for 2016/17.
- 2.50. Table 4 below sets out the net and gross levy by population, in accordance with the regulations. Table 5 below demonstrates the movement in the net levy between 2015/16 and 2016/17 which takes into account the 0.41% increase in the levy and the movement in population which this year is relatively small.

Table 4 District Council levies						
	Relevant Population	Net Levy 2015/16	Gross 16/17	% of levy by District	Refund 2016/17	Net levy 2016/17
	June'14 for 2016/17	£	£		£	£
Bradford	528,155	23,915,744	24,957,762	23.4%	977,117	23,980,645
Calderdale	207,376	9,155,061	9,799,473	9.2%	609,538	9,189,935
Kirklees	431,020	18,718,197	20,367,685	19.0%	1,558,222	18,809,463
Leeds	766,399	34,160,948	36,215,892	33.8%	1,887,601	34,328,291
Wakefield	331,379	15,531,517	15,659,188	14.6%	66,936	15,592,252
	2,264,329	101,481,467	107,000,000	100.0%	5,099,414	101,900,586

Table 5 Change in Levies				
	Relevant	WYTF Extra	Lewy Change	Total lewy
	Population	Lewy	Population	Increase
	June'14 for 2016/17		£	
Bradford	528,155	98,633	-33,732	64,901
Calderdale	207,376	37,798	-2,923	34,875
Kirklees	431,020	77,364	13,903	91,267
Leeds	766,399	141,192	26,149	167,341
Wakefield	331,379	64,132	-3,397	60,735
	2,264,329	419,119	0	419,119

- 2.51. In accordance with the regulations District Councils will be notified of the transport levy by mid February and will make payments to the WYCA in ten monthly instalments from 1 April 2016.

Capital programme

- 2.52. The following paragraphs set out the capital funding available to the WYCA for 2015/16 and subsequent years and the indicative capital programme for which this funding will be used. It reflects the impact of the changes to the way in which the Department for Transport provides capital funding, most notably the devolution of the major scheme funding and the topslice of Local Transport Plan (LTP) Integrated Transport (IT) block funding to the regional Growth Deals. It also sets out the impact of taking on responsibility as accountable body for the Growth Deal monies awarded to the region. Whilst this provides significant sums for investment in interventions there are also requirements to ensure grant conditions are met, including a requirement to spend in year and this has necessitated a review of funding and expenditure to ensure the most effective and efficient use of resources to ensure delivery of key priorities alongside maximising the funding available.
- 2.53. The indicative programme for 2016/17 reflects the priorities of the WYCA as set out in the business plan, and will see the completion of a number of key projects such as Kirkstall Forge and Low Moor Rail Stations, Temple Green park and ride, the cycle superhighway and the start of work on a range of projects across all West Yorkshire Districts. This will include work on colleges in Bradford, Selby, Wakefield and Shipley, the Leeds University Innovation and Enterprise Centre, the continuation of the Business Growth Programme and development work on station gateway masterplans, the A62 Cooper Bridges scheme, the East Leeds Orbital Road and the Halifax Station Gateway scheme. The work being undertaken on a strategic Single Transport Plan will inform future project prioritisation and funding allocations.

Integrated transport block

- 2.54. The LTP settlement letter issued on 24 July 2014 by the Department for Transport confirmed the Integrated Transport block allocations from 2015/16 to 2017/18 with indicative allocations provided for 2018/19 to 2020/21. The Combined Authority is

deemed to be the accountable body in West Yorkshire and funding will be allocated to the Combined Authority.

- 2.55. The Authority therefore has the responsibility for distributing LTP funding to the District Councils to deliver the agreed Implementation Plan. In order to do this a mechanism has been established to make payments to Districts during the year that reflects the planned delivery of the Integrated Transport Block funded programme.
- 2.56. The Highways Maintenance allocations are made to District Councils in full with the funding received by the Authority paid over to the Districts via the quarterly payments, as determined by the DfT's formulaic allocation.
- 2.57. The Integrated Transport Block funding for 2015/16 to 2018/19 including funding from Implementation Plan 1 (IP1) supports schemes that will be delivered across the coming years. Table 6 below sets out the cash allocations for this year and the next three years.

Table 6 - Capital block funding allocations 2015-2019					
Funding Source		IP2			
	2015/16	2016/17	2017/18	2018/19	Total
	(Confirmed)	(Confirmed)	(Confirmed)	(Estimated)*	
	£000	£000	£000	£000	£000
Integrated Transport	13,104	13,104	13,104	13,104	52,416
Integrated Transport C/Fwd	20,563	4,719	0	0	25,282
Total LTP IT Block	33,667	17,823	13,104	13,104	77,698
Non LTP3 Funding	27,682	11,516	17,051	0	56,249
Maintenance	29,213	26,781	25,971	25,971	107,936
DfT Major Scheme	198	0	0	0	198
Total	90,760	56,120	56,126	39,075	242,081

- 2.58. The Authority's capital allocation for transport schemes in 2016/17 is therefore £90.76m, with this funding being provided as capital grant (not supported borrowing).
- 2.59. The governance arrangements that have worked effectively during the first years of the Combined Authority will continue to operate for 2016/17 with the Transport Committee approving quarterly payments to partners and overseeing delivery of the transport schemes identified in the indicative capital programme.
- 2.60. The IP2 shows a detailed breakdown of project interventions across the partners with allocations of funding reflecting this plan. The allocation of IP2 funding reflects the impact of the local growth fund (LGF) which top sliced nationally off the Integrated Transport Block. The impact of this on the IP2 integrated transport block allocations for 2015-17 is a reduction of 52% against the 2014/15 allocation and the IP2 plan has been adjusted to reflect this new strategic approach to funding allocations.

- 2.61. The 3 year implementation plan 2014-2017 included successful funding bids to DfT including major scheme funding for Kirkstall Forge Apperley Bridge (Rail Growth), Cycle City Ambition Grant and Local Sustainable Transport Fund grant. Additionally other funding sources are identified including Leeds City Council contributions to NGT development and developer contributions funding the Rail Growth scheme. Implementation Plan 3 from 2017-2020 is still in development and this process will continue through 2016/17 in consultation with district partners. The West Yorkshire Implementation Plan 2 2014-17 is shown in detail at Appendix B. A summary of the funding for IP2 is shown below:-

Table 7 Summary of West Yorkshire Implementation Plan 2015-19					
Funding Source	IP1	IP2			
	2015/16	2016/17	2015/16	2016/17	IP2 TOTAL
	£0	£0	£0	£0	£0
LTP IT Block Funding	13,104	13,104	13,104	13,104	52,416
LTP IT Block Funding (Carried Forward from IP1)	20,563	4,719	0	0	25,282
Non LTP Funding	27,682	11,516	17,051	0	56,249
DFT Major Scheme Funding	198	0	0	0	198
Total LTP3 IT Implementation Plan	61,547	29,339	30,155	13,104	134,145
IT overprogramming	2,554	6,776	0	0	9,330
Total WY Implementation plan value (including overprogramming and Major scheme Funding)	64,101	36,115	30,155	13,104	143,475
Transfer (from)/to Growth Deal	-18,090	18,090	0	0	0
Total IP programme value	46,011	54,205	30,155	13,104	143,475

The Strategic Economic plan (SEP) and Growth Deal

- 2.62. Government has created a Local Growth Fund, of around £2bn per year, to operate from April 2015. Each of the 39 Local Enterprise Partnerships (LEPs) in England was asked to submit a Strategic Economic Plan (SEP) to government by 31 March 2014 as part of a competitive bidding process to win a share of the new Fund. The government then announced 'growth deals' that allocate both financial resources and devolved powers and flexibilities for each LEP for 2015-16 and beyond.
- 2.63. The government announced the Growth Deals for all LEPs on 7 July 2014. The headlines are that over the 6 year period (2015/16 – 2021/22) of the deal the Leeds City Region has secured £572.9 million, which is the largest settlement in the country. This includes £180m for the West Yorkshire plus Transport Fund (WY+TF). In addition a further £420m will be provided between 2020/21 and 2034/35 (£30m

per year) for the Transport Fund and also the legacy DfT major scheme funding of £175m relating to NGT. A further allocation was awarded to the region of £54.6m in summer 2015 providing further funding for skills, housing regeneration and energy.

