

GOVERNANCE AND AUDIT COMMITTEE

**MEETING TO BE HELD AT 14:00 ON THURSDAY, 21 MARCH 2019
IN COMMITTEE ROOM A, WELLINGTON HOUSE, 40-50 WELLINGTON
STREET, LEEDS**

A G E N D A

- 1. APOLOGIES FOR ABSENCE**
- 2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**
- 3. EXCLUSION OF THE PRESS AND PUBLIC**
- 4. MINUTES OF THE MEETING OF THE GOVERNANCE AND
AUDIT COMMITTEE HELD ON 17 JANUARY**
(Pages 1 - 6)
- 5. EXTERNAL AUDIT PROGRESS REPORT**
(Pages 7 - 26)
- 6. INTERNAL AUDIT PROGRESS REPORT**
(Pages 27 - 34)
- 7. STRATEGIC INTERNAL AUDIT PLAN**
(Pages 35 - 54)
- 8. COMPLIANCE AND MONITORING**
(Pages 55 - 66)
- 9. UPDATE ON 2019/20 BUDGET**
(Pages 67 - 98)
- 10. LOCAL ASSURANCE FRAMEWORK REVIEW**
(Pages 99 - 190)

Signed:

A handwritten signature in black ink, appearing to read "Basim".

**Managing Director
West Yorkshire Combined Authority**

**MINUTES OF THE MEETING OF THE
GOVERNANCE AND AUDIT COMMITTEE
HELD ON THURSDAY, 17 JANUARY 2019 AT COMMITTEE ROOM A,
WELLINGTON HOUSE, 40-50 WELLINGTON STREET, LEEDS**

Present:

| | |
|---------------------------------------|----------------------------------|
| Andy Clayton (Chair) | Department for Work and Pensions |
| Councillor David Hall | Kirklees Council |
| Councillor Susan Hinchcliffe | Bradford Council |
| Councillor Shabir Pandor | Kirklees Council |
| Councillor Barry Collins (Substitute) | Calderdale Council |

In attendance:

| | |
|-----------------|-----------------------------------|
| Angela Taylor | West Yorkshire Combined Authority |
| Russell Gott | West Yorkshire Combined Authority |
| Jonathan Sheard | West Yorkshire Combined Authority |
| Ben Kearns | West Yorkshire Combined Authority |

26. Apologies for Absence

Apologies for absence were received from Councillor Swift

27. Declarations of Disclosable Pecuniary Interests

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

28. Exclusion of the Press and Public

There were no items on the agenda requiring the exclusion of the press and public.

29. Minutes of the Meeting of the Governance and Audit Committee held on 1 November

Resolved: That the minutes of the meeting held on the 1 November be approved.

30. External Audit Update

The Committee considered a report which set out the audit strategy memorandum for the year ending March 2019 and the external audit progress

report at January 2019.

The audit strategy memorandum outlined Mazars audit approach for the coming year and was attached at appendix 1. Mark Kirkham and Mark Dalton were in attendance on behalf of Mazars and highlighted the significant risks identified in the forthcoming year's audit as well as areas of key judgement. Mazars confirmed that they would report back to the Government and Audit Committee in July 2019.

Mazars also confirmed the audit fee at £25,964, in line with the previously published scales. It was noted that the audit fee for the 2018/19 year was lower than the 2017/18 fee. Mazars reassured the Committee that the same high audit standard would be delivered.

Members discussed the extent to which Brexit had been taken into account in audit activity and agreed that a deeper discussion would be had at the next meeting.

The external audit progress report set out the work completed to date by Mazars. The report included a number of questions around compliance, oversight of management's processes regarding fraud, and questions on potential litigation. It was proposed that a draft response to these questions be considered at the next meeting of the Committee.

Resolved:

- (i) That the Committee note the audit strategy memorandum for the year ending 31 March 2019 and external audit progress report as at January 2019.
- (ii) That the Committee note the requirement for a response to the questions posed in section two of appendix two by 31 March 2019 and that draft response will be brought to the next meeting of this Committee for consideration.

31. Internal Audit Progress Report

The Committee considered a report which set out the work undertaken by the Internal Audit section in delivering the 2018/2019 audit plan.

The Committee was informed that work had commenced on the identification of assurance activities to be included in the 2019/20 internal audit plan. It was noted that members of the Committee would be contacted individually with details of the emerging plan in February 2019 and have the opportunity to provide feedback before the plan was determined.

Members noted the activities undertaken by the Internal Audit section during the period 1 April 2018 to 31 October 2018. It was reported that 40% of the identified audit work plan remained outstanding. It was noted that there was a projected shortfall of 37 days in the current audit year due to sick leave. The Committee was advised this would be addressed through use of the contingency element of the plans and the deferral of some work into the

2019/20 audit year.

Some discussion took place regarding the key message points arising from the internal audit. The Committee discussed tendered subsidised services and the Director of Resources explained that changes to the procurement team will address the concerns arising from the internal audit. It was emphasised that the current process could be further strengthened through the procurement team to ensure strengthened controls and standardised record keeping.

The Director of Resources assured the Committee that the issues raised around CDM (Construction Design and Management Regulations) had been addressed through conversations with the health and safety department to ensure that evidence of compliance is accessible and clearly evidenced. A note would be circulated to members of the Committee before the next meeting regarding actions taken regarding CDM and to highlight any unaddressed concerns.

The Committee discussed the outstanding audit recommendations which were provided in Appendix 2. It was noted that several of the outstanding recommendations had a completion rate of 90%. It was also noted that some outstanding recommendations were incomplete due to staffing issues which were now resolved which will unlock delays. It was stated that the Committee would be advised if any of the recommendations take longer than 3 months to implement.

Resolved: That the report be noted.

32. Internal Audit Charter 2019

The Committee considered a report which presented the Internal Audit Charter for the West Yorkshire Combined Authority. The Internal Audit Charter was attached at appendix 1 and set out Internal Audit's position in the organisation in accordance with the Public Sector Internal Audit Standards and best guidance.

Resolved: That the internal Audit Charter for the West Yorkshire Combined Authority be approved.

33. Internal Controls and Financial Monitoring

The Committee considered a report which set out any changes to the arrangements for internal control in the West Yorkshire Combined Authority and provided information on the current financial position.

It was reported that there had been no significant changes to internal controls in the period and monthly reconciliations were up to date.

The Committee noted that the new Regulatory and Compliance Board at officer level held its first meeting in November and would provide information to the Committee as appropriate.

The Committee was updated on governance meetings with Leeds City Council

and noted that a minor breach had been disclosed with regards to the sums placed on deposit beyond a 12 month term. The Committee was informed that measures had been put in place to rectify the issue and prevent it from re-occurring.

The Committee discussed treasury management as guidance had been issued which required a new code of Practice for the 2019/20 financial year. A final draft would be brought to the Committee in March. It was suggested that officers from the Treasury Management team at Leeds City Council be invited to attend a future meeting.

Resolved: That the Committee note the information contained in this report

34. Draft Budget 2019/20

The Committee considered a report regarding an update on the draft budget for 2019/20. The Committee recognised the difficult funding position facing local authorities as they await the outcome of the fair funding review and comprehensive spending review in 2021. The Committee noted that the Combined Authority had sought to find ways to deliver its services more efficiently and maximise third party incomes.

The latest draft budget for 2019/20 was presented to the Combined Authority at its meeting on the 13 December 2018 and showed a required use of reserves of £1.8 million against a target agreed in February 2018 of £1.2 million. It was noted that further work was underway to reduce the funding gap to the previously agreed £1.2 million and will be presented to the Combined Authority for approval on 14 February.

It was suggested that the Committee would be updated on the budget for the financial year 2019/20 at its meeting in March.

Resolved: That the Government and Audit Committee provide any input to the business planning and budget process and the issues raised in the report.

35. Local Assurance Framework Review

The Committee considered a report which provided an update on progress relating to changes to the Leeds City Region Local Assurance Framework. The changes required for the upcoming year were highlighted in the submitted report.

It was noted that the a draft copy of the updated Assurance Framework would be presented to the Combined Authority in February and be approved by the LEP Board in March. A final draft version of the report will be presented to the Governance and Audit Committee in March 2019.

Resolved: The Governance and Audit Committee is asked to:

- (i) Note that the Leeds City Region Local Assurance Framework is being revised for the reasons set out in this report.

(ii) Provide any feedback on the updated assurance requirements.

36. Overview and Scrutiny Update

The Committee considered a report which set out the work programme with the Overview and Scrutiny Committee's work programme for the 2018-2019 municipal year.

Members discussed the need to understand the Overview and Scrutiny Committee work programme to ensure key issues are flagged and aligned to the audit work programme to minimise duplication and ensure a coherent plan of work across key control areas. It was suggested that the Chair of the Government and Audit Committee would meet with the Chair of the Overview and Scrutiny Committee.

Resolved: That the Governance and Audit Committee note and comment on the report.

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Report to: Governance and Audit Committee

Date: 21 March 2019

Subject: **External audit progress report**

Director(s): Angela Taylor, Director, Corporate Services.

Author(s): Angela Taylor/ Jon Sheard

1. Purpose of this report

1.1 To present Mazar's external audit progress report to the Committee.

1.2 To agree the response to Mazar as set out in Appendix 2.

2. Information

2.1 The external auditors Mazars have now undertaken their interim audit fieldwork. They have provided as **Appendix 1** their External Audit Progress Report which sets out their work to date and provides further information on useful publications. Mazars will be available at the meeting to present the report and take any questions from members.

2.2 At the last meeting of this Committee Mazars requested that a response be provided to a number of questions in relation to the Committee's overview of arrangements, with a view to informing their assessment of the risk of fraud and error within the financial statements, which in turn determines the work Mazars will need to undertake. A draft response is attached as **Appendix 2** for members to consider and approve.

3. Financial Implications

3.1 As set out in the report.

4. Legal Implications

4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee note the external audit progress report at Appendix 1.

7.2 That the Committee consider and approve the response to Mazars at Appendix 2.

8. Background Documents

None.

9. Appendices

Appendix 1 – External audit progress report

Appendix 2 – Response to Mazars

External Audit Progress Report

West Yorkshire Combined Authority

March 2019





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1. AUDIT PROGRESS

Purpose of this report

This report provides the Audit and Governance Committee with an update on progress in delivering our responsibilities as your external auditor.

This paper also seeks to highlight key emerging national issues and developments which may be of interest to Members of the Committee.

If you require any additional information regarding the issues included within this briefing, please contact any member of your engagement team.

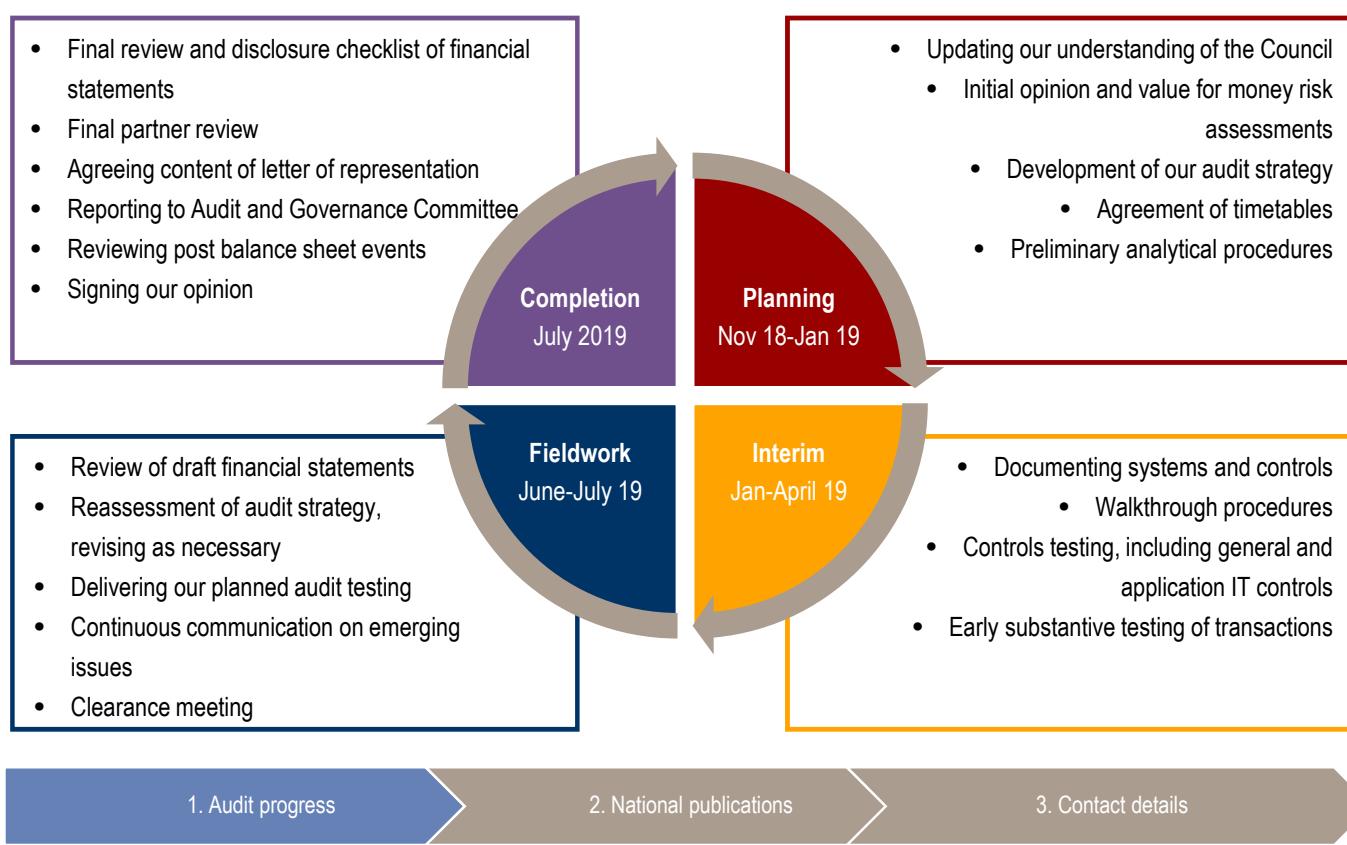
Audit progress

Our key audit stages are summarised in the diagram shown below. Overall, our work is on track and there are no significant issues arising from our work that we need to report to you at this stage.

Details of work completed and on-going since the last Committee meeting is as follows:

- documenting systems and controls;
- walkthroughs of the key systems;
- updating our IT risk assessment;
- controls testing, including general and application IT controls;
- early substantive testing of transactions (including income and expenditure, payroll, journals and property, plant and equipment); and
- updating our VFM risk assessment and early work in response to the significant VFM risks identified within our Audit Strategy Memorandum i.e. delivering financial sustainability over the medium term.

In addition, we continue to liaise with senior officers, consider key agendas and papers and liaising with your internal auditors to share knowledge and ensure no duplication.



2. NATIONAL PUBLICATIONS

| Publication/update | Key points |
|---|---|
| National Audit Office (NAO) | |
| 1. Local auditor reporting in England 2018 | Main findings reported by local auditors in 2017/18. |
| 2. Local authorities - governance | Consideration of VfM and financial sustainability in local authorities. |
| 3. NHS financial sustainability | Current picture not sustainable and yet to be seen whether spending plans will deliver the change required. |
| Public Sector Audit Appointments Ltd (PSAA) | |
| 4. Local quality audit forum | December 18 forum slides available online. |
| 5. Oversight of audit quality, quarterly compliance reports | No significant issues. |
| Chartered Institute of Public Finance and Accountancy (CIPFA) | |
| 6. Streamlining the Accounts: Guidance for Local Authorities | Includes suggestions to streamline the format of financial statements and the supporting year-end processes. |
| 7. Scrutinising Public Accounts: A Guide to Government Accounts | Online publication resource available. |
| 8. CIPFA Fraud and Corruption Tracker 2017/18 | Annual report. Increase in fraud detected or prevented. |
| Secretary of State for Housing, Communities and Local Government | |
| 9. Local Government Settlement for 2019-20 | Provides early insight into the settlement for 2019-20. |
| Mazars | |
| 10. Summary of NHS long-term plan | In this briefing on the new NHS long-term plan, Mazars have highlighted the implications of the plan for local government and the key questions that local authorities should be considering. |

1. Audit progress

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2. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019

Since 2015, the Comptroller and Auditor General (C&AG) has been responsible for setting the standards for local public audit, through maintaining a Code of Audit Practice and issuing associated guidance to local auditors.

The report describes the roles and responsibilities of local auditors and relevant national bodies in relation to the local audit framework and summarises the main findings reported by local auditors in 2017-18. It also considers how the quantity and nature of the issues reported have changed since the C&AG took up his new responsibilities in 2015, and highlights differences between the local government and NHS sectors. The report highlights a number of points as summarised below.

- Auditors gave unqualified opinions on financial statements in 2015-16, 2016-17 and 2017-18. This provides assurance that local public bodies are complying with financial reporting requirements. As at 17 December 2018, auditors had yet to issue 16 opinions on financial statements, so this does not yet represent the full picture for 2017-18.
- Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. Again, as at 17 December 2018, auditors had yet to issue 20 conclusions on arrangements to secure value for money, so this number may increase further for 2017-18. This level of qualifications reinforces the need to ensure that local auditors' reporting informs as much as possible relevant departments' understanding of the issues facing local public bodies.
- Auditors qualified their conclusions at 40 (8%) of local government bodies. The proportion of qualifications was highest for single-tier local authorities and county councils where auditors qualified 27 (18%) of their value for money arrangements conclusions. The qualifications were for weaknesses in governance arrangements, often also highlighted by inspectorates' ratings of services as inadequate.
- More local NHS bodies received qualified conclusions on arrangements to secure VfM than local government bodies. In 2017-18, auditors qualified 168 (38%) of local NHS bodies' conclusions; up from 130 (29%) in 2015-16, mainly because of not meeting financial targets such as keeping spending within annual limits set by Parliament; not delivering savings to balance the body's budget; or because of inadequate plans to achieve financial balance. The increase between 2015-16 and 2017-18 is particularly steep at clinical commissioning groups, with qualifications for poor financial performance increasing from 21 (10%) in 2015-16 to 67 (32%) in 2017-18.
- Local auditors are using their additional reporting powers, but infrequently. Since April 2015, local auditors have issued only three Public Interest Reports, and made only seven Statutory Recommendations. These Public Interest Reports have drawn attention to issues such as unlawful use of parking income, governance failings in the oversight of a council-owned company, management of major projects or members' conduct. Auditors have made Statutory Recommendations in relation to failing to deliver planned cost savings, poor processes for producing the annual financial statements and failure to address weaknesses highlighted by independent reviews.
- A significant proportion of local bodies may not fully understand the main purpose of the auditor's conclusion on arrangements to secure value for money and the importance of addressing those issues. 102 local public bodies were contacted where auditors had reported concerns about their arrangements to ensure value for money:
 - half of the bodies (51) said that the auditor's report identified issues that they already knew about;
 - fifty-seven (95%) of those responding said they had plans in place to address their weaknesses but only three were able to say that they had fully implemented their plans; and
 - twenty-six (25%) did not respond at all to the NAO's request.
- The extent to which central government departments responsible for the oversight of local bodies have formal arrangements in place to draw on the findings from local auditor reports varies. Processes in the relevant central government departments differ. The Department of Health & Social Care, NHS Improvement and NHS England have arrangements in place to monitor the in-year financial performance of local NHS bodies, and use information from local auditor reports to confirm their understanding of risks in the system. The Home Office and Ministry of Housing, Communities & Local Government consider the output from local auditors' reports to obtain a broad overview of the issues local auditors are raising, but there is a risk that these two departments may be unaware of all relevant local issues.

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2. NATIONAL PUBLICATIONS

1. Local auditor reporting in England 2018, NAO, January 2019 (continued)

- Under the current local audit and performance framework, there is no direct consequence of receiving a non-standard report from the local auditor. Before 2010, a qualified value for money arrangements conclusion would have a direct impact on the scored assessments for all local public bodies published by the Audit Commission at that time. While departments may intervene in connection with the issues giving rise to a qualification, such as failure to meet expenditure limits, there are no formal processes in place, other than the local audit framework, that report publicly whether local bodies are addressing the weaknesses that local auditors are reporting.

A list of all local bodies that received a non-standard local auditor report for 2017-18 was published alongside the report.

<https://www.nao.org.uk/report/local-auditor-reporting-in-england-2018/>

2. Local authorities - governance, NAO, January 2019

The NAO has recently published a report on local authority governance, which examines whether local governance arrangements provide local taxpayers and Parliament with assurance that local authority spending achieves value for money and that authorities are financially sustainable.

The report finds that local authorities have faced significant challenges since 2010. For example, they have seen a real-terms reduction in spending power of 29% and a 15% increase in the number of children in care. These pressures raise the risk of authorities' failing to remain financially sustainable and deliver services.

The way authorities have responded to these challenges have tested local governance arrangements. Many authorities have pursued large-scale transformations or commercial investments that carry a risk of failure or under-performance and add greater complexity to governance arrangements. Spending by authorities on resources to support governance also fell by 34% in real terms between 2010-11 and 2017-18, potentially increasing the risks faced by local bodies.

In 2017-18, auditors issued qualified VFM arrangements conclusions for around one in five single tier and county councils. A survey, carried out by the NAO, of external auditors indicates that several authorities did not take appropriate steps to address these issues.

Some external auditors have raised concerns about the effectiveness of the internal checks and balances at the local authorities they audit, such as risk management, internal audit and scrutiny and overview. For example, 27% of auditors surveyed by the NAO do not agree that their authority's audit committees provided sufficient assurance about the authorities' governance arrangements. Auditors felt that many authorities are struggling in more than one aspect of governance, demonstrating the stress on governance at a local level.

Some authorities have begun to question the contribution of external audit to providing assurance on their governance arrangements. 51% of chief finance officers from single tier and county councils responding to our survey indicated that there are aspects of external audit they would like to change. This includes a greater focus on the value for money element of the audit (26%). External auditors recognise this demand within certain local authorities. However, their work must conform to the auditing standards they are assessed against and any additional activity may have implications for the fee needed for the audit.

The report also finds that MHCLG does not systematically collect data on governance, meaning it can't rigorously assess whether issues are isolated incidents or symptomatic of failings in aspects of the system. MHCLG recognises that it needs to be more active in leading co-ordinated change across the local governance system. The report recommends that MHCLG works with local authorities and other stakeholders to assess the implications of, and possible responses to, the various governance issues identified. It should examine ways of introducing greater transparency and openness to its formal and informal interventions in local authorities and should adopt a stronger leadership role in overseeing the network of organisations managing key aspects of the governance framework.

<https://www.nao.org.uk/report/local-authority-governance-2/>

2. NATIONAL PUBLICATIONS

3. NHS financial sustainability, NAO, January 2019

This is the NAO's seventh report on the financial sustainability of the NHS. In its recent reports, in December 2015, November 2016 and January 2018, the NAO concluded that financial problems in the NHS were endemic and that extra in-year cash injections to trusts had been spent on coping with current pressures rather than the transformation required to put the health system on a sustainable footing. To address this, local partnerships of clinical commissioning groups (CCGs), NHS trusts and NHS foundation trusts (trusts) and local authorities were set up to develop long-term strategic plans and transform the way services are provided more quickly.

In June 2018, the Prime Minister announced a long-term funding settlement for the NHS, which will see NHS England's budget rise by an extra £20.5 billion by 2023-24. Between 2019-20 and 2023-24, this equates to an average annual real-terms increase of 3.4%. The government asked NHS England to produce a 10-year plan that aims to ensure that this additional funding is well spent. In return for this extra funding, the government has set the NHS five financial tests to show how the NHS will do its part to put the service onto a more sustainable footing.

This report covers 2017-18, so the NAO first concludes on financial sustainability for that year. The NAO considers that the growth in waiting lists and slippage in waiting times, and the existence of substantial deficits in some parts of the system, offset by surpluses elsewhere do not add up to a picture that can be described as sustainable. Recently, the long-term plan for the NHS has been published, and government has committed to longer-term stable growth in funding for NHS England.

In the NAO's view these developments are positive, and the planning approach seen so far looks prudent. The NAO further states that it will really be able to judge whether the funding package will be enough to achieve the NHS' ambitions when we know the level of settlement for other key areas of health spending that emerges from the Spending Review later in the year. This will help inform whether there is enough to deal with the embedded problems from the last few years and move the health system forward.

<https://www.nao.org.uk/report/nhs-financial-sustainability/>

4. Local Audit Quality Forum, Public Sector Audit Appointments, December 2018

The Local Audit Quality Forum (LAQF) is a forum within which representatives of relevant audit bodies can work together and collaborate with others to share good practice and strive to enable improvements in the quality, efficiency and effectiveness of audit arrangements and practices in principal local authorities and police bodies in England. PSAA wants to develop a momentum and a passion for continuous improvement in audit arrangements throughout the entities and sectors for which PSAA has a mandate.

Slides of the Manchester December 2018 event are available on the PSAA website as per the link below.

The theme of the Manchester event was financial resilience and sustainability, a major challenge for all local authorities and police bodies in the current climate and a key strategic concern as bodies prepare 2019/20 budgets and update medium term plans. The event explored:

- the nature and scale of the sustainability challenges facing local bodies;
- the strategies and disciplines which can help to address them successfully; and
- the roles and responsibilities of Chief Finance Officers and Auditors in helping to maintain resilience and sustainability.

<https://www.psaa.co.uk/local-audit-quality-forum3/local-audit-quality-forum/>

5. Oversight of audit quality, quarterly compliance reports 2017/18, Public Sector Audit Appointments Ltd

There are no significant issues arising in the latest quarterly compliance report issued by PSAA. <https://www.psaa.co.uk/audit-quality/contract-compliance-monitoring/principal-audits/mazars-audit-quality/>

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2. NATIONAL PUBLICATIONS

6. Streamlining the Accounts: Guidance for Local Authorities, CIPFA, January 2019

CIPFA has published guidance to local authorities to support steps to streamline both the format of their published financial statements and the year-end processes that underpin them.

This publication is based on information provided by local authorities already taking positive action and who have found that clearer and shorter financial statements can be prepared to a high standard that is accounting code compliant but with less time and reduced resources. It can be downloaded from:

<https://www.cipfa.org/policy-and-guidance/technical-panels-and-boards/local-authority-accounting-panel>

7. Scrutinising Public Accounts: A Guide To Government Finances, CIPFA, November 2018

This guide provides an overview of the different processes for budgeting and performance reporting in central and local government, health bodies and includes key questions to ask when scrutinising government financial statements using examples based on UK public sector accounts.

This publication is only available online.

<https://www.cipfa.org/policy-and-guidance/publications/s/scrutinising-public-accounts-a-guide-to-government-finances>

8. CIPFA Fraud and Corruption Tracker 2017/18, CIPFA, October 2018

The CIPFA Fraud and Corruption Tracker (CFaCT) survey gives a national picture of fraud, bribery and corruption across UK local authorities and the actions being taken to prevent it. It aims to:

- help organisations understand where fraud losses could be occurring;
- provide a guide to the value of detected and prevented fraud loss;
- help senior leaders understand the value of anti-fraud activity; and
- assist operational staff to develop pro-active anti-fraud plans.

The 2017/18 report shows that fraud continues to pose a major financial threat to local authorities, with £302m detected or prevented by councils in 2017/18. While this was £34m less than last year's total, the report revealed an overall increase in the number of frauds detected or prevented – up to 80,000, from the 75,000 cases found in 2016/17. Among these cases there are reminders of some of the challenges being faced by local authorities, with the number of serious or organised crime cases doubling to 56, and a significant increase in the amount lost to business rates fraud, which jumped to £10.4m in 2017/18 from £4.3m in 2016/17.

<https://www.cipfa.org/about-cipfa/press-office/latest-press-releases/local-councils-detect-or-prevent-£302m-in-fraud-in-2017-18>

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9. Local Government Settlement for 2019-20 , Secretary of State for Housing, Communities and Local Government, December 2018

In December 2018, the Secretary of State for Housing, Communities and Local Government, James Brokenshire, published the 2019-20 provisional settlement for local government. The provisional figures show councils in England are to share an extra £1.3 billion in 2019-20. This is reported as a real increase in core spending power from £45.1 billion in 2018-19 to £46.4 billion in 2019-20.

The settlement also allows for core council tax rises by up to 3% and this means that the threshold at which a referendum is triggered locally for rises in council tax is maintained at 3%.