2.64. The funding for the West Yorkshire plus Transport Fund (WY+TF) is supplemented by local contributions to enable a £1billion programme to be delivered over a ten year period. The additional £420m from 2020 onwards is only available subject to satisfying an independent gateway review at five yearly intervals. The review will consist of an assessment of the economic impact of the schemes delivered as well as considering the success of delivering on time and on budget.

2.65. The Growth Deal funding award over the period 2015-2021 totals £627.5m with the table below showing expenditure and funding for the capital reporting period 2015-2019:-

Table 8 Allocation of Growth Deal - Economy							
Scheme Expenditure	Growth Deal				Total		
	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000		£000	
Business Growth Programme (inc. Access to Cap & Leeds, Hudds Uni Innovation)	6,800	12,590	8,030	4,000	31,420		
Skills Capital Program	5,170	68,830	0	5,000	79,000		
Energy Efficiency/Bio renewables	0	1,860	1,990	470	4,320		
Housing and Regeneration	5,340	11,580	3,680	2,490	23,090		
WYTF	22,000	55,700	85,000	122,000	284,700		
Majors	0	0	60,000	73,500	133,500		
Transport Projects	18,090		0	0	18,090		
Capitalisation	900	0	0	0	900		
Total	58,300	150,560	158,700	207,460	575,020		
ERDF Match	5,800	8,100	2,600	1,600	18,100		
Non Growth Deal Economy	4,685	23,478	0	0	28,163		
Funding							
Growth Deal	68,300	122,470	121,710	135,120	447,600		
LTP Transport Funding	0	18,090	0	0	18,090		
ERDF	5,800	8,100	2,600	1,600	18,100		
WY+TF Reserve Borrowing	-10,000	10,000	36,990	72,340	109,330		
Non Growth Deal Economy	4,685	23,478	0	0	28,163		

2.66. The table demonstrates that across the capital reporting period the forecast expenditure on Growth Deal schemes is £575.02m to 2019 funded by £447.6m of

grant from central government and a borrowing requirement of £109.33m to deliver the West Yorkshire plus Transport Fund element of the Growth deal.

- 2.67. The delivery of the non-transport elements of the Growth Deal are being progressed through the LEP panels with both the transport and non-transport projects being overseen by the Investment Committee which provides recommendations to the Combined Authority to approve schemes. During 2016/17 further resources will be invested in the portfolio management of projects to ensure that there is effective management of the delivery of current projects and that the pipeline of future projects continues to progress. This will also include consideration of the deliverability of projects and the potential to substitute schemes in order to achieve outcomes.

Forward Application of Growth Deal

- 2.68. As set out in the report, the WYCA capital programme covers interventions and projects focussing on both transport and economic interventions. These are funded through a number of income streams, some of which are specifically for transport projects such as the LTP IT block and highways maintenance and others which are specifically for economic investments and then the Growth Deal which covers both aspects. Certain conditions are attached to some of the funding streams whilst others have a degree of flexibility both in and across years.
- 2.69. As part of the award of Growth Deal funding certain flexibilities were granted enabling funds to be switched between individual schemes within year but with a need to ensure that ultimately the agreed outcomes would still be achieved. The main condition attached to the Growth Deal funding is that it must be spent in the year of award on capital projects. There is a significant risk in financial year 2015/16 that growth deal funding will not be spent within this annual time frame, with £40.1m of expected spend against a funding allocation of £68.3m, reflecting the time required to work up a range of complex projects in a short space of time. In order that the Authority does not lose funding it is proposed that the application of LTP and other Economy funding streams be deferred and Growth Deal money utilised to fund the other projects across the entire portfolio in order to ensure current and future Growth Deal funding awards are protected.
- 2.70. Discussions have been undertaken with the Investment Committee regarding the need to protect funding to ensure priorities are delivered but balanced against the need to spend money in accordance with the grant conditions ie to spend the awarded sum in year. The proposed approach whereby Growth Deal funds are substituted for integrated transport (IT) block funding and other West Yorkshire plus Transport Fund funding in the current year with these funding streams carried forward for use against Growth Deal projects in future years has been endorsed by the Investment Committee. This approach has also been endorsed in principle by the Department for Business Innovation and Skills and also was supported in the DCLG Growth Deal Funding conference which recognised that it was an appropriate funding strategy to ensure retention of growth deal capital with other funding streams repaying the Growth Deal projects in subsequent years.

Treasury management

- 2.71. The treasury management function is undertaken in conjunction with Leeds City Council. The WYCA is required to prepare an annual prudential statement, setting out treasury activity in the year, the arrangements in place and details of the funding position. This is set out in full in Appendix C.
- 2.72. The current treasury management arrangements have been regularly reviewed to ensure they are appropriate for the organisation. The next year will see significant change, with further increases in funding arising from Growth Deal funding, the development of the WY+TF and potentially through devolution. The arrangements will be kept under review to ensure they continue to best meeting the needs of the WYCA. Any proposed changes will be progressed through the Governance and Audit Committee.

3. Financial implications

- 3.1. As set out in the report.

4. Legal Implications

- 4.1. The Combined Authority is required to set the transport levy for the coming year in accordance with the Transport Levying Bodies Regulations.

5. Staffing Implications

- 5.1. The budget for 2015/16 and 2016/17 includes the funding for the current approved establishment and the associated employer on-costs.

6. Consultees

- 6.1. The Head of Paid Service, Directors and the Finance Working Group have provided input to this report.

7. Recommendations

- 7.1. That approval be given to the revised budget for 2015/16 and the proposed budget for 2016/17 for the WYCA.
- 7.2. That approval be given to the indicative capital programme for 2016/17 – 2018/19.
- 7.3. That the Transport Committee be delegated to approve individual schemes within the integrated transport block of the 2016/17 capital programme up to a maximum cost of £3m.
- 7.4. That in accordance with the powers contained in the Local Government Finance Act 1988 (as amended) and by virtue of article 9(6) of the West Yorkshire Combined

Authority Order and the Transport Levying Bodies Regulations 2015 (as amended) a levy of £107m be determined for the year ended 31 March 2017.

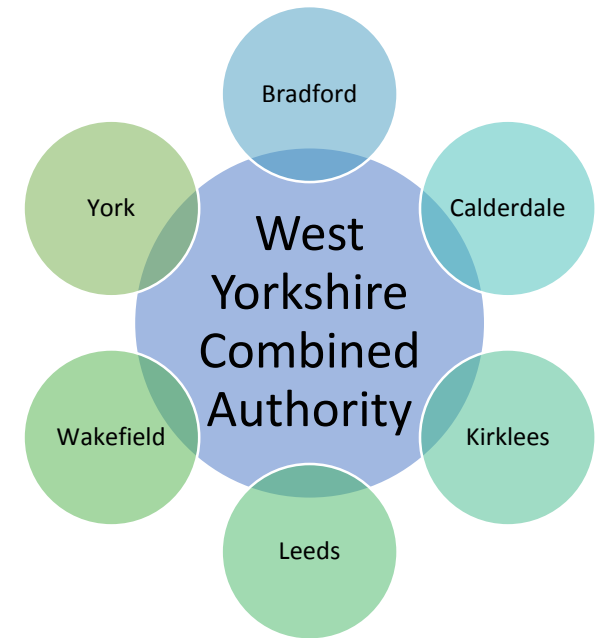
- 7.5. That the Chief Financial Officer be authorised to issue the levy letter in respect of the financial year ending 31 March 2017 to the five District Councils in West Yorkshire.
- 7.6. That a payment of £5.099m be made to the District Councils in accordance with table 4 of the report.
- 7.7. That authorisation be given to the Chief Financial officer to arrange appropriate funding for all expenditure in 2015/16 and 2016/17 subject to statutory limitation, including the most appropriate application of capital funding as set out in the report.
- 7.8. That the adoption of the CIPFA Code of Practice for Treasury Management in Public Services be reaffirmed.
- 7.9. That the treasury management policy as set out in Appendix C be approved.
- 7.10. That the prudential limits for the next three years as set out in Appendix C be adopted.