The autumn budget committed a £650 million funding injection for 2019-20 for social care. This includes £240 million which will be focused on winter care pressures on adult social care, with local authorities able to use the remaining £410 million on adults or children's social care, and, where necessary, to relieve demand pressures on the NHS.

On business rates, the Secretary of State reported that local authorities will keep around £2.4 billion in business rates growth and that the government intends to distribute £180 million of the levy surplus to all local authorities and proposes to share this on the basis of need. In addition, the government is aiming to increase the level of business rates retention from its current levels of 50% to 75% from 2020. This and other reforms to the business rates retention system have been opened for consultation. In the interim, London and 15 local authorities (see authorities within the provisional settlement link below) will participate in the 75% business rate retention pilots and existing pilots in devolution deal areas will continue..

The Secretary of State also announced plans to eliminate the £152.9m negative revenue support grant in 2019-20 by reducing its share of business rates receipts. Negative revenue support grant is where changes or a complete loss of revenue support grant funding from the government have led to a downward adjustment in local authorities' business rates or tariff. With this proposal, the government intends to prevent these adjustments which it considers may be detrimental to local growth..

<https://www.gov.uk/government/speeches/provisional-local-government-finance-settlement-2019-to-2020-statement>

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10. Summary of NHS long-term plan, Mazars, January 2019

To support local planning, local health systems will receive five-year indicative financial allocations for 2019/20 to 2023/24 and be asked to produce local plans for implementing the commitments set out in the NHS Long Term Plan. But what does it mean for local government?

The Plan recognises that more focus is needed on community care, mental health and wellbeing, reducing health inequalities and preventative care. The implications for local authorities should become clearer with a green paper expected later this year. With NHS revenue funding to grow by an average of 3.4% in real terms a year over the next five years delivering a real term increase of £20.5 billion by 2023/24, this extra spending will need to deal with current pressures and unavoidable demographic change and other costs, as well as new priorities.

Relationships between the NHS and local government could be more challenging since the direct and significant financial relationship with the NHS through the Better Care Fund is facing an overhaul and the extent of structural overhaul facing the NHS, through the advancement of Integrated Care Systems, requires time and effort.

In this briefing, we cover:

- System Architecture and Planning
- Prevention and Inequalities
- Out of Hospital Care - Primary/Community Services
- Urgent/ Emergency Care
- Elective Care

| Theme | Key features | Implications and questions for local government |
|---|--|--|
| System Architecture and Planning | <p>Integrated Care Systems (ICS) will be everywhere by April 2021 with the “triple integration” of primary and specialist care, physical and mental health services, and health with social care” at a place level with commissioners sharing decisions on planning with providers. Each ICS will have a single set of commissioning decisions at the system level. This will typically involve a single Clinical Commissioning Group (CCG) for each ICS area with CCGs to become leaner, more strategic organisations working with partners, population health, service redesign and delivery of the plan.</p> <p>ICS constitution will involve a partnership board consisting of commissioners, trusts, primary care networks, non-executive chair and an accountable Clinical Director for each Primary Care network. There will also be a new ICS accountability and performance framework to provide a consistent and comparable set of performance measures. It will include a new ‘integration index’ to measure how joined up the system is. This is interesting as it’s the public voice.</p> | <p>Integrated Care Systems will have a key role in working with local authorities at the ‘place’ level and, through the ICS governance structure, commissioners will make shared decisions with providers on how to use resources, design services and improve population health.</p> <p>A review and revision of the Better Care Fund may have direct financial implications for local authorities, particularly those arrangements where some Better Care Fund streams are used as support funding for social care services. The NHS Plan does recognise social care in terms of pressures it may create on the NHS and the need to continue to support local measures to address rising demand and costs through pooled budgets, personal health and social care budgets and cites the example of the NHS overseeing a pooled budget with a joint commissioning team (Salford model), where the Council Chief Executive is the accountable officer. A Green Paper is expected to provide further clarity.</p> |

(continued over)

1. Audit progress

2. National publications

3. Contact details

2. NATIONAL PUBLICATIONS

9. Summary of NHS long-term plan, Mazars, January 2019 (continued)

| Theme | Key features | Implications and questions for local government |
|--|---|--|
| Prevention and Inequalities | <p>From April 2019, Clinical Commissioning Groups (CCGs) will receive a health inequalities funding supplement, with the possibility of the commissioning of public health services, e.g. health visitors, school nurses, sexual health etc., to return to the NHS.</p> <p>A planned £30million investment in rough sleepers.</p> | <p>The onus to reduce health inequalities falls to local authorities with the NHS as support. How / will funding flow into local authorities via CCGs or will we need to wait until the next spending review?</p> <p>Investment in the health of rough sleepers is a short-term fix – the wrap around is for local authorities to work on housing, mental health, care and employment.</p> |
| Out of Hospital Care - Primary/Community Services | <p>There will be a greater proportionate level of investment in Primary care and Community Health Services: with ring-fenced local funding equivalent to a £4.5billion increase by 2023/24.</p> <p>In return, the NHS Plan is expecting:</p> <ul style="list-style-type: none"> Fully integrated community support with training and development of multidisciplinary teams in primary and community hubs, including community hospitals. Integrated teams of GPs, community services and social care. Urgent response and recovery support will be delivered by flexible teams working across primary care and local hospitals, including GPs, allied health professionals, district nurses, mental health nurses, therapists and reablement teams. More support for Care Homes to address hospital admissions and sub-optimal medication, with an Enhanced Care in Care Homes vanguard model is to be adopted that aims to improve the links between Care Homes and Primary Care through a consistent healthcare team and named practice support, pharmacist led medication reviews, emergency support, and access to records. | <p>When care transfers into the community, there is an increasing need to manage the multiagency points of contact. Having integrated teams implies local authority care workers working alongside private sector GPs and NHS staff: how will referrals, care pathways and advice on alternative services, for example housing, be managed? This also raises the need for some joined up thinking over estates management and the infrastructure of public service assets – where should teams be based?</p> <p>Local authority supply management of care homes becomes more challenging: the resilience of local market is stretched with the cost of care not always making provision financially viable – will any additional funding merely bring back some stability falling short of ambitions for Enhanced Care?</p> <p>Technology becomes increasingly important including considerations for secure data sharing between organisations. Proposals to support advances in home wearables/monitoring technology to predict hospital admission, linked to smart home technology create new forms of the same challenge: who monitors the data and who is it shared with for the person's best interests?</p> <p>With an increase in social prescribing and personal health budgets, local authorities, including park authorities, can provide support through existing provision of leisure and community services. How can you create community engagement and healthier lifestyles?</p> |

1. Audit progress

2. National publications

3. Contact details

2. NATIONAL PUBLICATIONS

9. Summary of NHS long-term plan, Mazars, January 2019 (continued)

| Theme | Key features | Implications and questions for local government |
|-------------------------------|---|---|
| Urgent/ Emergency Care | The goal is to achieve and maintain an average Delayed Transfers of Care figure of 4,000 or fewer delays. This aims to be achieved by placing therapy and social work teams at the beginning of the acute hospital pathway, with an agreed clinical care plan within 14 hours of admission that includes an expected date of discharge. | A direct and an indirect impact to local authorities for those residents in care or living in local authority housing. There becomes an increasing need for local authorities to dexterously call on partners across the local authority boundary, including the use of existing disabled facilities grant funding, to ensure people can return home safely. The Stoke-on-Trent based Revival Home from Hospital service is working at record levels and is saving the NHS almost £500,000 a year. The service helps people to get home from hospital as quickly as possible by making sure their homes meet their health needs. |
| Elective Care | An NHS Personalised Care model and expansion of Personal Health Budgets, for example bespoke wheelchairs and community-based packages of personal and domestic support, mental health services, learning disabilities, and those people receiving social care support. There is expected to trained social prescribing professionals connecting people to wider services. | Who is best placed to provide advice on connecting people to wider services? Who is well placed to deliver connected services and is there more space for framework contracts of approved providers for people to draw down from? |

A summarised version of the Plan is available to download from our website:

<https://www.mazars.co.uk/Home/Industries/Public-Services/Health/NHS-Long-Term-Plan-summary>

1. Audit progress

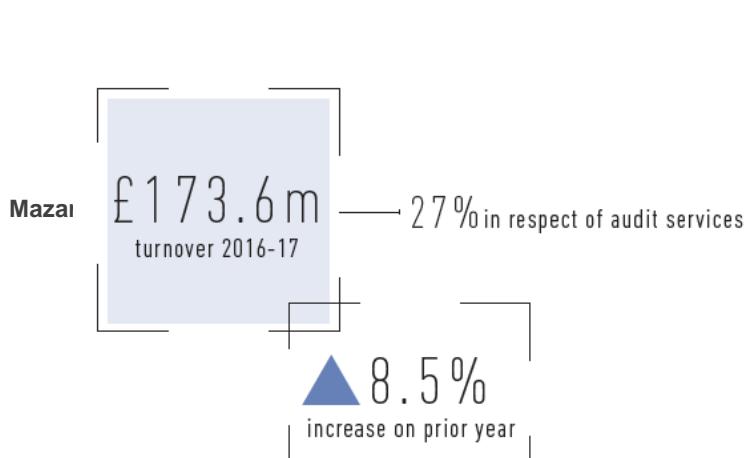
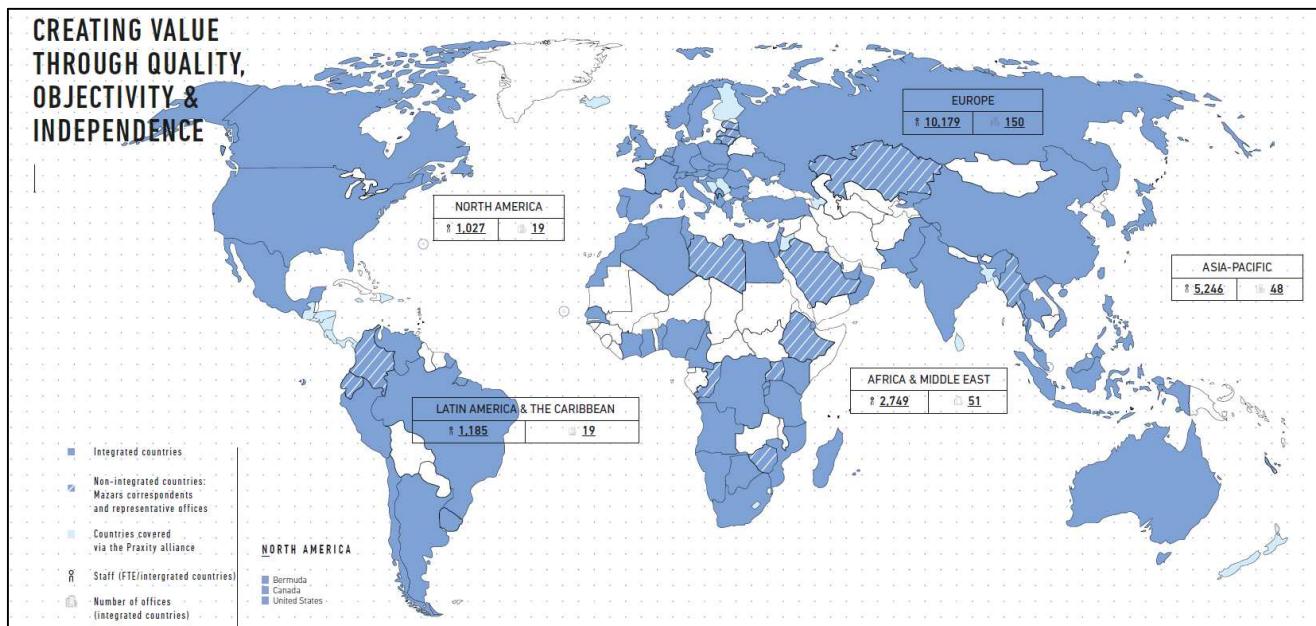
2. National publications

3. Contact details

3 MAZARS AT A GLANCE

Mazars LLP

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- Over 86 countries and territories
- Over 300 locations
- Over 20,000 professionals
- International and integrated partnership with global methodologies, strategy and global brand



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Private and Confidential

Mark Kirkham
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LS1 4AP

21 March 2019

Dear Mark

Please find below the responses to the questions put to the Governance and Audit Committee in your external audit progress report tabled at the meeting of 17 January 2019.

1. How do you exercise oversight of management's processes in relation to:

- **undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error;**
- **identifying and responding to risks of fraud in the authority, please detail any specific risks of fraud which management have identified, and classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;**
- **communicating to employees its view on business practice and ethical behaviour; and**
- **communicating to you the processes for identifying and responding to fraud or error.**

A number of elements are in place to ensure that fraud or errors are not present in the financial systems and thereby the financial statements. Management ensure internal controls are functioning effectively through monitoring and review. The performance of key financial controls are regularly reported to the officer Regulatory and Compliance Board and the Member Governance and Audit Committee. Internal Audit perform annual audits of all the key financial systems to check if they function effectively and the results of these audits are reported to this Committee. A robust and transparent financial system with comprehensive access controls is in place, with a reconciliation of the financial system to the financial statements.

The Combined Authority has in place clear procedures for reporting any suspected frauds, including adoption of the Whistleblowing policy. Members adhere to the Code of Conduct which is taken each year to the Annual



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The transport network
of the West Yorkshire
Combined Authority

Meeting of the Combined Authority in order to remind Members of their obligations under the code.

Declarations of interest are sought from all Members, key officers and new staff members and are available on the Combined Authority's website.

All policies and processes for identifying fraud are endorsed by the Governance and Audit Committee. A governance report is provided to the Committee each quarter highlighting any key issues in relation to risk. This would include any actual or suspected fraud matters. In areas where fraud might be deemed more likely to occur particular attention is paid to the internal controls in place. This is relevant to travel centres which is the only area where large volumes of cash are handled and the finance team which handles large volumes of electronic cash.

To our knowledge there have been no identified frauds during 2018/19.

2. How do you oversee management processes for identifying and responding to possible breaches of internal control? Are you aware of any significant breaches of internal control during 2018/19?

A governance report is provided to the Committee each quarter highlighting any key issues in relation to internal controls. Internal control reviews form part of the Internal Audit Plan 2018/19 and internal audit report back to this Committee each quarter. Internal Audit also produce an annual report that summarises the reviews undertaken and that supports the Annual Governance Statement in the Annual Accounts.

To our knowledge there have been no significant breaches of internal controls during 2018/19.

3. How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of significant non-compliance during 2018/19?

The Combined Authority employs a full legal team which is headed by a qualified solicitor who attends all meetings of the Combined Authority. As part of the work of that legal team officers are specifically tasked with considering changes in legislation relating to their particular areas, such as health and safety, property, employment law and governance. This topic also forms a standing item on the agenda of the officer Regulatory and Compliance Board. Any non-compliance would be reported and would be expected to appear on the risk register - regular reviews of risk are undertaken by the Combined Authority and Governance and Audit Committee, and any significant non-compliance matters would be brought to the attention of this Committee. A number of internal audit reports during the year also consider compliance matters and areas of concern are highlighted in the report provided each time to this Committee by the Internal Audit Manager.

To our knowledge there have been no instances of non-compliance during 2018/19.

4. Are you aware of any actual or potential litigation or claims that would affect the financial statements?

We are not aware of any outstanding claims against the Combined Authority that would have a significant impact on the financial statements.

The NGT/Supertram land issues relating to on-going claims are disclosed in the financial statements as is the situation with claims arising from Mutual Municipal Insurance.

5. Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the Authority's ability to continue as a going concern?

The question of going concern is considered each year by the Combined Authority. Accounts drawn up under the Code of Practice for Local Authority Accounting assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies – in the case of the Combined Authority, its revenue comes largely from its statutory levying powers. This funding comes from its constituent members, all of which are local authorities with revenue raising powers, and it is able to levy on them the funding it requires to deliver its services.

To supplement the above, the Combined Authority approved the corporate plan and medium term financial strategy at its meeting in 14 February 2019. The budget and strategy ensure that the Combined Authority raises the level of levy that allows services and functions to continue to operate at a level that is aligned to the policies and objectives of the organisation and ensures the reserves are maintained so as to mitigate risks to the organisation. The budget and strategy make suitable provision to address the pension deficit and as a Combined Authority we collectively work with the West Yorkshire Pension Fund and actuary to ensure contributions are realistic and sustainable. We do not believe there are any events casting significant doubt on the Combined Authority's ability to continue as a going concern.

These responses were considered and agreed by the Governance and Audit Committee at its meeting of 21 March 2019.

Yours sincerely

**Chair, Governance and Audit Committee
(On behalf of the Governance and Audit Committee)**



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Combined Authority

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Report to: Governance and Audit Committee

Date: 21 March 2019

Subject: Internal Audit Progress Report

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Russell Gott

1 Purpose of this report

- 1.1 To inform the Combined Authority of the work undertaken by the Internal Audit section.

2 Information

- 2.1 In accordance with the Accounts & Audit (England) Regulations 2015, the Combined Authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards and guidance.

- 2.2 This report provides details of activities undertaken by the Internal Audit section in the period from 1 April 2018 to 28 February 2019 and provides progress in delivering the 2018/19 audit plan, including the audit opinion on reviews completed, summary of any significant issues identified and the status of any high priority audit recommendations which have not been implemented within the agreed timescales.

- 2.3 A summary of the work undertaken by Internal Audit is provided at **Appendix 1**, whilst details of outstanding audit recommendations are attached at **Appendix 2**.

Internal Audit Plan 2019/20

- 2.4 Work has been undertaken on the identification of assurance activities to be included within the 2019/20 Internal Audit Plan. Members of this Committee are provided with details of the proposed Internal Audit Plan under a separate Agenda item.

External Quality Assessment

- 2.5 An independent external quality review which assessed the Internal Audit function in relation to compliance with Public Sector Internal Auditing Standards has been completed and a draft report produced. The conclusion

of this review is “*that West Yorkshire Combined Authority’s Internal Audit activity Generally Conforms with the Definition of Internal Auditing, the Code of Ethics and the Public Sector Internal Audit Standards*” This is the highest rating which can be provided and is testament to the hard work and professionalism exhibited by the internal audit team.

- 2.6 The final report and any proposed actions arising as a result of any recommendations for further development will be brought to a future meeting of this Committee.

3 Financial Implications

- 3.1 There are no financial implications directly arising from this report.

4 Legal Implications

- 4.1 There are no legal implications directly arising from this report.

5 Staffing Implications

- 5.1 The performance of some elements of the audit plan require the buying-in of audit specialisms.

6 External Consultees

- 6.1 No external consultations have been undertaken.

7 Recommendations

- 7.1 That this report be noted.

8 Background Documents

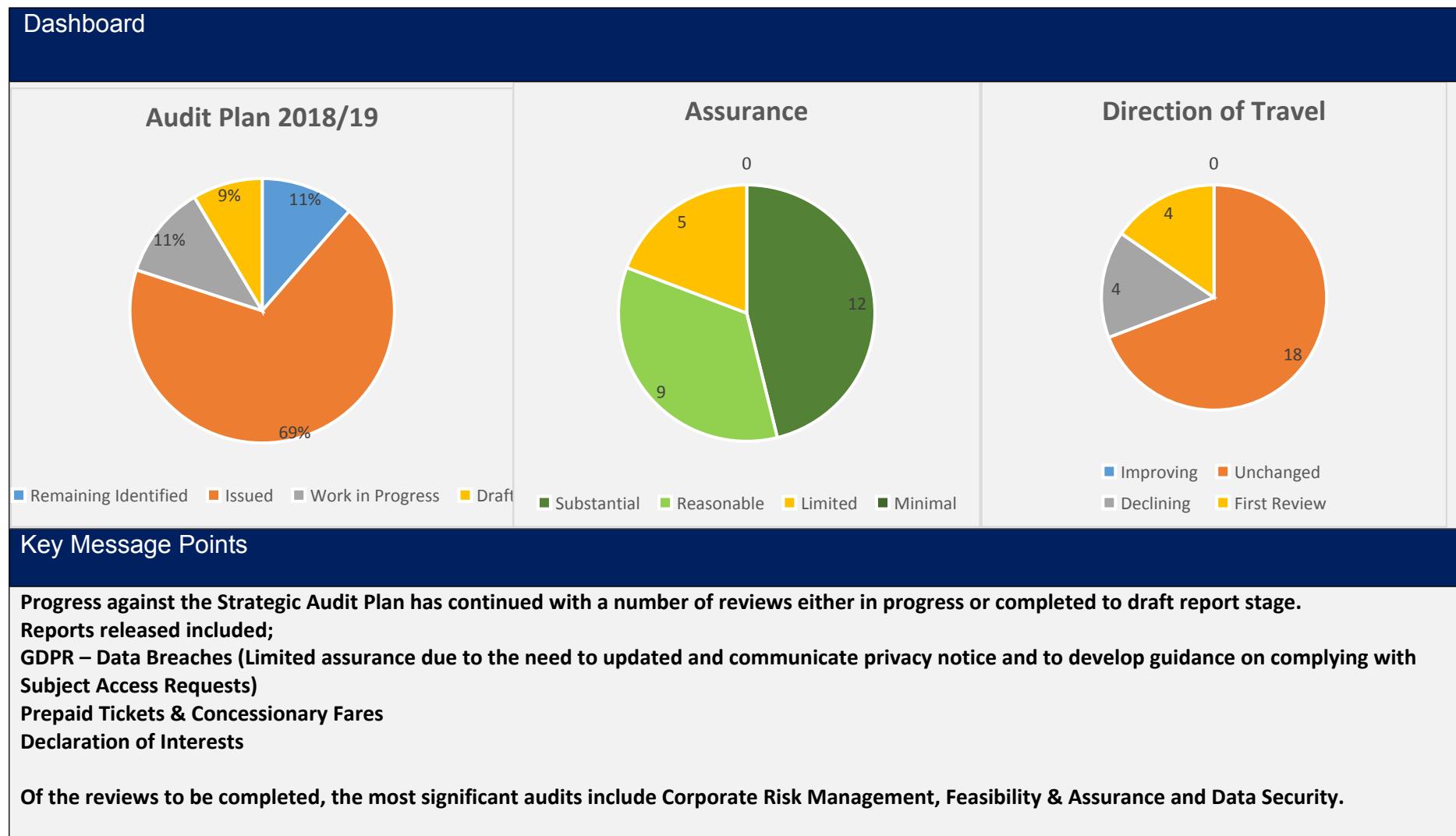
None.

9 Appendices

Appendix 1 - Internal Audit progress summary

Appendix 2 – Outstanding high priority audit recommendations

Internal Audit Progress Summary - February 2019



It is envisaged that the 2018/19 plan will overrun into April 2019 despite a number of actions taken to reduce the impact of difficulties experienced during the year as the function primarily due to delays in implementing structural changes through the organisational development process.

Summary of Completed Reviews (April 2018 – February 2019)

| Review | Risk/Category | Opinion | Direction of Travel |
|------------------------------------|------------------|-------------|---------------------|
| • Gifts & Hospitality | Compliance | Reasonable | Declining |
| • Transparency Code | Compliance | Reasonable | Unchanged |
| • Metro Travel Centre Operations | Operational | Reasonable | Unchanged |
| • Annual Governance Statement | Governance | Reasonable | Unchanged |
| • FOI Processing | Information | Substantial | First Review |
| • Skills Capital | Delivery | Limited | Unchanged |
| • Access Innovation Fund | Certification | Substantial | Unchanged |
| • Growth Deal Fund | Certification | Substantial | Unchanged |
| • Growth Hub Grant | Certification | Substantial | Unchanged |
| • Resource Efficiency Fund | Certification | Substantial | Unchanged |
| • Local Transport Fund | Certification | Substantial | Unchanged |
| • INTERREG SHARE NORTH | Certification | Substantial | Unchanged |
| • L-CREATE, ERDF & ESIF | Certification | Substantial | Unchanged |
| • LTP Management | Delivery | Reasonable | Declining |
| • Strategic Business Growth | Certification | Substantial | Unchanged |
| • Flood Resilience Fund | Certification | Substantial | Unchanged |
| • Treasury Management | Financial | Reasonable | Declining |
| • GDPR Compliance – Project | Legal Compliance | Limited | First Review |
| • Payroll | Financial | Reasonable | Unchanged |
| • Tendered Subsidised Bus Services | Operational | Limited | Declining |
| • Bus Services Operators Grant | Certification | Substantial | Unchanged |
| • Declaration of Interests | Governance | Substantial | Unchanged |

| | | | |
|---|-------------|------------|--------------|
| • Prepaid Tickets & Concessions ¹ | Operational | Reasonable | Unchanged |
| • GDPR – Data Breaches, Privacy, Information & Training | | Limited | First Review |
| • Growing Places Fund – Accounting ² | Financial | Reasonable | First Review |
| Work in Progress | | | |
| <ul style="list-style-type: none"> • Feasibility & Assurance Function • Engagement of Consultants • Business Contingency (Follow up) • ICT Network Access (Follow up) • Debtors • Creditors • MAS • System Penetration³ • Counter – Fraud – Data Matching • Funding Review • CDM Compliance | | | |
| Performance | | | |
| Allocated Audit Days (April 2018 – March 2019) | | | 465 |
| Actual Audit Days Applied | | | 318 |
| Forecast Resource Requirement (February 2018 – March 2019) | | | 147 |
| Resource Available Internal | | | 38 |
| Buy-in | | | 15 |
| | | | 53 |

¹ Follow up

² Additional report providing a management memorandum concerning accounting presentation matters relating to the Growing Places Fund

³ External report under review

| | | |
|-----------------------------------|----|-----------------|
| Variance | | 94 ⁴ |
| Reviews Deferred | | 38 |
| Forecast Surplus on Contingencies | 30 | <u>68</u> |
| Forecast Overrun | | 26 |

Overdue High Priority Audit Recommendations

Report Type: Actions Report

Report Author: Gila Ellison

Generated on: 11 March 2019



| Code & Title | Description | Assigned To | Due Date | Progress | Latest Note |
|--|--|---------------|-------------|----------|---|
| AR1044 Risk Management - Register System Development. | <p>To maintain a consistent and effective Risk Management System will require the consistent use of a common Risk Register Template and its maintenance on a system in a way that is easily accessible and allows the production of management and monitoring reports for a variety of stakeholder groups. It would also be desirable if they were retained in a way that would allow future development of the Risk Management system.</p> <p>Developmental effort is required to consider what will be required of the system that replaces Covalent. Every effort must be made to ensure that it is easy to operate, works well and provides all the information required by its various stakeholders.</p> <p>Priority: High</p> | Louise Porter | 31-May-2018 | 90% | Consistent risk register template in use but action not yet completed due to ongoing work that is considering possible replacement for pentana |
| AR 1068 Data Holding Arrangements - ICT Disaster Recovery Policy | <p>Management should produce a formal Disaster Recovery Policy.</p> <p>This should incorporate the above 3 issues.</p> <p>Priority: High</p> | David Gill | 31-Oct-2018 | 33% | <p>The ICT Management Board agreed to bring forward elements of this work in order to reduce risks. The first part is complete, the other two are in progress with a completion date of May 2019.</p> <p>The Corporate Technology Programme is due to finish this work (end of November). In doing so, management request that the due date be revised to November 2019</p> |

34



Report to: Governance and Audit Committee

Date: 21 March 2019

Subject: **Strategic Internal Audit Plan**

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Russell Gott

1 Purpose of this report

- 1.1 To seek approval for the strategic internal audit plan commencing 1 April 2019.

2 Information

2.1 UK Public Sector Internal Auditing Standards, (PSIAS) require the Chief Audit Executive to deliver an annual audit opinion and report that must be used by the organisation to inform its annual governance statement. The internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Work undertaken within the audit plan is the principal body of evidence required to substantiate the opinion provided by internal audit. In addition, PSIAS state that the Chief Audit Executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's objectives.

2.2 Previously the plan has been presented as part of a phased three year programme. Year two of this programme, approved in 2018, has been used as the basis for the development of the 2019/2020 plan. Due to the level of change and likely expansion in the Combined Authority's operations and corresponding assurance requirements, it was decided to revert back to an annual audit plan in 2019/20. This plan is subject to ongoing review throughout the year to enable responses to changes in organisational risk and assurance requirements to be accommodated.

2.3 In developing the Internal Audit Plan the following elements have been considered:

- The core activities of the Combined Authority and risks associated with the attainment of corporate objectives.
- Regulatory requirements for internal audit coverage.
- Significant recent changes within procedures and operations.

- The extent of third-party and management assurances.
- The content of the Combined Authority's corporate risk register, Directorate and operational risk records and consideration of the controls in place to manage those risks.
- Reference to cumulative internal audit knowledge and experience.