WYCA Business Plan DRAFT

Overview

At the heart of the West Yorkshire and York Partnership are the six local authority districts and the established Combined Authority (CA). They are the democratically accounted and trusted bodies, ready to coordinate ambitious place-leadership for good growth and successful communities.

As part of the CA the Leeds City Region Enterprise Partnership (LEP) plays a critical role providing the voice and leadership of business and managing programmes for boosting the region's economy.



Vision

“The partnership for prosperity, enabling good growth”

Delivering sustainable and accelerating growth, transport, jobs, employment, investment, skills, and housing accessible to all aiming to improve quality of life across the region.

What WYCA is delivering for you

DRAFT

WYCA works with private and public sector partners to raise the quality of life in our region through businesses growth, job creation, a trained and skilled workforce and the building of new and affordable homes, underpinned by a modern, integrated transport network.

Supporting growing businesses

We help small businesses and private sector firms to grow by providing support and finance, creating international links and paving the way for innovation, enterprise and new business investment.

Developing a skilled and flexible workforce

We're working with employers and education providers to create more and better jobs, with a highly skilled workforce to sustain them.

Building a resource-smart City Region

We're developing innovative new energy infrastructure in the region and helping businesses and households to become more energy-efficient, saving them money and supporting economic growth.

Delivering the infrastructure for growth

We're building the modern infrastructure our region needs to develop and grow including transport, broadband and housing

What WYCA has achieved so far.....

Secured a £1billion-plus Growth Deal to support growing businesses, develop a skilled and prosperous workforce, improve energy efficiency and create the housing and transport infrastructure for growth.

Agreed a first-stage devolution deal giving us greater influence over investment decisions on skills, transport, housing and support for small businesses.

Worked closely with LEP, which has created an additional 3,200 jobs for local people, unlocked around £491million of private sector investment in the region, supported over 4,000 businesses and, with its partners, will add an extra £1.4 billion to the City Region economic output by 2020.

Worked with partners to open the new Apperley Bridge station and build the new Leeds Station Southern Entrance and Kistall Forge station.

Started a £1bn programme of 26 transformational transport investments that will support and maximise economic and employment growth over the next 10 years.

Provided £29m funding for Wakefield Eastern Relief Road to create an environment where businesses can grow, 62,000 new, good-quality jobs can be created and 2,500 new homes can be built.

Signed a £13m superfast fibre broadband deal that will provide more than 98 per cent of homes and business in West Yorkshire with access to fibre broadband.

Agreed to extend Leeds' popular Elland Road Park and Ride, which saw 150,000 passenger journeys made and 68,000 cars parked in its first year of operation.

Continued to roll out MCard, the largest travel smartcard scheme of its kind outside London.

Completed the award-winning £6m Castleford Bus Station refurbishment to provide better facilities for passengers and support the regeneration and growth of the Five Towns area.

Approved £55m for 14 Growth Deal projects and programmes which have attracted almost £350m in private sector investment designed to create around 4,000 jobs, and up to 700 homes.

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Embarked in the 'Better Homes Yorkshire' programme, delivering energy efficiency improvements to over 12,000 Leeds City Region households and attracting over £20m of investment.

Started work on the new £10.8m rail station at Low Moor, Bradford, to improve travel links between Bradford, Halifax and Leeds, and attract new jobs and investment.

Developed gateway projects at Bradford Forster Square, Bradford Interchange, Castleford, Halifax, Huddersfield and Leeds rail stations to enhance the environment for commuters and visitors and improve their travelling experience.

Refurbished Wakefield Kirkgate Rail Station with partners, delivering a much-improved environment for passengers.

Agreed half-fare bus and train travel for all 16 to 18 year-olds living in West Yorkshire to increase their access to apprenticeships and training.

WYCA's delivery 2016/17

DRAFT

Establishing a second-stage devolution deal to give further control over funding and investment decisions across the City Region.

Aire Valley Park and Ride (Total Scheme Value: £9.5m)

The Aire Valley Park and Ride will deliver a 1,000 space Park and Ride site located at Temple Green in the Aire Valley, within the City Region's Enterprise Zone. The site is adjacent to the A63 Pontefract Lane (East Leeds Link Road).

Kirklees Housing Sites (Total Scheme Value £47m) The costs of transport access and site condition will be tackled to accelerate delivery and improve viability on three Council owned housing sites. Together, these will deliver over 600 new homes.

Apprenticeships – increase the number of SMEs offering apprenticeship opportunities (Total Scheme Value £4.6m) Provide support to SMEs in the West Yorkshire and York local authority areas who have not offered apprenticeships before or not in the past 12 months through a Grant of up to £2,000 per Apprentice, up to 3 apprentices per company.

Wakefield Kirkgate (Total Scheme Value: £5m) This scheme comprises highway works, including traffic signals, urban realm improvements to footways, storm-water drainage and pedestrian links to Kirkgate Rail Station.

Elland Road Park & Ride Phase 2

Due to the success of Phase 1 with over 370 cars parking per day, a further 350 spaces are to be provided at the site to take the total up to 800 spaces, along with improved waiting facilities and toilets, at a total cost of £1.8m.

Leeds City College – Printworks (Total Scheme Value: £9,998,175) - To complete the refurbishment of phase 3 of the Printworks campus to provide a world class training facility in the training of future and current employees in the Leeds City Region in vocational, technological, engineering and manufacturing sectors.

Low Moor new rail station An £11m project to construct a new rail station in south Bradford to serve the Low Moor, Oakenshaw and Wyke communities by car or bus, and the nearer communities by cycle or foot and improve connectivity from these areas to Bradford, Halifax, Leeds and beyond.

Calderdale College – Unlocking Potential (Total Scheme Value: £8,877,000) –The refurbishment / upgrade of the Percival Whitley Centre. The project will significantly improve the poor condition of three floors of the building including windows to the whole building, to enhance and extend its curriculum offer.

Leeds Brownfield Sites (Total Scheme Value – £36.5m) The development of a number of brownfield sites in East Leeds (Seacroft and Halton Moor) will be enabled to provide for up to 280 new homes. Local Growth Funding will be used for site clearance and remediation, to complement the nearby strategic growth point at the East Leeds Extension.

Kirkstall Forge new rail station Part of the £16m project including the recently opened new rail station at Apperley Bridge that will serve and play a key role in facilitating the adjacent major mixed-use development of the Kirkstall Forge site that will make a major contribution to the growth of the local economy, as well as improving access to Leeds for the local community.

Northgate House, Halifax (Total Scheme Value - £10.8m) As part of a major programme of investment and rationalisation of council property assets in the Borough, this important site will be redeveloped for new commercial opportunities

PROGRAMME AREA	2015/16			2016/17			2017/18			2018/19		
	TOTAL	LTP	Non LTP	TOTAL	LTP	Non LTP	TOTAL	LTP	Non LTP	TOTAL	LTP	Non LTP
Public Transport Asset												
Leeds Bus Station Carriageway Reconstruction	100	100		725	725							
Smart 5 refurbishment to extend asset life	100	100		1,700	1,700							
Access bus and operational vehicle replacement				893	488	405						
ICT Projects <£500k	419	419		543	543							
Public Transport Assets <£500k	573	573		898	898							
SUB TOTAL PUBLIC TRANSPORT ASSET	1,192	1,192		4,759	4,354	405						
Network Management												
Improved Data Communications	669	669		484	484							
More Efficient Traffic Signal Control	1,328	1,328		1,812	1,812							
Variable Message Signs	605	605		445	445							
Asset Management	725	725		487	487							
Leeds Thornbury barracks	531	531										
Network Managemetr schemes <£500k	1,021	1,021		189	189							
SUB TOTAL NETWORK MANAGEMENT	4,879	4,879		3,417	3,417							
Information												
SCIP Programme	1,364	1,292	72	2,070	2,070							
Bus real time Evolution	369	329	40	900	540	360						
SUB TOTAL INFORMATION	1,733	1,621	112	2,970	2,610	360						
Cycling and Walking												
CCAG City Connect superhighway	18,628	6,832	11,796	10,279	3,528	6,751			13,941			
Cycling Schemes <£500k	441	358	83									
SUBTOTAL CYCLING AND WALKING	19,069	7,190	11,879	10,279	3,528	6,751			13,941			
Integrated Public Transport							27,045	13,104		13,104	13,104	
Bus Strategy	800	800		561	561							
Hubs Programme	836	797	39	435	150	285						
Low Moor Rail Station	7,074	6,694	380	2,773	2,773							
Leeds Elland Road Park and Ride Phase 2	175	175		1,475	1,475							
Huddersfield Town Centre	1,278	1,278										
Integrated Public Transport Scheems <£500k	387	287	100	309	309							
SUBTOTAL INTEGRATED PUBLIC TRANSPORT	10,550	10,031	519	5,553	5,268	285						
Safer Roads												
SUB TOTAL SAFER ROADS	5,173	5,173		4,400	4,400							
Bids and Leverage												
Rail Devolution	671	235	436									
Bids and Leverage scheems <£500k	928	878	50	500	355	145						
Local Sustainable Transport Fund 2015/16	2,884		2,884									
SUBTOTAL BIDS AND LEVERAGE	4,483	1,113	3,370	500	355	145						
Low Carbon Fuels and Technologies												
Low Carbon Fuels and Technologies schemes <£500k	362	336	26									
SUB TOTAL LOW CARBON FUELS AND TECHNOLOGIES	362	336	26									
Other												
Other Schemes <£500k	216	216		167	167							
TOTAL OTHER	216	216		167	167							
TOTAL INTEGRATED TRANSPORT BLOCK	47,657	31,751	15,906	32,045	24,099	7,946	27,045	13,104	13,941	13,104	13,104	
DfT Major Schemes												
Rail Growth	5,569		5,569									
Leeds Station Southern Entrance	4,992	4,470	522	500	500							
NGT	5,883		5,883	3,570		3,570	3,110		3,110			
TOTAL MAJOR SCHEMES	16,444	4,470	11,974	4,070	500	3,570	3,110		3,110			
INTEGRATED CAPITAL PROGRAMME TOTAL	64,101	36,221	27,880	36,115	24,599	11,516	30,155	13,104	17,051	13,104	13,104	
TRANSFER TO GROWTH DEAL EXPENDITURE	-18,090	-18,090		18,090	18,090							
INTEGRATED CAPITAL PROGRAMME GRAND TOTAL	46,011	18,131	27,880	54,205	42,689	11,516	30,155	13,104	17,051	13,104	13,104	

PRUDENTIAL FUNDING STATEMENT

- 1 This statement has been prepared in accordance with the CIPFA Code of Practice 'Treasury Management in Local Authorities' which is re-adopted each year by Members of the Authority. The statement and its implementation is currently reviewed and updated twice annually, in the final accounts and budget reports.
- 2 The Local Government Act 2003 and Local Authorities (Capital Finance and Accounting) Regulations 2003 set out the system of capital finance to be followed by all local authorities from 2004. This appendix is intended to take account of the requirements of the regulations and to set them in the context of the Treasury Management Code of Practice.
- 3 This report assumes no borrowing takes place in 2016/17 to support the West Yorkshire plus Transport Fund (WY+TF) but that there will be borrowing requirements from 2017/18 onwards. Estimates of the likely funding required are set out in the capital annex and further work is underway to ensure there is a full robust programme of delivery for all schemes within the WY+TF that will enable the borrowing requirements for future years to be fully understood. A full report on the projected borrowing requirements of the Transport Fund will be prepared at the appropriate time for approval.

Treasury management activity – borrowing and investments

		£m
Total Loans outstanding at 1/4/2015		
Interest:	Fixed (incl LOBOs)	77.5
Activity expected during 2015/16:		
Loan repayments		-1.0
Net movement in temporary loans		0.0
New borrowing		0.0
Anticipated loans outstanding at 31/3/2016:		76.5
Activity expected during 2016/17		
New borrowing		0.0
Debt repayments		-1.0
Anticipated loans outstanding at 31/3/2017:		75.5
Total Investments		
Investments at 1/4 /2015		35.0
New Investment		20.0
Anticipated Investments placed at 31/3/2016		55.0

- 4 The current financial year has seen a continuation of the overall situation from 2014/15. Interest rates have remained low, with bank base rate remaining at 0.5% and opportunities both to refinance loans and to place money on the market at competitive rates remain limited.

- 5 Leeds City Council undertakes the monitoring of the financial markets on behalf of the Authority. The agreed policy is to seek to minimise the rates at which the Authority borrows and to continue to refinance any longer term loans if rates appear advantageous.
- 6 No such opportunities have arisen so far in 2015/16. The Authority has a loan portfolio with extremely competitive rates and the economic climate has been such that there have been no suitable opportunities identified for refinancing.
- 7 The Authority is in a position where it is unlikely to be required to undertake more borrowing in future years for its normal activities as all of its funding is cash grant. Without the need to borrow brought into play by the WY+TF under the prudential regulations the Authority would need to start repaying debt within the next five years and the investment strategy has been geared towards ensuring it is in a position to do so without incurring financial penalties for early repayment of loans. Further work with financial advisors is underway to establish the level and timing of the borrowing that may be required to support the WY+TF and the impact this will have on the overall loan portfolio.
- 8 The expected debt repayment for 2016/17 shown in the table above relates to the next instalment of the EIP loan. No further repayments are anticipated. One of the LOBO options will fall due during 2016/17 but given the current position with interest rates it is not expected to be called in by the banks. This will be monitored and appropriate action taken if this occurs.
- 9 Since 1 April 2015 WYCA has become the accountable body for the Leeds City Region Enterprise Partnership (LEP) which has resulted in significant extra cash balances coming into the Authority as a result of the Growth Deal funding paid in one instalment in April. In recognition of the increasing cash balances counterparty limits had been revisited during 2014/15 and a policy adopted whereby tranches of £7.5m have been invested for terms ranging from 3 months to one year in order to maximise the returns available to the Authority on cash balances. The rates achieved ranged from 0.5-0.98% being significantly higher than the prevailing rate of 0.25% with the Authority's bankers Natwest. The selected counterparties are constantly monitored and meet the strict eligibility criteria stipulated under Leeds City Council's investment policy which has been adopted by the Authority. This approach will continue during 2016/17 with an expectation that the Combined Authority will have cash balances to invest due to the advance payment of capital and other grant funding. Within the existing policy the Authority can also invest in money market funds and this opportunity may also be taken to enable effective management of what is expected to be further significant cash advances in April 2016 of Growth Deal funding.
- 10 The general level of borrowing and investments is handled efficiently by Leeds City Council and has produced a situation where the Authority has, in relative terms, very low borrowing costs. Regular meetings are held with the Leeds City Council staff who undertake treasury work for the Authority and these meetings ensure a satisfactory level of control and monitoring is achieved. These meetings also consider the overall treasury management strategy and ensure that the policies in place continue to be

appropriate to ensure that the Authority's funds are managed in the most effective and secure way.