In addition, a consultation programme has been conducted with senior officers from within the Combined Authority and with elected members and the independent member of the Governance & Audit Committee. This has provided a valuable insight into stakeholder assurance requirements and has contributed to the development of the plan. Subsequently, the plan was endorsed by the Senior Leadership Team of the Combined Authority at their meeting on 8 March.

- 2.4 The plan is presented under corporate risk categories with clear links to directorate objectives which support the attainment of corporate priorities. The plan also incorporates regulatory and compliance requirements along with counter-fraud and audit follow up activities. This will seek to provide assurance that the governance and control arrangements continue to operate effectively, minimising the risk of misappropriation, loss and error and that key systems and processes are operating as intended. In addition, allowances for value for money and consultancy activities are provided to allow internal audit to support organisational development and process improvements.
- 2.5 Indicative resource allocations for each audit assurance block are provided, based on previous audit performance in conjunction with an initial assessment of the scope of each review. The depth of audit testing is established through the evaluation of risk and considers the existence and operation of key controls. Where new areas of assurance have been identified the number of days required to perform this work is determined from an initial overview of these areas and from discussions with senior officers from within the relevant directorates. The plan requires 457 audit days.

3 Financial Implications

- 3.1 Any requirement to buy-in audit specialisms to undertake work within the Audit Plan will be secured in accordance with the Combined Authority's procurement regulations.

4 Legal Implications

- 4.1 The Accounts and Audit Regulations 2015, Regulation 5, require a relevant Authority to undertake an effective internal audit to evaluate the effectiveness of its risk, control and governance processes, taking into account public sector internal auditing standards or guidance.

5 Staffing Implications

- 5.1 Resourcing of the audit plan can be provided from the proposed structure for internal audit in 2019.

6 External Consultees

6.1 No external consultations have been undertaken.

7 Recommendations

7.1 That the Strategic Internal Audit Plan 2019/20 be approved.

8 Background Documents

None.

9 Appendices

Appendix 1 - Strategic Internal Audit Plan 2019/20

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West Yorkshire Combined Authority Internal Audit Plan 2019-20

1 Introduction

Internal Audit is defined by the Public Sector Internal Audit Standards (PSIAS) which set out the requirements of a 'Board' and of 'senior management'. For the purposes of the internal audit activity within the Combined Authority the role of the Board within the Standards is taken by the Combined Authority's Governance & Audit Committee and senior management is the senior Leadership Team. The Governance & Audit Committee is required to review and approve the Internal Audit Plan to provide assurance to support the governance framework.

The Combined Authority's Internal Audit Charter formally describes the purpose, authority, and principal responsibilities of the Internal Audit Service. The PSIAS make reference to the role of 'Chief Audit Executive'. For the Combined Authority this role is fulfilled by the Head of Internal Audit.

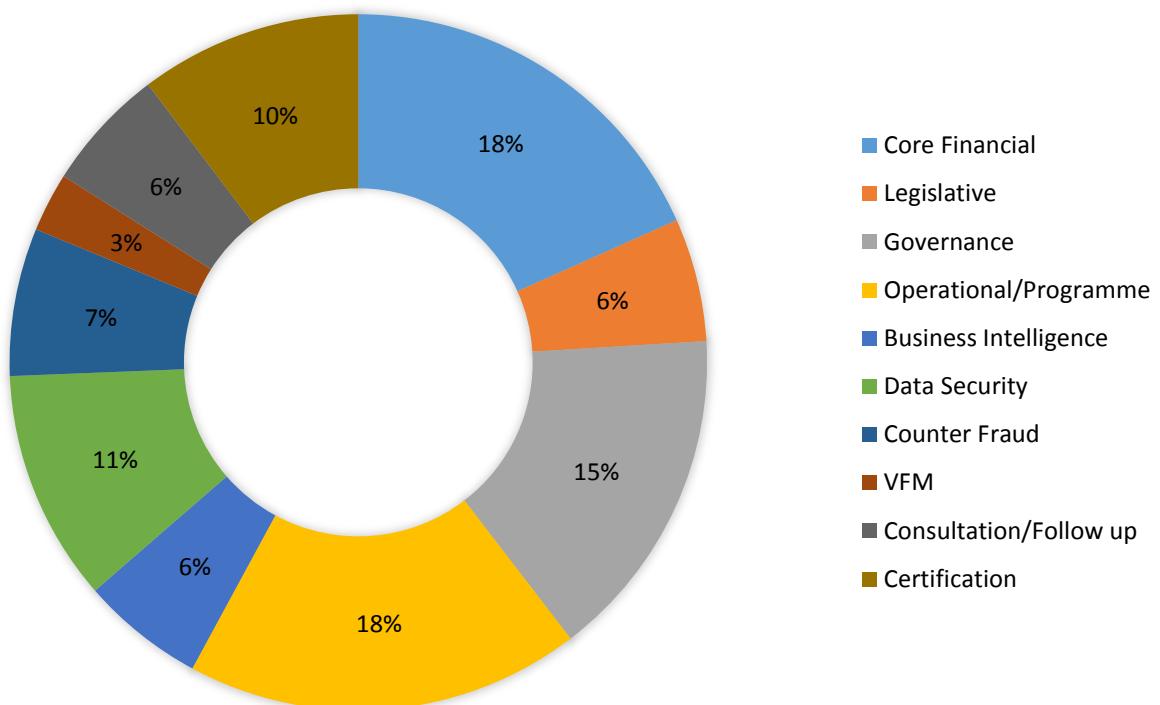
The Chief Audit Executive is responsible for developing a risk-based plan which takes into account the organisation's risk management framework, including using risk appetite levels set by management for the different activities of the organisation.

The audit plan represents the proposed internal audit activity for the year and an outline scope of coverage. At the start of each audit the scope is discussed and agreed with management with the view of providing management, the responsible finance officer (Section 73) and members with assurance on the control framework to manage the risks identified. The plan will remain flexible and any changes will be agreed formally with management and reported to Governance & Audit Committee.

2 High Level Audit Plan

This chart represents a summary of the planned audit coverage for the year providing 457 direct audit days. It should be noted that, in accordance with PSIAS, the plan needs to be flexible to be able to reflect and respond to the changing risks and priorities of the Combined Authority and, to this end, it will be regularly reviewed with directorates, and updated as necessary, to ensure it remains valid and appropriate. As a minimum, the plan will be reviewed in six months to ensure it continues to reflect the key risks and objectives of the Combined Authority.

COVERAGE IN AUDIT DAYS BY ASSURANCE BLOCK



We have set out our plan based on the current organisational structure for the Combined Authority. Reviews have been identified within assurance blocks linked to organisational risks.

Detailed terms of reference will be drawn up and agreed with management prior to the start of each assignment – in this way we can ensure that the key risks to the operation or function are considered during our review. The following pages provide an analysis of proposed audit coverage in the year.

Internal Audit Plan 2019-2020

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---|-------------------------|-----------------------------|---|
| Financial Risk <i>Risk of failing to manage finances in accordance with public sector accounting requirements and funding constraints.</i> | | | Core Financial Controls – 80 Audit days |
| | R1 Financial Procedures | Robust Financial Management | Creditors <i>Key controls - separation of duties, review & authorisation</i> |
| | R1 Financial Procedures | Robust Financial Management | Payments <i>CBO, PURCHASE CARDS, BANK TRANSFERS</i> |
| | R1 Financial Procedures | Robust Financial Management | Main Accounting – General Ledger <i>Key Financial Controls - Budget monitoring, separation of duties, review & authorisation, Reconciliation of bank transactions with accounting entries.</i> |

Risk Category

**Risk Register
Reference**

**Corporate
Objective**

Assurance Area

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|--|------------------------------------|--|--|
| | R1 Financial Procedures | Robust Financial Management | Debtors, Debt Management <i>Key controls - separation of duties, review & authorisation</i> |
| | R1 Financial Procedures | Robust Financial Management | Payroll <i>Key controls - separation of duties, review & authorisation</i> |
| | | Robust Financial Management | Expenses & Allowances <i>Compliance with policy/guidance</i> |
| | R1 Financial Procedures | Robust Financial Management | Treasury Management |
| | | Attainment of Value for Money. Statutory Compliance | Procurement <i>Tendered Subsidised Bus Service Contracts.</i> <i>Sustainability – Supply chains, (social and environmental responsibilities)</i> |
| Legal Compliance Risk <i>Risks arising from non-compliance with legislative requirements.</i> | | | Legislative Operating Framework – 25 Audit Days |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---|--------------------------------|--|---|
| | R1 Health & Safety Regulations | Statutory Compliance | Health & Safety <i>Including CDM, Funded projects – Growth Deal , LTP</i> |
| | R1 Employment Regulations | Statutory Compliance | Employment Law & HR processes |
| Governance Risk <i>Risk that losses or organisational performance is compromised as a result of unclear authorities, structures and accountabilities</i> | | | Governance Arrangements – 68 Audit Days |
| | | Effective Corporate Planning & Performance | Risk Management <i>The review will be completed in two parts. The first part will focus on providing the Governance & Audit Committee with assurances that the risk management strategy and procedures are in line with best practice and are being embedded throughout the organisation. The second part will focus</i> |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---------------|--|--|---|
| | | | <i>on effectiveness of delivery and implementation using some specific risks to 'deep dive' for further testing</i> |
| | | Improved Transparency | Code of Corporate Governance <i>Compliance with requirements and effectiveness of measures in place.</i> |
| | SS1 & TS5 Risk of Major Incident. TS6 Accident or Injury at a CA Facility | Effective Corporate Planning & Performance | Business Recovery/Contingency |
| | R1 Governance Procedures | Improved Transparency | West Yorkshire Combined Authority/LEP Governance - Decision making arrangements, authorities and delegations. <i>This review will examine the effectiveness of the Strategic Leadership Team and sub committees against deemed best practice, assessing whether the key strategic issues facing the Combined Authority are being given sufficient attention.</i> |
| | | Statutory Compliance | Recruitment Procedures & Temporary Employment Arrangements |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---|-------------------------|------------------------|---|
| | | | *Deferred from 2018/19 |
| | R1 Audit Requirements | Statutory Compliance | Annual Governance Statement |
| Operational/ Risk <i>Risk of impaired service delivery resulting from inadequate or failed internal processes and systems, error and deficiencies in the performance of external suppliers and stakeholders.</i> | | | Operational – 40 Audit days |
| | | Bus Services Provision | Prepaid Tickets & Concessionary Fares <i>Operation of key financial controls</i> |
| | | Bus Services Provision | Tendered Subsidised Bus Services <i>Contract Management/Monitoring</i> |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|--|-------------------------|---------------------|--|
| | | Retail Services | Metro Travel Centre Operations <i>Operation of key financial controls</i> |
| | | Retail Services | English National Concessions Travel Scheme <i>Management, Fraud prevention information governance</i> |
| Delivery Change Risk <i>Risk that programmes and projects are not delivered in time, within budget and do not deliver agreed benefits. Risk of fraud, misappropriation of funds</i> | | | Programme Assurance – 40 Audit Days |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|--|--|--|--|
| | SD1 Failure to Deliver Corporate Objectives SD2 Failure to Deliver Growth Deal and other capital programmes F4 Financial Failure of a major contractor, supplier or recipient of funding F5 Failure of contractor to deliver within timescales, benefits or outputs | Delivery of Projects & Programmes Robust Financial Management Attainment of Value for Money. Statutory Compliance | Programme Assurance <p><i>Programme Assurance we will risk assess all programme activities and allocate time to assuring you on project delivery, that risks are being sufficiently identified, managed and by identifying and testing controls that need to be effective in order for programmes to be delivered across delivery and economic services functions</i></p> <p><i>LOCAL ASSURANCE FRAMEWORK – The Combined Authority needs to ensure that the LAF is designed and operating effectively. We will review the Authority's decision making processes around investment appraisal and monitoring benefits realisation to further inform future decision making.</i></p> |
| Information and Communication Risks <i>Failing to provide sufficient, appropriate, consistent and timely information to key</i> | | | Business Intelligence – 25 Audit Days |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---|--|--|---|
| <i>internal and external stakeholders.</i> | | | |
| | | Effective Corporate Planning & Performance | <p>Data Quality/Business Intelligence</p> <p><i>Decision making will be underpinned by the quality of information used. We will critically assess business intelligence functions and test the controls and output around the six principles of good data quality. We will test key sources of performance information to enable the Combined Authority to rely on performance reporting.</i></p> |
| <p>Data Security/Data Protection Risks</p> <p><i>Failure to adequately maintain and protect business critical data and appropriately, hold sensitive personal information</i></p> | | | <p>Data Security – 47 Audit Days</p> |
| | TS11 Loss or unavailability of ICT systems | Secure Systems | <p>Data Security/Data Protection</p> <p><i>Review of ICT systems and network controls,</i></p> |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---------------|-------------------------|--|--|
| | | | |
| | R2 GDPR Compliance | Statutory Compliance | <p>GDPR</p> <p><i>We will review the Combined Authority's policies and procedures for complying with the General Data Protection Regulations. We will perform tests of operating effectiveness for a sample of individual requirements, reviewing procedure documents and holding interviews with key personnel. We will discuss with the relevant Heads of Service the key risk areas regarding data populations, and perform testing on samples of data drawn from a selection of key systems to test the operating effectiveness of GDPR policies and procedures.</i></p> |
| | | Secure Systems | <p>Cyber Attack/Systems Penetration testing</p> <p><i>We will liaise with ICT on the performance of systems penetration testing and provide an independent assessment of the security of these arrangements</i></p> |
| Counter Fraud | | | 30 Audit Days |
| | | Statutory Compliance Robust Financial | <p>Pro-active counter fraud</p> <p><i>Data matching tests will be performed to detect duplicate payments</i></p> |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|-----------------|-------------------------|---|--|
| | | Management | |
| | | Statutory Compliance Robust Financial Management | Allowance/contingency to investigate any allegations of suspected fraud, bribery or corruption. |
| Value for Money | | | 12 Audit Days |
| | | Attainment of Value for Money. | Engagement and use of Consultants Contract Management |
| Consultation | | | 15 Audit Days |
| | | Secure Systems | Allowance for the provision of advice in relation to the development and implementation of new or significant changes to systems and processes |
| Certification | | | 45 Audit Days |
| | | Head of Internal Audit Assurance | Access Innovation Fund |
| | | Head of Internal Audit Assurance | Growth Deal Fund |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---------------------|-------------------------|----------------------------------|--|
| | | Head of Internal Audit Assurance | Growth Hub Grant |
| | | Head of Internal Audit Assurance | Resource Efficiency Fund |
| | | Head of Internal Audit Assurance | Local Transport Fund |
| | | Head of Internal Audit Assurance | Interreg SHARE North |
| | | Head of Internal Audit Assurance | City Cycle Grant |
| | | Head of Internal Audit Assurance | ERDF & ESIF |
| | | Head of Internal Audit Assurance | Strategic Business Growth Fund |
| | | Head of Internal Audit Assurance | ART (Autonomous Road Transport) |
| Follow up | | | 10 Audit Days |
| | | Head of Internal Audit Assurance | Allowance for the follow up of progress in implementing agreed actions to significant control weaknesses |
| General Contingency | | | 20 Audit Days |
| | | Head of Internal Audit Assurance | Contingency for the requirement for Internal Audit to perform unplanned |

| Risk Category | Risk Register Reference | Corporate Objective | Assurance Area |
|---------------|-------------------------|---------------------|-----------------------|
| | | | work. |
| Total | | | 457 Audit Days |

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Report to: Governance and Audit Committee

Date: 21 March 2019

Subject: **Compliance and Monitoring**

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Jon Sheard / Louise Porter

1. Purpose of this report

- 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

- 2.3 There have been no significant changes to internal controls in the period and monthly reconciliations are up to date.
- 2.4 The new Regulatory and Compliance Board at officer level continues to meet and will provide information as required to this Committee and the Combined Authority. The initial meetings have considered assurances provided by the work undertaken by internal audit, health and safety, information governance, risks and controls and compliance including financial, HR and other policies, statutory returns and transparency arrangements. Actions are being identified to ensure compliance is adequately documented and evidenced and further information will be provided to this Committee as the work progresses.
- 2.5 Discussions are continuing on the proposed merger with York, North Yorkshire and East Riding LEP which would necessitate new processes and controls to be set up for a new LEP. This work will progress under the review of a joint team with representation from both LEPs.