- 11 The Authority has strict rules on investment criteria which are set out in paragraphs 12 to 14 for consideration and re-approval. These are set so as to minimise the risk to the Authority's funds but does also mean that interest earned on deposits is lower than it could be. It is therefore in the Authority's interests to seek to utilise any cash balances to reduce the costs of long term borrowing and this policy will continue to be pursued if possible. The increase to the PWLB rates announced in October 2010 reduced the opportunities to repay long term debt without incurring extra cost. The PWLB rates were later improved through the introduction of a certainty rate reduction but discount rates have not changed and it is these rates that are used to determine premiums and discounts on loan repayments. The Combined Authority would incur significant premiums by repaying borrowing but will review this situation as and when interest rates start to rise.

Treasury Management Activity – Investments Criteria

- 12 In general it is intended there should be no long term investments by the Authority with any surplus cash being invested short term up to a maximum term of one year. The level of future investments will fluctuate on a short-term basis due to cash flow requirements but will be maintained as low as possible. Any investments undertaken by the Combined Authority follow the guidance of DCLG having regard to the concept of Security, Liquidity and then Yield with emphasis being placed on the "return of funds" rather than the "return on funds".
- 13 It is proposed that the existing policy of utilising the expertise of the Treasury Management Team in Leeds City Council be reaffirmed for 2016/17.
- 14 The Authority has a number of rules in place for short term investments/borrowing, as set out below and that these should continue to be applied with the addition of the amendments added in bold:-
- a. The Chief Financial Officer shall determine the amounts and periods.
 - b. The procedural document as approved for their Treasury Management Division by Leeds City Council shall be adopted in relation to the Authority's short-term investments encompassing the Council's list of approved financial organisations and the maximum lending limits per organisation, as specified in that document from time to time.
 - c. No investment will be for a period exceeding 12 months **other than with other local authorities and then only for a period not exceeding 36 months.**
 - d. In principle there shall be no cross borrowing or investments with Leeds City Council (although this may be varied if late cash movements on the bank account occur creating a surplus/deficit cash position after the markets have closed for the day).

- e) Investments with any one counterparty should not exceed £15m.
 - f) **Investments with WYCA's bankers are specifically excluded from the limits set out, in recognition of the fluidity of such arrangements.**
- 15 The amendments proposed above would provide further flexibility for WYCA to invest its surplus funds which, as they are expected to continue to increase, will become increasingly difficult to place on the market. The amendments proposed are deemed low risk and are in accordance with the criteria applied by Leeds City Council to its treasury arrangements.
- 16 With reference to point d) above it is proposed that the Chief Financial Officer explore, with the Chief Financial Officer at Leeds City Council whether it is possible to establish an appropriate procedure whereby surplus WYCA funds could be lent to Leeds City Council at a rate deemed beneficial to both whilst not favouring one over the other. Similar arrangements are in place in other organisations and these will be explored and the outcome reported to the Governance and Audit Committee.

PRUDENTIAL FUNDING ARRANGEMENTS

- 17 The principal purpose of the prudential system is to allow authorities as much financial freedom as possible whilst requiring them to act prudently. There will be no government borrowing approvals issued but restrictions are imposed through the CIPFA Prudential Code which requires every authority to set prudential indicators and limits and thus be satisfied that it can afford the results of its borrowing. These limits, which must not be exceeded, have to be formally agreed by the authority before the start of each financial year. The government has retained the power to, if it so wishes, limit the level of borrowing incurred by authorities.
- 18 The Code requires full capital and revenue plans to be prepared for at least 3 years forward in order to assess the financial effects of the planned capital investment. In this Authority the three year financial strategy is considered by Members on a regular basis and to ensure a level of affordability it is currently the policy that borrowing to meet capital expenditure will be limited to existing levels plus any additional SCE(R) or SCA issued by the government through the LTP settlement and the SEP (Local growth fund and devolved major scheme funding). Restricting borrowing in this way ensures that all debt charges are covered by the Combined Authority through its levy on the Districts.
- 19 The capital programme is considered in detail earlier in this report. It should be noted that in accordance with the above overall capital expenditure will be met firstly by grants and other resources leaving the balance to be met by borrowing or through charges to revenue. The programme assumes there is to be no unsupported borrowing for 2016/17.
- 20 There are significant levels of grant provided to the Authority under the Integrated Transport block and Growth Deal for 2015/16 and 2016/17. Recognising the demands upon infrastructure investment it is proposed that other alternative methods of financing during the year remain under consideration as and when

appropriate. As an example leasing might be used for the acquisition of vehicles. The financial viability and value for money of such methods will require investigation and savings found within the budget to accommodate the costs involved. Members will be asked to approve any such methods before they are implemented.

- 21 Discussions are underway with the European Investment Bank regarding the provision of an option whereby it could provide a flexible financing offer to support the West Yorkshire plus Transport Fund. Many of the schemes in the Fund meet their funding criteria and this would provide an attractive alternative to the traditional PWLB lending.
- 22 It is not proposed at this stage that the Authority enter into any credit arrangements as defined by the regulations, other than as described above. If and when these are to be progressed then it should be recognised that they would be classified as borrowing and would need to be recognised in the operational boundary and authorised limit approval. Should any such arrangements be required these will be expected to be funded within the approved strategy.
- 23 When Leeds City Council last reviewed the borrowing limits in the light of market rates they determined that they would allow the limit to be set at a level sufficient for the current year plus the equivalent of 2 years anticipated borrowing requirement which is derived from the capital allocations. This was intended to provide flexibility for fund management allowing borrowing to take place when rates are low rather than being tied into strictly annual borrowing.
- 24 The Annex initially creates limits set at the required level of borrowing for 2015/16 and 2016/17. To provide more flexibility in managing the funding operation it was previously agreed that approval be given to borrow to cover loan requirements for the current plus the following 2 years. In view of the change to the LTP allocation from borrowing to grants this is now irrelevant and will only be applied if any new major schemes are approved. Such approval will therefore be sought at that time.
- 25 The attached Annex shows the calculation of the following prudential indicators:
 - a. The ratio of debt charges to overall expenditure. This is not significant to this Authority as it is effectively controlled through the level of the Levy (as referred to above).
 - b. Setting the borrowing requirement for the year (similar to total loans outstanding) but called 'the operational boundary'.
 - c. Setting the maximum borrowing permitted in the year defined as 'the authorised limit'. This is about £10m higher than the operational boundary to create flexibility to allow temporary additional borrowing (for example if it becomes prudent to borrow in advance of normal requirements because long term interest rates are low).
 - d. Setting the maturity loan structure which is defined as 'amount of projected borrowing that is fixed rate maturing in each period as a percentage of total

projected borrowing that is fixed rate' as well as the draft capital programme. These are set out in the Annex.

- 26 The Prudential Code requires Members to have an approved Treasury Management Policy (this is set out above) and to agree limits for variable and fixed rate loans. It is recommended that the maximum limit for variable rate loans continues to be set at 40% and the limit for fixed rate loans remains at 200%. This reflects the current position that arises from the increase in cash balances and investments resulting from an increase in advance grant funding.

West Yorkshire Combined Authority**Capital Financing Annex****Summary Capital Programme**

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
Expenditure per programme				
Local Transport Plan	18,131	24,599	13,104	13,104
Highways Maintenance Plan	29,213	26,781	25,971	25,971
Major scheme Expenditure	198	0	0	0
Non LTP Funding (Excluding Majors)	27,682	11,516	17,051	0
Growth Deal & Economy	68,785	182,138	161,300	209,060
	144,009	245,034	217,426	248,135
Less overprogramming	-2,554	-6,776	0	0
	141,455	238,258	217,426	248,135
Financing				
LTP Grant	13,104	13,104	13,104	13,104
LTP Grant (C/Fwd IP1)	2,473	22,809	0	0
Highways Maintenance Plan	29,213	26,781	25,971	25,971
Major scheme Expenditure	198	0	0	0
Non LTP Funding (Excluding Majors)	27,682	11,516	17,051	0
Growth Deal & Economy	68,785	164,048	124,310	136,720
Borrowing Requirement	0	0	36,990	72,340
Total Funding Available	141,455	238,258	217,426	248,135
Funding Applied	141,455	238,258	217,426	248,135

Calculation of Prudential Indicators:

	2015/16	2016/17	2017/18	2018/19
	£000	£000	£000	£000
AFFORDABILITY				
Ratio of financing costs to net revenue stream				
Debt Charges	6,158	6,160	6,607	9,592
Levy	101,481	101,901	102,680	105,616
(Assumes continuing levy freeze)				
Resultant ratio:	6.1%	6.0%	6.4%	9.1%

Notes: All additional debt charges should be covered by Levy

PRUDENCE

Net external borrowing does not exceed the total of capital financing requirement in previous year plus the estimate of any additional financing requirement for the current and later years.

Loans outstanding at 1 April	77,500	76,500	112,490	184,330
Estimate of Capital Financing Requirement (CFR)	88,267	84,736	118,337	187,423
Additional borrowing requirement in year	0	0	0	0
Less debt repayments in year	-3,531	-3,300	-3,254	-3,762
Estimate of (CFR) 31 March	84,736	81,347	115,083	183,661
Calculated Operational Boundary	88,267	84,736	118,337	187,423
Safety factor	10,000	10,000	10,000	10,000
Forecast Authorised Limit	98,267	94,736	128,337	197,423

Maturity of Loan Structure	Minimum	Maximum	Projected 31/03/2016	Interest Rate Structure:
Loans up to 1 year	0%	30%	1%	Variable rate loans - maximum 40% Fixed rate loans - maximum 200%
Loans between 12 and 24 months	0%	20%	1%	
Loans between 24 months and 5yrs	0%	50%	28%	
Loans between 5 and 10 years	0%	75%	0%	
Loans between 10 and 20 years	25%	100%	0%	70%
Loans between 20 and 30 years			0%	
Loans between 30 and 40 years			43%	
Loans between 40 and 50 years			27%	
Loans 50 years +			0%	
			100%	

DATED 2015

AGREEMENT FOR FINANCIAL SERVICES

Between

WEST YORKSHIRE COMBINED AUTHORITY

and

LEEDS CITY COUNCIL

West Yorkshire Combined Authority
Wellington House
40-50 Wellington Street
Leeds
West Yorkshire
LS1 2DE

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THIS AGREEMENT is made on the _____ day of _____ 2006
BETWEEN

- (1) **WEST YORKSHIRE COMBINED AUTHORITY** of Wellington House, 40-50 Wellington Street, Leeds, West Yorkshire, LS1 2DE (the "Authority")

AND

- (2) **LEEDS CITY COUNCIL** of Civic Hall, Leeds, West Yorkshire, LS1 1JF (the “Council”).

WHEREAS

- (A) The Authority is a local authority within the meaning 1972 Local Government Act. .
- (B) The Authority requires financial services to properly carry out its functions and has appointed the Council to provide such services in return for an annual fee.
- (C) This Agreement sets out the terms under which the Authority has appointed the Council to provide the financial services.

IT IS HEREBY AGREED as follows:

1. DEFINITIONS

- 1.1 Throughout this Agreement the following expressions shall have the following meanings:
- (a) “Annual Fee” means a fixed amount for the Services set out in Schedule 1 which are agreed by the parties as the core services;
- (b) “Financial Advice Fee” means an additional fee for the Services set out in Schedule 1 which are agreed by the parties as financial advice;

- (c) “Financial Year” means 1st April to 31st March;
- (d) “Services” mean the services to be provided by the Council and identified in Schedule 1 of this Agreement.

1.2 The interpretation and construction of this Agreement shall be subject to the following provisions:

- (a) the clause headings in this Agreement are for the convenience of the parties only and do not affect its interpretation;
- (b) words importing the singular meaning include where the context so admits the plural meaning and vice versa;
- (c) references to a clause or a Schedule are to a clause or a Schedule of this Agreement;
- (d) any reference to a statute (whether or not specifically named herein) shall include any amendment or re-enactment thereof for the time being in force and shall include all instruments, orders, plans, regulations, bye-laws, permissions and directions for the time being made, issued or given thereunder or deriving validity therefrom.

2. COMMENCEMENT

- 2.1 This Agreement shall commence on 1st April 2015 and shall continue in force until terminated by either party by giving twelve (12) months written notice to the other and such notice must be given to take effect from 1st April in any Financial Year. For the avoidance of doubt a notice to terminate given to take effect on any other date shall not be valid
- 2.2 This Agreement supersedes all previous discussions in relation to this Agreement between the Authority and the Council in respect of the Council’s provision of financial

services to the Authority.

3. THE COUNCIL'S OBLIGATIONS

- 3.1 The Council warrants to the Authority that it will exercise in the performance of the Services such reasonable skill, care and diligence as may be expected of a properly qualified and competent financial advisor experienced in carrying out work of a similar size, scope and complexity to the Services.
- 3.2 All work to be done by or on behalf of the Council for the purpose of executing this Agreement shall be carried out in a professional manner with all necessary care and, where special skill is involved, shall be carried out by a person or persons duly qualified and competent to exercise such skill.
- 3.3 The Council acknowledges to the Authority that it will observe and perform all the terms and obligations contained in this Agreement and confirms that the Authority shall be entitled to rely upon the exercise of the Council's reasonable skill and care.
- 3.4 The Council shall devote such of its time attention and abilities as are reasonable to the Authority as may be necessary for the proper exercise of its duties.
- 3.5 The Council shall at all times use its best endeavors to protect, enhance and further the interest of the Authority in accordance with the Authority's objectives and shall not by its actions bring the Authority in to disrepute or cause the Authority to incur liability of any kind except in accordance with this Agreement or any subsequent notification.
- 3.6 The Council shall comply with the reasonable directions of the Authority and use its best endeavors to carry out the Services.
- 3.7 The Authority may at any time identify additional services which it requires from the Council. In such a circumstance the parties shall agree in advance what the additional services are and the additional payment to be made to the Council for their performance.

4. THE COUNCIL'S PERFORMANCE

- 4.1 The Council will manage and monitor performance of the Services as if those Services were being carried out for the Council and immediately inform the Authority if any aspect of this Agreement is not being or is unable to be performed.
- 4.2 The Council shall use its reasonable endeavours to attend all meetings arranged by the Authority for the discussion of matters connected with the performance of the Services.
- 4.3 Without prejudice to the submission of reports as specified under the Agreement the Council shall provide any additional reports reasonably requested as to the performance of the Services at such time or times, and in such form as the Authority may reasonably require
- 4.4 The Authority shall have the power to inspect and examine any of the Services at any reasonable time. Where the Services are being performed on premises belonging to the Council, the Authority shall on giving reasonable notice to the Council be entitled to inspect and examine such Services. The Council shall provide free of charge all such facilities as the Authority may reasonably require for such inspection and examination.
- 4.5 Nothing in this Agreement shall be taken as binding the Authority to accept the Council's advice on any matter. If the Council offer advice to the Authority and they fail to accept that advice the Council shall not be liable for any losses howsoever incurred by the Authority as a result of the Authority failing to accept such advice.