- 2.6 These initial discussions have focussed on understanding clearly the role of the LEP and of the accountable body in agreeing policy, directing funding and approving of expenditure. The Combined Authority has already confirmed its agreement to take on the role of accountable body for a new merged LEP should that be the request of the new LEP. Whilst this would necessitate some review and changes to current processes this can be achieved without compromising the need for clear, transparent and accountable decision making. A further report will be provided to this Committee as this work develops.
- 2.7 A paper to the LEP Board on 26 March sets out some immediate changes and enhancements to current arrangements required for compliance with the revised requirements for the Local Assurance Framework and these are referenced in the separate item on this agenda. A revised conflicts of interest policy that covers the LEP and Combined Authority will also be presented to the LEP Board and then to the Combined Authority in April.

Treasury Management

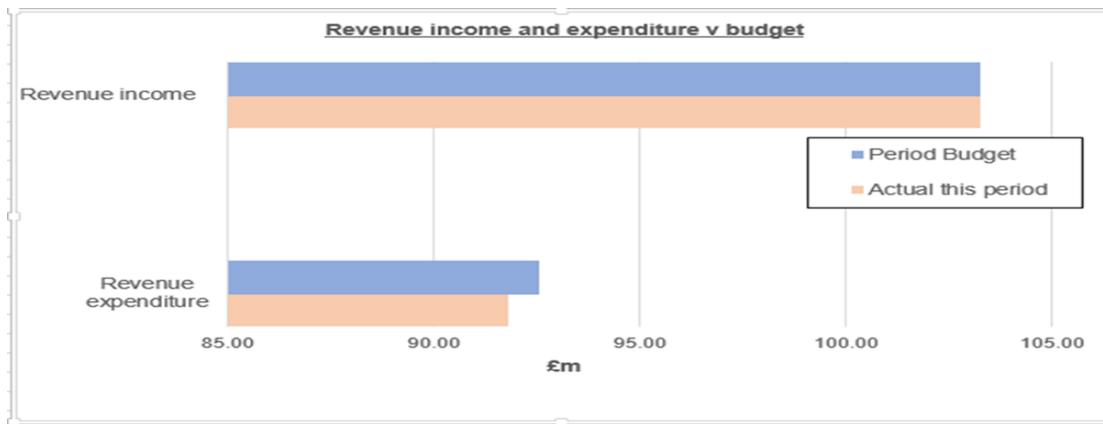
- 2.8 The regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management. At the most recent meeting in February 2019 no areas of concern were raised though the high level of cash balances were considered and the challenges this presents with regard to placing funds with approved counterparties.
- 2.9 Officers from Leeds City Council treasury team will attend a future meeting of this Committee to provide an overview of current arrangements and recent changes to the prudential requirements.

Key indicators

- 2.10 The Committee has requested regular information via key indicators, specifically with regard to accidents reportable to the Health and Safety Executive and with regard to key controls.
- 2.11 There have been no further reportable (RIDDOR) accidents reported since the previous meeting, leaving the total for the year at two.
- 2.12 Key indicators are monitored in relation to the suite of financial controls undertaken monthly in both the finance and the concessions and integrated ticketing team. These are both up to date as at the time of writing this report.

Financial monitoring – revenue budgets

- 2.13 A summary of the 2018/19 current spend to budget as at December 2018 is attached at **Appendix 1**. A RAG rating has been included to identify budgets that need further review with budget holders. There are no 'red' areas of concern to report. The graphic below summarises the position:



- 2.14 The approved annual budget included a £1.4m deficit to be funded from general reserves. The draft forecast undertaken in January 2019 (also shown on **Appendix 1**) shows that actual expenditure is being managed within this figure and the use of general reserves was forecast to be reduced to £1.0 million. These figures will continue to be reviewed for the remainder of the year.
- 2.15 Progress on capital budgets is being monitored through the Investment Committee which receives regular reports on expenditure forecasts and information on this is available via the papers on the website

Risk management

- 2.16 As previously reported to the Governance and Audit Committee work is continuing to further roll out and embed corporate risk management arrangements throughout the organisation. Areas of corporate risk are continuing to be routinely considered and escalated through items built into the standard agendas for formal meetings including Senior Leadership Team, Senior Management Team, Directorate Management Teams and the Regulatory and Compliance Board.
- 2.17 The current focus of activity is on the development and roll out of a forward plan of practical activities to further embed the risk management procedures which are set out in the Corporate Risk Management Strategy. This aims to both raise awareness generally about risk management processes and to also to provide practical guidance for staff on how to undertake risk management activities on a day to day basis.
- 2.18 Work has been undertaken to develop a series of bite-sized 'one minute guides' to provide staff with user-friendly information on how risk management activities should be undertaken. These are available via the intranet and follow a similar formal to the guides which were developed on data protection/GDPR, which were well received by staff.
- 2.19 The subject areas covered by the one minute guides on risk management are as follows:
 - What is risk management
 - How to manage a risk

- Key concepts and definitions
 - Using risk registers
 - Assessing a risk
 - Risk appetite
 - Roles and responsibilities
 - Reporting and escalation
- 2.20 A summary of the current corporate risk register is provided at **Appendix 2**. This is currently being updated to reflect feedback from Members of the Combined provided through their informal meeting of 14th February.
- 2.21 At present there are currently two risks rated as ‘very high’ which relate to the risk of not securing devolved funding and not delivering against capital funding programmes. There are a further 16 risks which are rated as high but of these:
- two are rated as high which while their probability is considered unlikely, they have an impact which is considered to be ‘highly significant’
 - seven have a probability of ‘possible’ but an impact which is considered as ‘major’
 - seven have a probability of ‘possible’ but an impact which is considered as ‘moderate’

3. Financial Implications

3.1 As set out in the report.

4. Legal Implications

4.1 There are no legal implications directly arising from this report.

5. Staffing Implications

5.1 There are no staffing implications directly arising from this report.

6. External Consultees

6.1 No external consultations have been undertaken.

7. Recommendations

7.1 That the Committee note the information contained in this report.

8. Background Documents

None.

9. Appendices

Appendix 1 - West Yorkshire Combined Authority - Summary Budget 2018/19
as at 31 December 2018 and forecast to 31 March 2019

Appendix 2 – Corporate risk register

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Agenda Item 8

Appendix 1

West Yorkshire Combined Authority - Summary

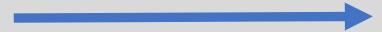
| Title | Budget 2018/19 | December 2018 | | | RAG | 75% | 2018/19 Forecast £ |
|---|----------------------|----------------------|----------------|--|-----|-----|--------------------------|
| | £ | Actual £ | % | | | | |
| Expenditure | | | | | | | |
| Salary & Pay Related Costs | 20,919,698 | 14,082,419 | 67.3% | Reflects above average staff vacancies during the year | | | 18,823,400 |
| Indirect Employee Related Costs | 556,450 | 566,800 | 101.9% | Overspend attributable to recruitment costs to vacant posts - see above | | | 556,350 |
| Premises Related Costs | 6,184,194 | 4,570,503 | 73.9% | Spend in line with expectations - rents, rates paid in advance | | | 6,414,684 |
| Travel, Transport & Subsistence Related Costs | 112,984 | 85,888 | 76.0% | Spend in line with expectations | | | 123,402 |
| Member Related Costs | 153,168 | 106,249 | 69.4% | Spend in line with expectations | | | 221,168 |
| Office Supplies & Services | 540,050 | 448,492 | 83.0% | Spend in line with expectations - spend profile not even during the year. | | | 657,452 |
| ICT & Telephony Costs | 2,342,778 | 1,678,918 | 71.7% | Spend in line with expectations - ICT & telephony charges paid in advance | | | 2,274,960 |
| Professional & Consultancy Fees | 2,296,718 | 1,583,285 | 68.9% | Spend in line with expectations | | | 2,521,223 |
| Corporate Subscriptions | 39,398 | 25,750 | 65.4% | Spend in line with expectations - corporate memberships paid in advance | | | 19,783 |
| Marketing & PR Costs | 1,315,079 | 804,254 | 61.2% | Spend in line with expectations - significant proportion of costs recovered | | | 1,427,776 |
| Insurance | 279,400 | 305,402 | 109.3% | Small overspend due to impact of previous year claims history | | | 302,400 |
| | | | | | | | 0 |
| Operator Payments (Transport) | 27,397,250 | 21,605,517 | 78.9% | Spend slightly ahead of expectations - plans in place to address before year end | | | 26,557,978 |
| Pre Paid Ticket Cost | 31,500,000 | 23,800,978 | 75.6% | Cost matched by income (see below) ## | | | 32,500,000 |
| Concessions | 56,270,200 | 41,682,731 | 74.1% | Spend in line with expectations | | | 55,445,118 |
| Additional Pension Costs | 2,245,800 | 1,916,054 | 85.3% | Spend in line with expectations - impact of one annual payment £1.3m | | | 2,204,800 |
| Financing Charges | 5,670,000 | 1,545,056 | 27.2% | Spend in line with expectations - charges accrued at the year end | | | 4,930,000 |
| | | | | | | | |
| Grants | 3,893,861 | 400,286 | 10.3% | Low spend below expectations - due to timing of payments | | | 921,101 |
| Other Miscellaneous Costs | 514,958 | 326,874 | 63.5% | Spend in line with expectations | | | 1,465,252 |
| | | | | | | | |
| Contribution to External / Related Parties | 277,606 | 81,885 | 29.5% | Spend in line with expectations - further spend expected in quarter three | | | 283,379 |
| | | | | | | | |
| Additional Savings Target | (1,455,000) | 0 | 0.0% | Staff budget saving target - to offset against savings in salary budget above. | | | 0 |
| Contingency | 200,000 | 0 | 0.0% | Pay award - to add to salary / pay budget | | | 0 |
| Total Expenditure | 161,254,592 | 115,617,338 | 71.7% | | | | 157,650,226 |
| Income | | | | | | | |
| Rail Admin Grant | (918,000) | (612,308) | 66.7% | Received in arrears - forecast is £878k due to reduction | | | (878,000) |
| LEP General Funding Income | (1,234,000) | (500,113) | 40.5% | Received in arrears and towards year end | | | (1,234,000) |
| Growing Places Fund Interest | (200,000) | (206,266) | 103.1% | Received in arrears | | | (380,000) |
| Enterprise Zone Receipts | (1,968,000) | (15,867) | 0.8% | Received in arrears - currently at year end | | | (1,618,849) |
| Transport Levy | (94,198,000) | (84,778,586) | 90.0% | 10 instalments - nine received to date | | | (94,198,000) |
| Bus Service Operator Grant (BSOG) | (1,942,000) | (2,063,592) | 106.3% | Received in full at the start of the year | | | (2,063,592) |
| Education Contribution to Transport | (6,768,000) | (3,116,176) | 46.0% | Received in arrears | | | (6,768,000) |
| Bus Station Tenant Income | (1,472,464) | (1,195,847) | 81.2% | Some receipts in advance / others in arrears. Overall on budget. | | | (1,487,236) |
| Bus Station / Services - Other Income | (2,866,121) | (1,659,458) | 57.9% | Received in arrears | | | (2,876,477) |
| Admin Recharges | (5,349,498) | (4,028,743) | 75.3% | Received in arrears | | | (2,225,629) |
| Capitalisation of Revenue Costs | (3,381,887) | (1,911,634) | 56.5% | Received in arrears | | | (4,110,405) |
| Pre Paid Ticket Income | (31,819,412) | (23,880,704) | 75.1% | Income matches expenditure (see above) ## | | | (32,500,000) |
| Other Income | (7,684,973) | (3,066,096) | 39.9% | Received in arrears - being reviewed with budget holders. | | | (6,307,021) |
| Total Income | (159,802,355) | (127,035,389) | 79.5% | | | | (156,647,209) |
| Net Expenditure | 1,452,237 | (11,418,051) | -786.2% | | | | 1,003,018 |