5. PAYMENT

- 5.1 The Authority shall pay to the Council the Annual Fee for the performance of the Services for treasury management and the administration of the LEP (Growing Places Fund and Local Growth Fund) Loans portfolio including existing loans and new loans. The Annual Fee shall be agreed between the Council and the Authority in advance and

no later than on 30th November of the preceding Financial Year. The Annual Fee shall not to be altered unless the alteration has been agreed in advance in writing by the Authority

- 5.2 The Council shall submit to the Authority an invoice for payment of the Annual Fee on or around 30th September of the Financial Year to which the Annual Fee applies. The invoice shall be supported by such evidence as may reasonably be required to prove that the sums shown thereon are properly due and payable.
- 5.3 The Fee for any additional work or services identified by the Authority under clause 3.7 shall be calculated in accordance with an agreed number of days required by the Authority for the financial advice and the Council's daily rates. The Fee for these services shall be agreed between the Council and the Authority in advance and no later than on 30th November of the preceding Financial Year.
- 5.4 The Council shall submit to the Authority an invoice for payment for any additional work identified under clause 3.7 on 31st March of the Financial Year to which the additional work applies. The invoice shall detail the actual calculation of the number of days used by the Council to provide the Authority with the Services set out in Schedule 1 which are agreed by the parties as financial advice. The invoice shall be supported by such evidence as may reasonably be required to prove that the sums shown thereon are properly due and payable.
- 5.5 The date for payment of each of the Council's invoices shall be 30 (thirty) days after the date of receipt by the Authority of the invoices.
- 5.6 The Council shall provide VAT invoices in proper form.
- 5.7 The Council expressly agrees and declares that the Authority shall have no liability in respect of the Council's fees to the Council other than the Annual Fee the Financial Advice Fee or any additional fees agreed under clause 3.7 above and that all costs incurred in connection with the provision of the Services (including without limitation the costs of the Council's permitted sub-contractors) shall be borne by the Council.

- 5.8 For the avoidance of doubt the Annual Fee and Financial Advice Fee are fully inclusive of all travelling, subsistence and other expenses and disbursements.

6. THE COUNCIL'S PERSONNEL

The Council shall engage suitably competent, qualified and experienced personnel to undertake the roles and responsibilities that are required in providing the Services to the Authority

7. THE AUTHORITY'S OBLIGATIONS

- 7.1 The Authority shall if so requested by the Council supply to the Council in such time as may be reasonable having regard to the time and nature of any such request any necessary and relevant data and information in the possession of the Authority or which may only be obtained by the Authority.
- 7.2 The Authority shall use reasonable care and skill to ensure that all relevant data and information it supplies to the Council is accurate and complete. The Authority shall immediately notify the Council if it finds that any relevant data or information it has supplied is incorrect or inaccurate or otherwise should not be relied upon.
- 7.3 The Authority acknowledges that any reports issued or conclusions reached by the Council may be based upon information provided by the Authority and the Council assumes no responsibility or make no representations with respect to the accuracy or completeness of any information provided by the Authority.

8. ASSIGNMENT

The Council shall not transfer or assign either directly or indirectly this Agreement or any part thereof, without the prior written consent of the Authority and if such consent is given the Council shall remain liable for the performance of the Service in its entirety as if it were still personally executing it.

9. COPYRIGHT AND CONFIDENTIALITY

9.1 The copyright in all documents calculations and data in whatever form produced by the Council in connection with this Agreement shall be vested in the Council. The Council shall provide the Authority with a non-exclusive royalty free licence to use, reproduce, modify, adapt and enhance all documents calculations and data produced in connection with the Services under this Agreement such licence shall be perpetual and irrevocable.

9.2 Subject to the requirement of the Freedom of Information Act 2000 the Council shall not disclose this Agreement or any provision thereof or any information resulting from, in connection with, or during the course of, the Agreement, to any person unless it is strictly necessary for the performance of the Agreement, and authorised in writing by the Authority. The Council shall comply with any instructions regarding changes to authorisations and other instructions regarding disclosure or non-disclosure. This clause does not apply in relation to information:

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- (a) which is in or enters the public domain otherwise than by a breach of an obligation of confidentiality;
- (b) which is or becomes known from other sources without breach of any restriction on disclosure; or
- (c) which is required to be disclosed by law or any professional or regulatory obligation.

9.3 Subject to clause 9.2, the Council shall ensure that information about the Agreement, or arising from or connected with this Agreement:

- (a) is divulged only to the minimum number of persons;
- (b) is divulged only to the extent essential to each person's action in carrying out (or in connection with) the Agreement and that such persons do not further divulge such information;

(c) is properly safeguarded.

9.4 The Council shall ensure that any contract with:

(a) any of its employees; and

(b) any sub-contractor engaged in any way in connection with the Agreement;

Contains a condition requiring that person to keep all information in relation to this Agreement and its performance confidential.

10. CONFLICT OF INTEREST

The Council warrants that none of its personnel engaged in providing the Services are aware at the date of this Agreement of any actual or potential conflict of interest on the part of the Council in relation to the provision of the Services.

11. INDEMNITY AND INSURANCE

11.1 The Council shall indemnify and keep indemnified the Authority against injury (including death) to any persons or loss of or damage to any property which may arise out of the act or default or negligence of the Council its sub-contractors, employees, or agents and against all claims demands proceedings damages costs charges and expenses whatsoever in respect thereof or in relation thereto.

11.2 The Council's liability to pay damages for losses incurred by the Authority in connection with or arising out of this Agreement shall be limited only to that part of the Authority's actual loss that was caused by the Council.

12. TERMINATION

12.1 In the circumstances set out below, the Authority shall be entitled to terminate this Agreement without giving notice if:

- (a) the Council is guilty of any serious breach or non-observance of any of the conditions of this Agreement;
- (b) the Council neglects or persistently fails or refuses to carry out the duties assigned to it under this Agreement; or
- (c) the Council has not, in the reasonable opinion of the Authority, exercised such due diligence as enabled the Services to be performed.

12.2 The Council or its personal representatives shall upon the termination of its engagement immediately deliver up to the Authority all correspondence, documents, specifications, papers and property belonging to the Authority which may be in its possession.

12.3 The Council shall be entitled to payment in respect of the Services for any work carried out up to the date when the Agreement is terminated PROVIDED THAT a proper invoice is submitted for the payment.

12.4 The Authority shall be entitled to recover from the Council that portion of the Annual Fee (to be calculated on a pro-rata basis) paid in advance where this Agreement is terminated early for any reason.

12.5 Clauses 5, 9, 11, 12, 14 and 16 of this Agreement shall survive its termination and continue to bind both parties.

13. ALTERATIONS TO TERMS

All additions, amendments and variations to this Agreement shall be binding only if in writing and signed by the duly authorised representatives both of the Council and of the Authority.

14. DISPUTE RESOLUTION

14.1 In the event of any dispute arising between the parties in connection with this

Agreement which cannot be resolved by good faith negotiations between the parties' immediate contract representatives, the resolution of the dispute shall be escalated to senior management level within 30 days of a written request from either party to the other.