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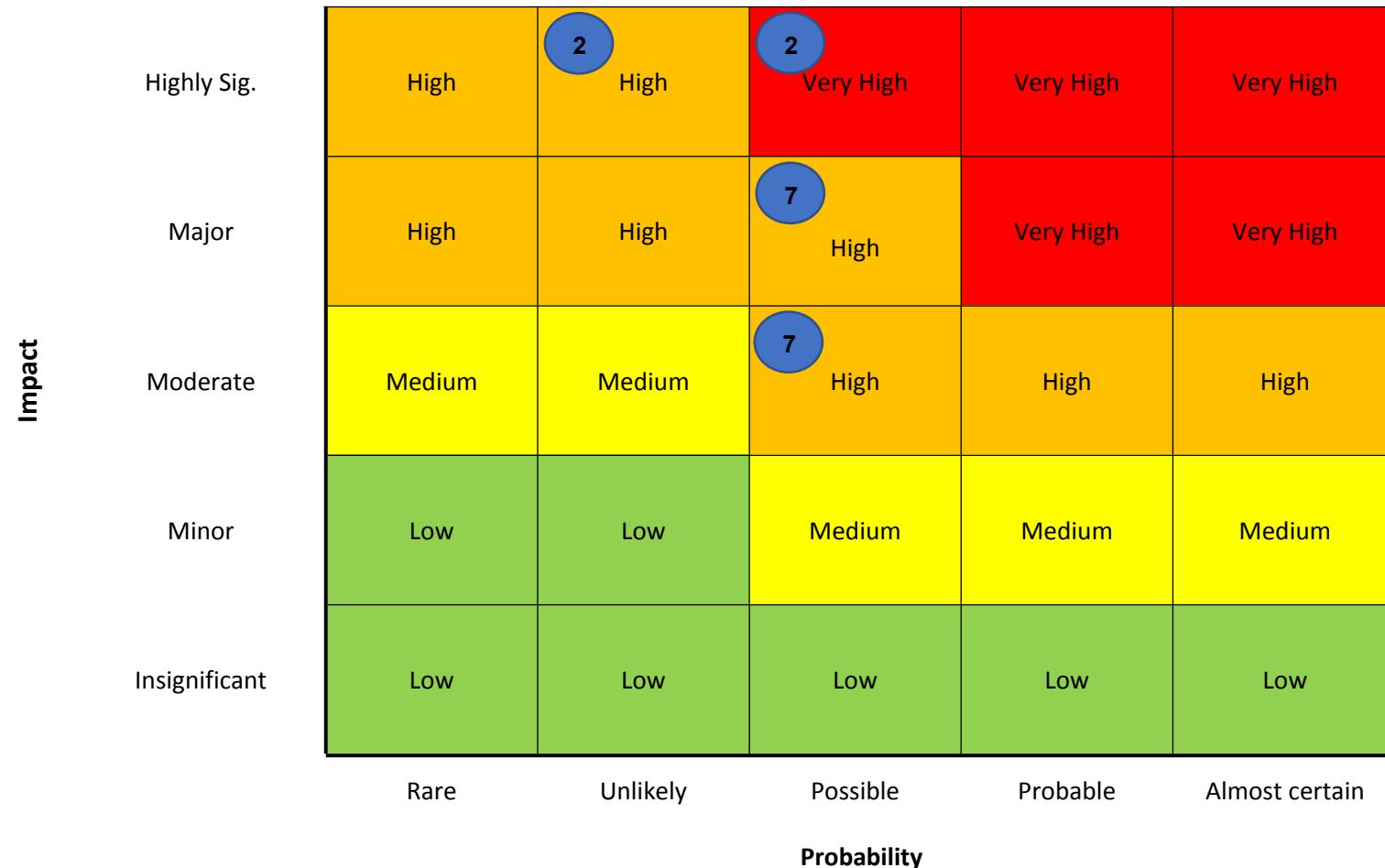
APPENDIX : Corporate Risk Overview

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Current Risk Appetite Statement

| |  | | | | |
|-----------------------------------|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 |
| Compliance and Regulation | | | | | |
| Operational/Service Delivery | | | | | |
| Financial | | | | | |
| Reputational/Marketing/PR | | | | | |
| Strategic Transformational Change | | | | | |
| Development and Regeneration | | | | | |
| People and Culture | | | | | |

Overview of corporate risks:



| Current 'Very High' risks: | | Probability | Impact | Mitigation summary | Movement since last report |
|----------------------------|--|-------------|--------------------|---|----------------------------|
| Very High x2 | Failure to secure enhanced funding and devolved powers | Possible | Highly significant | Devolution discussions continuing | No Change |
| | Failure to deliver Growth Deal/other capital funding programmes within timescales/ costs | Possible | Highly significant | Significant controls in place through PMO | No Change |

| Current 'High' risks: | | Probability | Impact | Mitigation summary | Movement since last report |
|-----------------------|---|-------------|------------------|--|----------------------------|
| High x16 | Failure to have in place the capacity, skills and resource needed to deliver increased workload | Possible | Major disruption | New one organisation structures largely implemented. Business planning ongoing | Probability reduced |
| | Failure to have the supporting infrastructure and processes in place to deliver against corporate priorities | Possible | Major disruption | Transformation programme & corporate technology programme in place to address this | Probability reduced |
| | Failure to deliver CA objectives and outcomes to demonstrate that CA/LEP is making a difference | Possible | Major disruption | Continuing to embed remaining elements of change programme | No Change |
| | Failure to secure continued funding for key services (e.g. economic services, skills capital) | Possible | Major disruption | Ongoing review of funding opportunities/bids | No Change |
| | Failure to deliver appropriate working arrangements with District partners | Possible | Major disruption | Continuing to strengthen key partnerships | No Change |
| | Risk of legal proceedings/financial penalty of not being compliant with GDPR | Possible | Major Disruption | Information asset register/data policies continually reviewed | No Change |
| | Risk that national terrorism threat level is raised to 'imminent' resulting in the need for unanticipated operational changes/costs | Possible | Major Disruption | Continued review of national trends and potential mitigation measures | No Change |
| | Insufficient national & local investment in the inclusive industrial strategy to make the transformational change needed | Possible | Moderate | Ongoing dialogue with Government | No Change |
| | Risk of legal challenge as a result of not being compliant with regard to HR, Financial, procurement and Governance Legislation | Possible | Moderate | Policies/procedures in place and subject to ongoing review | No Change |
| | Failure to properly communicate the purpose of the organisation to stakeholders | Possible | Moderate | Continuing brand/identity work led by communications team | No Change |

| | | | | |
|--|----------|--------------------|--|-----------|
| Failure to secure sufficient revenue funding to run current services | Possible | Moderate | Annual budget development in progress | No Change |
| Financial failure of a major contractor/supplier to the CA or a recipient of funding from the CA | Possible | Moderate | Contract management processes and regular financial checks in place | No Change |
| Failure of 3 rd part contractor to deliver within timescales/within expected level of benefits for CA funded projects | Possible | Moderate | Contractual KPI's and robust escalation route in place | No Change |
| Risk of significant bus service disruption if bus companies do not make adjustments in time for introduction of Leeds clean air zone | Possible | Moderate | Continuing dialogue with operators and LCC to understand impacts | No Change |
| Major unanticipated change in national policy resulting in operation of the organisation/organisational objectives | Unlikely | Highly significant | Ongoing dialogue with Government. Monitoring of national policy trends | No Change |
| Risk of Major incident at CA facility, accident /injury to vulnerable person(s) | Unlikely | Highly significant | Policies/procedures/training in place and continually reviewed | No Change |



Report to: Governance and Audit Committee

Date: 21 March 2019

Subject: Update on 2019/20 budget

Director(s): Angela Taylor, Director, Corporate Services

Author(s): Jon Sheard/Angela Taylor

1. Purpose of this report

- 1.1 To advise the Governance and Audit Committee on the budget for 2019/20 that was approved at the Combined Authority meeting 14th February 2019, including information on the Treasury Management Policy.
- 1.2 To approve the draft Capital Strategy, noting the additional development work to be undertaken.

2. Information

- 2.1 The Combined Authority approved the revenue and capital budgets for 2019/20 and subsequent years at its meeting on 14 February 2019. The full report is available [here](#) and attached to today's agenda at **Appendix 1** are the main revenue budget figures. The Combined Authority recognises the difficult funding position facing local authorities as they await the outcome of the fair funding review and comprehensive spending review in 2021. This is at a time when their funding continues to be cut and demand for their services is increasing. In the same way that local authorities are focussed on cost reduction, efficiencies and income generation the Combined Authority has, in developing its budget, reviewed its activities and found ways to deliver its services more efficiently. It also seeks to maximise third party income and opportunities to capitalise revenue costs where possible.
- 2.2 In summary the approved budget for 2019/20 showed a required use of reserves of £1.2 million. Further work is to be undertaken to achieve a balanced outturn for subsequent years.
- 2.3 Members are asked to note the position and that throughout the year this Committee will receive budget monitoring reports tracking progress against these approved estimates.

- 2.4 The indicative capital budgets also approved at that meeting are shown in the table below.

Summary Capital Programme

| Expenditure per programme | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|
| Local Transport Plan | 9,335 | 20,000 | 19,093 | 13,104 |
| Highways Maintenance Plan | 34,630 | 32,320 | 31,550 | 31,550 |
| Major scheme Expenditure | 1,905 | 6,971 | 712 | 119 |
| Non LTP Funding (transport) | 20,412 | 76,005 | 81,725 | 17,614 |
| Growth Deal (WY+ TF) | 84,878 | 121,603 | 159,275 | 200,696 |
| Other economic growth funding | 12,124 | 6,386 | 3,172 | 4,072 |
| Total Expenditure | 163,284 | 263,285 | 295,527 | 267,155 |
| Financing | | | | |
| LTP Grant | 13,104 | 13,104 | 13,104 | 13,104 |
| LTP Grant carry forward | 9,116 | 12,885 | 5,989 | |
| Highways Maintenance Plan | 31,550 | 31,550 | 31,550 | 31,550 |
| Non LTP Funding (Excluding Majors) | 2,810 | 63,773 | 81,725 | 17,775 |
| Growth Deal, Economy & WY+ TF | 74,349 | 73,510 | 100,340 | 40,000 |
| Other economic growth funding | 11,458 | 6,826 | 3,024 | 1,306 |
| Carry forward | 107,494 | 75,933 | 18,873 | 18,725 |
| Borrowing requirement | 2,221 | 10,566 | 59,647 | 160,815 |
| Total Funding Available | 252,102 | 288,147 | 314,252 | 283,275 |

- 2.5 At the previous meeting it was agreed that an update would come to this meeting with regards to both the development of a Capital Strategy and an update on Treasury Management.
- 2.6 On the latter, a presentation will be provided to a future meeting by Leeds City Council officers that manage the Combined Authority's arrangements under a service level agreement. As mentioned in the previous report senior officers meet quarterly to monitor progress with regards to investments, loans and prudential code indicators. For information the Treasury Management Policy approved at the Combined Authority meeting on 14th February 2019 is attached at **Appendix 2** for information.

Capital Strategy

- 2.7 Determining a capital strategy for the Combined Authority is a new requirement arising from changes in the Prudential Code that require all local authorities to have one in place for the 2019/20 financial year. It is required in order to demonstrate that the Combined Authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy, in a high level view, sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The capital strategy should form a part of the authority's revenue, capital and balance sheet planning. The strategy needs to be tailored to an authority's circumstances but should include capital expenditure, investments and liabilities and treasury management.

- 2.8 A Capital Strategy for the Combined Authority has been drafted and is attached at **Appendix 3**. Members are asked to provide comments on the strategy and subject to any agreed changes members are asked to approve the Capital Strategy. The strategy will be presented to the Combined Authority meeting in April for approval and further work will be undertaken over subsequent months to refine the document. Any significant changes to the strategy will be reported to this committee.
- 2.9 Though not an exhaustive list, it is expected (CIPFA guidance) that a capital strategy would:-
- apply a long-term approach ie 20-30 years;
 - explore external influences (eg government funding / policy);
 - explore internal influences (eg corporate plan, local plan etc..);
 - ensure corporate plan priorities drive capital investment ambition;
 - determine implications of any Investment Strategy;
 - examine commercial activity / ambition;
 - examine available resources and capacity to deliver;
 - assess affordability against ambition and identify any gap;
 - identify capital financing principles;
 - demonstrate integration with other strategies / plans;
 - produce a 10 year capital investment plan;
 - capture risks and mitigating factors;
 - outline governance and monitoring processes
- 2.10 Members are asked to approve the Capital Strategy, note progress on other matters, provide any further areas for consideration, and confirm if there is any information they would like to have provided to future meetings.

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. External Consultees

- 6.1 None.

7. Recommendations

- 7.1 That the Governance and Audit Committee note the budget position for 2019/20 and approve the draft Capital Strategy, subject to any agreed amendments.