- 14.2. If the dispute is not resolved within 30 days from the date of escalation to senior management level, then any dispute between the parties shall be referred to mediation before a mediator whose method of appointment is agreed between them. Neither party shall be at liberty to refer the matter to the courts until mediation of the dispute has been attempted and has proved to be unsuccessful.

15. AUDIT

The Authority and its duly appointed agents shall have full audit rights of all documents produced wholly or partly for the purpose of this Agreement including the right to inspect documents and to take copies

16. ACTIONS REQUIRED BY LAW

Nothing contained in this Agreement shall prevent either party from taking all such actions as may be required by law or statute or to comply with the regulation of any relevant professional or statutory body or agency.

17. NOTICES

- 17.1 Any notice to be given hereunder shall either be delivered personally or sent by registered post or recorded delivery or by facsimile transmission or other means of telecommunication in permanent written form. The addresses or numbers for service of the Authority and of the Council shall be those stated in clause 17.3 or such other address or number for service as the party to be served may have previously notified in writing to the other party. A notice shall be deemed to have been served as follows:

- (a) if personally delivered, at the time of delivery;

(b) if sent by facsimile transmission or other means of telecommunication, at the time of transmission; and

(c) if sent by registered post or recorded delivery, at the time of delivery as recorded in the appropriate register.

17.2 In proving such service it shall be sufficient to prove that personal delivery was made or that the applicable means of registered post or recorded delivery or telecommunication was properly addressed and despatched as the case may be.

17.3 The address for service of notices for each party under this Agreement shall be as follows:

(a) The Authority Wellington House
 40 - 50 Wellington Street
 Leeds
 West Yorkshire
 LS1 2DE
 Fax: 0113 251 7373

(b) The Council Civic Hall
 Leeds
 West Yorkshire
 LS1 1JF
 Fax: 0113 247 4346

18. THE CONTRACT (RIGHTS OF THIRD PARTIES) ACT 1999

The Contracts (Rights of Third Parties) Act 1999 does not apply to this Agreement.

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19. WAIVER

The failure by the Authority to enforce at any time or for any period any one or more conditions of this Agreement shall not be a waiver of them or of the right at any time

subsequently to enforce all conditions of this Agreement.

20. SEVERANCE

If any condition or provision in this Agreement shall be held to be illegal or unenforceable, in whole or in part, under any enactment or rule of law, such condition or provision or part shall cease to form part of this Agreement but the validity and enforceability of the remainder of this Agreement shall be unaffected.

21. ENTIRE AGREEMENT

This Agreement shall constitute the entire Agreement between the parties.

22. LAW

This Agreement shall be subject to and interpreted according to the Law of England and Wales and shall be subject to the jurisdiction of the English Courts.

IN WITNESS whereof the parties hereto have caused this Agreement to be executed by their duly authorised representatives.

.....

Name:

Position:

For and on behalf of **WEST YORKSHIRE COMBINED AUTHORITY**

.....

Name:

Position:

For and on behalf of **LEEDS CITY COUNCIL**

SCHEDULE 1

The Services

1. The Council shall perform the following Services:
 - (a) treasury management, including attending regular meetings to determine policy, and for all transactions relating to investments and borrowing via both the current and business reserve bank accounts;
 - (b) operate the Authority bank account (including conducting daily bank reconciliations) and ensuring all movements into and out of the account are on time and fully authorised. All non-treasury movements (other than West Yorkshire Passenger Transport Executive grant related items) shall be immediately notified to the Authority for verification;
 - (c) maintain the LATIMA system and provide up to date forecasts of borrowing, investments and cash flows to enable debt charge forecasts to be prepared.
 - (d) provide information, statements and advice to the Authority on the prudential financial system to enable the Authority to fully comply;
 - (e) provide guidance to the Authority on compliance with accounting standards and for notifying the Authority of all changes likely to affect the Authority's presentation of their accounts;
 - (f) not later than the end of April after the end of each financial year (or on a quarterly basis if required by the Authority) provide a statement, signed by an authorised officer of the Council Head of Finance or above and specifically not involved in day to day transactional dealings stating what transactions have been carried out and that the bank account and cash book is correct and free from misrepresentations. Where exceptions occur due to the signatory

providing operational cover this will be reported.

2. Borrowing Transactions

- (a) All borrowing is to be undertaken by the Council on behalf of the Authority including the borrowing requirements of the West Yorkshire Plus Transport Fund in accordance with delegations assigned to the Chief Finance Officer of the Authority and to officers of the Council. It will provide money market experience and obtain funding both long and short term through the money markets for the Authority. A quarterly meeting (the actual dates being adjusted to reflect urgency/necessity/market movements etc) will be held to review the loan portfolio, borrowing requirements, latest money market advice from the Council's brokers and strategy in relation to existing and future loans.
- (b) Once decisions are made on borrowings, all transactions will be carried out by the Council's Treasury Management Division acting on behalf of the Authority under Council FPRs.

3. Investments

- (a) All investments are to be undertaken by the Council on behalf of the Authority in conjunction with the approved treasury management policy. This policy is subject to formal change by the Authority periodically to reflect market conditions.
- (b) Once decisions are made about investments all transactions are carried out by the Council's Treasury Management Division acting on behalf of the Authority under Council FPRs.

4 LEP loan Funds

The council shall provide the following administrative services to West Yorkshire Combined Authority:-

- (a) provide support and advice on the financial terms of a standardised commercial

loan agreement specified by the Authority for the issuance of new loans including devising bespoke drawdown and repayment profiles for individual projects on request.

- (b) provide payment schedules to the borrower and undertake the administration of collecting interest and capital repayments.
- (c) West Yorkshire Combined Authority will generate sales invoices for loan interest and capital repayments through the WYCA Finance Debtor system. LCC treasury will receive a copy of all invoices raised and provide notification of repayments received.
- (d) The release of loan funds to the borrower will be directed through the Natwest account 86589660 on the receipt of written instruction from WYCA.
- (e) The repayment of loan capital and interest will be directed through the Natwest account 86589660
- (f) The council will provide West Yorkshire Combined Authority with regular updates on loan performance, flow of repayments and interest.
- (g) The West Yorkshire Combined Authority will provide the council with forecasts on the profile of new loan activities on a timely basis.
- (h) The council will inform West Yorkshire Combined Authority of the occurrence of late/delinquent loans in order that an agreed WYCA escalation protocol can be activated between the WYCA LEP team and WYCA legal.
- (i) The loan transactions will be accounted for through the financial management system (Dream) of West Yorkshire Combined Authority with the council providing information to facilitate such entries.

5. The Council's staff shall follow all regulations and procedures as laid down by the Council in performing the Services for the Authority. These are as follows:

- (a) all movements from the account will be electronic;
- (b) ensure all Levy receipts are received on a timely basis;
- (c) transfers to the West Yorkshire Combined Authority must only be to account 00205196 at Lloyds plc, Leeds;

- (d) no payments may be made unless specifically authorised;
- (e) maintain a daily cash book and send a copy monthly to the Authority's Chief Financial Officer;
- (f) certify all brokerage or other payments required and pass them with full details to the Authority for payment;
- (g) notify the Authority if any VATable payment or receipt goes through the Authority bank account; and
- (h) notifying the Authority of any unusual transaction occurring on the account
- (i) LEP loan payments are to only pass through the Natwest account 86589660 in accordance with the agreed authorisation protocol. Loan receipts will also go through the Natwest account. The council will provide records of transactions in accordance with the treasury management arrangements.

6. The Council's internal audit section shall provide the Authority with an annual statement of assurance that the Council have audited the LATIMA system and the Council is satisfied that it was operating properly throughout the year for both the Council and the Authority.

7. The Council shall perform any other services as the Authority may reasonably require.