8. Background Documents

None

9. Appendices

Appendix 1 – Revenue Budget 2019/20

Appendix 2 – Treasury Management Policy

Appendix 3 - Draft Capital Strategy

West Yorkshire Combined Authority - Summary 2019/20 Budget

| Expenditure | Delivery £ | Economic Services £ | Policy, Strategy & Comms £ | Corporate Services £ | Corporate (other) £ | Transport Services £ | Total £ | 2020/21 Total £ |
|--|------------------|------------------------|-------------------------------|-------------------------|------------------------|-------------------------|--------------------|--------------------|
| Salary & Pay Related Costs | 4,198,684 | 3,569,702 | 5,694,884 | 3,372,823 | 529,184 | 6,209,343 | 23,574,620 | 24,194,453 |
| Indirect Employee Related Costs | 450 | 3,500 | | 385,000 | | | 388,950 | 377,950 |
| Premises Related Costs | | | | | | 6,238,026 | 6,238,026 | 5,981,606 |
| Travel, Transport & Subsistence Related Costs | 3,500 | 27,172 | 20,000 | 6,500 | 14,000 | 40,490 | 111,662 | 94,062 |
| Member Related Costs | | | | | 220,000 | 1,168 | 221,168 | 221,168 |
| Office Supplies & Services | | | | 54,800 | | 455,950 | 510,750 | 541,750 |
| ICT & Telephony Costs | 50,000 | | 58,971 | 1,413,094 | | 1,092,067 | 2,614,132 | 2,457,591 |
| Professional & Consultancy Fees | 200,000 | 1,169,240 | 839,000 | 158,600 | 66,610 | 380,100 | 2,813,550 | 1,758,611 |
| Marketing & PR Costs | | 1,307,255 | 525,500 | | | 244,891 | 2,077,646 | 1,136,355 |
| Insurance | | | | | 304,900 | | 304,900 | 304,900 |
| Operator Payments (Transport) | | | | | | 25,601,325 | 25,601,325 | 24,655,336 |
| Concessions | | | | | | 56,446,802 | 56,446,802 | 55,777,810 |
| Additional Pension Costs | | | | | 2,301,600 | | 2,301,600 | 2,281,600 |
| Financing Charges | | | | | 5,465,000 | | 5,465,000 | 5,570,000 |
| Grants | | 2,653,708 | | | | | 2,653,708 | 1,862,564 |
| Third Party Delivery | | 3,770,479 | | | | | 3,770,479 | 3,480,526 |
| Miscellaneous Costs | 500 | | 2,250 | 2,400 | 305,500 | 82,424 | 393,074 | 93,074 |
| Contribution to External / Related Parties | | | | 9,468 | 311,761 | 3,515 | 324,744 | 323,951 |
| Staff Vacancy Savings Target | | | (446,619) | | (600,000) | | (1,046,619) | (1,049,989) |
| Total gross revenue expenditure | 4,453,134 | 12,501,057 | 6,693,986 | 5,402,686 | 8,918,555 | 96,796,100 | 134,765,517 | 130,063,318 |
| Direct cost contribution | | | | | | | | |
| Govt grants and awards | | | (10,695,903) | | | | (10,695,903) | (5,532,881) |
| Bus services operator grant | | | | | | (2,063,592) | (2,063,592) | (2,063,592) |
| Education Contribution to Transport | | | | | | (6,768,000) | (6,768,000) | (6,768,000) |
| Bus Station - Tenant Income | | | | | | (1,583,085) | (1,583,085) | (1,574,566) |
| Bus Station / Services Income (PPT, Depart Chgs) | | | | | | (2,848,798) | (2,848,798) | (2,881,604) |
| Admin Recovery (Staff Secondments) | | | (261,000) | | | (2,144,536) | (2,405,536) | (2,383,536) |
| Capital recovery | (4,627,370) | (490,936) | (1,373,671) | (1,150,564) | | (152,200) | (7,794,741) | (8,037,314) |
| Other third party income | | (398,976) | (350,000) | | (20,000) | (1,069,920) | (1,838,896) | (1,672,896) |
| Net revenue requirement | (174,236) | 915,241 | 4,709,315 | 4,252,122 | 8,898,555 | 80,165,969 | 98,766,966 | 99,148,929 |
| Funding available | | | | | | | | |
| Rail Income | | | | | | | (878,000) | (439,000) |
| LEP General Funding Income | | | | | | | (1,234,000) | (1,234,000) |
| Growing Places Fund Interest | | | | | | | (300,000) | (200,000) |
| Enterprise Zone Receipts | | | | | | | (1,958,320) | (2,126,054) |
| Transport Levy | | | | | | | (93,198,000) | (92,198,000) |
| Net Expenditure Total | | | | | | | 1,198,646 | 2,951,875 |

Total approved by the Combined Authority (1/2/18)

1,198,646

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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 further borrowing may be required in 2019/20, increasing in subsequent years. The borrowing is required to support the delivery of the full West Yorkshire plus Transport Fund, to support internal capital projects and to support projects within the Growth Deal programme that may be delivered after 2021 when funding ceases. 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 that will enable the borrowing requirements for future years to be fully understood. In the short term new borrowing requirements are likely to be reduced by the use of cash and available reserves.

Treasury management activity – borrowing and investments

| | £m |
|--|--------------|
| Total Loans outstanding at 1/4/2018 | |
| Fixed Term / Fixed (incl LOBOs) | 75.0 |
| Activity expected during 2018/19: | |
| Loan repayments | 0.0 |
| Net movement in temporary loans | 0.0 |
| New borrowing | 0.0 |
| Anticipated loans outstanding at 31/3/2019: | 75.0 |
| Activity expected during 2019/20 | |
| New borrowing | 0.0 |
| Borrowing Repaid | 0.0 |
| Anticipated loans outstanding at 31/3/2020: | 75.0 |
| Total Investments | |
| Investments at 1/4/2018 | 133.0 |
| Net of new Investment / repaid in year | 20.0 |
| Anticipated Investments placed at 31/3/2019 | 153.0 |

- 4 The current financial year has seen generally a continuation of the overall economic situation. Interest rates have remained low, although bank base rate did rise in August 2018 from 0.50% to 0.75%. 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 Combined Authority. The agreed policy is to seek to minimise the rates at which the Combined Authority borrows and to continue to refinance any longer term loans if rates appear advantageous.
- 6 No such opportunities have arisen so far in 2018/19. The Combined Authority has a loan portfolio with competitive rates and the economic climate has been such that there have been no suitable opportunities identified for refinancing.
- 7 The business planning and budget report sets out the estimated requirement for borrowing to supplement the capital grants received. The calculations in the annex demonstrate how this works through the capital financing requirement and set out the financing costs which are then included within the revenue budget.
- 8 Since April 2015 when the Combined Authority became the accountable body for the Leeds City Region Enterprise Partnership (LEP) cash balances have been high as a result of the Growth Deal funding paid in large instalments at the start of each financial year. Over the past three years the limits and counterparties have been kept under regular review to ensure the sums available for investment are able to be placed appropriately. The Combined Authority has continued to utilise call arrangements in place with Svenska and Leeds City Council rather than leave money overnight with in our main Natwest account whose rate is lower at 0.30%. For longer term deposits 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 Combined Authority. This approach will continue during 2019/20 with an expectation that the Combined Authority will continue to have cash balances to invest due to the advance payment of capital and other grant funding. Within the existing policy the Combined 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 2019/20 of Growth Deal and other potential funding initiatives.
- 9 The general level of borrowing and investments is handled efficiently by Leeds City Council and has produced a situation where the Combined 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 Combined Authority under the terms of a signed service level agreement, 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 Combined Authority's funds are managed in the most effective and secure way.
- 10 The Combined Authority has strict rules on investment criteria which are set out in paragraphs 11 to 13 for consideration and re-approval. These are set so as to minimise the risk to the Combined Authority's funds but does also mean that interest earned on deposits is lower than it could be. It is therefore in the Combined Authority's interest 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 Public Works Loan Board (PWLB) rates, initially 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

- 11 In general it is intended there should be no long term investments by the Combined 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 the Ministry for Housing, Communities and Local Government ((MHCLG) 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”).
- 12 It is proposed that the existing policy of utilising the expertise of the Treasury Management Team in Leeds City Council be reaffirmed for 2019/20.
- 13 The Combined 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 changes highlighted in bold below:-
 - 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 Combined 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. The limits for each of the next three years are that for investments for a period greater than 364 days, that no more than £20m will mature in each of 2019/20, 2020/21 and 2021/22.
 - d. Investments with Leeds City Council will not exceed £15m, the interest rate for such deposits being agreed between the Chief Financial Officers of both organisations.
 - e. Investments with any one counterparty should not exceed £15m other than in c above.

- f Investments with the Combined Authority's bankers are specifically excluded from the limits set out, in recognition of the fluidity of such arrangements.
- 14 The proposals above would provide the flexibility for the Combined Authority to invest its surplus funds which, as they are expected to continue to increase, will become increasingly difficult to place on the market. The proposals are deemed low risk and are in accordance with the criteria applied by Leeds City Council to its treasury arrangements.

PRUDENTIAL FUNDING ARRANGEMENTS

- 15 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.
- 16 The Code requires full capital and revenue plans to be prepared for at least three 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 proposed levels. Restricting borrowing in this way ensures that all debt charges are covered by the Combined Authority through its levy on the Districts.
- 17 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.
- 18 There are significant levels of grant provided to the Combined Authority under the Integrated Transport block (LTP), Leeds Public Transport Investment Programme (LPTIP) and Growth Deal for the next few years. 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.
- 19 Discussions were concluded, following approval to do so in 2016, with the European Investment Bank (EIB) 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 the

EIB funding criteria and this provides an attractive alternative to the traditional PWLB lending. A final contract has now been entered into for a five year borrowing facility. The UK's decision to withdraw from the European Union does not preclude this arrangement taking place.

- 20 It is not proposed at this stage that the Combined 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.
- 21 When Leeds City Council and the Combined Authority 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 two 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.
- 22 The Annex initially creates limits set at the required level of borrowing for 2018/19 and 2019/20. 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.
- 23 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 the Combined 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 £20m higher than the operational boundary to create flexibility to allow temporary additional borrowing (for example to cover abnormal or exceptional cashflow movements).
 - 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.
- 24 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.

- 25 The Prudential Code for capital has been updated as at December 2018 and is to be implemented from 2019/20 financial year. In summary it re-emphasises that local authorities must ensure that all of its capital and investment plans and borrowing are prudent and sustainable. In doing so it will take into account its arrangements for the repayment of debt and consideration of risk and the impact, and potential impact, on the authority's overall fiscal sustainability. While indicators for sustainability are required to be set over a minimum three year rolling period, indicators should be set in line with a capital strategy and asset management plan that is sustainable over the longer term.
- 26 Determining a formal capital strategy for the authority is a new requirement in order to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. The strategy, in a high level view, sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. The capital strategy should form a part of the authority's revenue, capital and balance sheet planning.
- 27 A draft capital strategy is in preparation, with the final version to be in place from April 2019.

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

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|------------------------------------|----------------|----------------|----------------|----------------|
| | £000 | £000 | £000 | £000 |
| Expenditure per programme | | | | |
| Local Transport Plan | 9,335 | 20,000 | 19,093 | 13,104 |
| Highways Maintenance Plan | 34,630 | 32,320 | 31,550 | 31,550 |
| Major scheme Expenditure | 1,905 | 6,971 | 712 | 119 |
| Non LTP Funding (transport) | 20,412 | 76,005 | 81,725 | 17,614 |
| Growth Deal | 84,878 | 121,603 | 159,275 | 200,696 |
| Other economic growth funding | 12,124 | 6,386 | 3,172 | 4,072 |
| | 163,284 | 263,285 | 295,527 | 267,155 |
| Financing | | | | |
| LTP Grant | 13,104 | 13,104 | 13,104 | 13,104 |
| LTP Grant carry forward | 9,116 | 12,885 | 5,989 | |
| Highways Maintenance Plan | 31,550 | 31,550 | 31,550 | 31,550 |
| Major scheme Expenditure | | | | |
| Non LTP Funding (Excluding Majors) | 2,810 | 63,773 | 81,725 | 17,775 |
| Growth Deal & Economy | 74,349 | 73,510 | 100,340 | 40,000 |
| Other economic growth funding | 11,458 | 6,826 | 3,024 | 1,306 |
| Carry forward | 107,494 | 75,933 | 18,873 | 18,725 |
| Borrowing requirement | 2,221 | 10,566 | 59,647 | 160,815 |
| Total Funding Available | 252,102 | 288,147 | 314,252 | 283,275 |

Calculation of Prudential Indicators:

| | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 |
|--|-----------------|-----------------|-----------------|-----------------|
| AFFORDABILITY | | | | |
| Ratio of financing costs to net revenue stream | | | | |
| Debt Charges | 4,897 | 4,358 | 4,863 | 9,258 |
| Levy | 99,901 | 98,901 | 97,901 | 96,901 |
| (Assumes continuing levy freeze) | | | | |
| Resultant ratio: | 4.9% | 4.4% | 5.0% | 9.6% |

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.

| | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 |
|---|-----------------|-----------------|-----------------|-----------------|
| Loans outstanding at 1 April | 76,500 | 75,500 | 75,000 | 295,462 |
| Estimate of Capital Financing Requirement (CFR) | 78,092 | 77,189 | 84,667 | 140,927 |
| Additional borrowing requirement in year | 2,221 | 10,566 | 59,647 | 160,815 |
| Less debt repayments in year | -3,124 | -3,295 | -3,387 | -5,637 |
| Estimate of (CFR) 31 March | 77,189 | 84,667 | 140,927 | 296,105 |
| Calculated Operational Boundary | 80,313 | 87,755 | 144,314 | 301,742 |
| Safety factor | 20,000 | 20,000 | 20,000 | 20,000 |
| Forecast Authorised Limit | 100,313 | 107,755 | 164,314 | 321,742 |

| Maturity of Loan Structure | Minimum | Maximum | Authority | Projected 31/03/2019 | |
|----------------------------------|---------|---------|------------|-------------------------|------|
| Loans up to 1 year | 0% | 30% | 0 | 0% | |
| Loans between 12 and 24 months | 0% | 20% | 0 | 0% | |
| Loans between 24 months and 5yrs | 0% | 50% | 0 | 0% | |
| Loans between 5 and 10 years | 0% | 75% | 0 | 0% | |
| Loans between 10 and 20 years | 25% | 100% | 0 | 0% | 100% |
| Loans between 20 and 30 years | | | 0 | 0% | |
| Loans between 30 and 40 years | | | 50,000,000 | 67% | |
| Loans between 40 and 50 years | | | 15,000,000 | 20% | |
| Loans 50 years + | | | 10,000,000 | 13% | |
| | | | 75,000,000 | 100% | |

DRAFT CAPITAL STRATEGY

2019/20 – 2029/30

Content

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1. INTRODUCTION AND BACKGROUND

This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment for the West Yorkshire Combined Authority. The strategy focuses on core principles that underpin the authority's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money.

The capital strategy aligns with the key strategies and priorities including those set out in the Strategic Economic Plan. The strategy is integrated with the medium term financial strategy and treasury management strategy.

The Combined Authority will agree the capital strategy and programme annually and as necessary in the event of a significant change in circumstances. The programme includes schemes relating to our own assets, schemes where we are responsible for direct delivery and schemes being delivered by our district partners.

The indicative capital programme approved 14 February 2019 is shown below:

| Expenditure per programme | 2018/19 £000 | 2019/20 £000 | 2020/21 £000 | 2021/22 £000 |
|------------------------------------|------------------------|------------------------|------------------------|------------------------|
| Local Transport Plan | 9,335 | 20,000 | 19,093 | 13,104 |
| Highways Maintenance Plan | 34,630 | 32,320 | 31,550 | 31,550 |
| Major scheme Expenditure | 1,905 | 6,971 | 712 | 119 |
| Non LTP Funding (transport) | 20,412 | 76,005 | 81,725 | 17,614 |
| Growth Deal (WY+ TF) | 84,878 | 121,603 | 159,275 | 200,696 |
| Other economic growth funding | 12,124 | 6,386 | 3,172 | 4,072 |
| Total Expenditure | 163,284 | 263,285 | 295,527 | 267,155 |
| Financing | | | | |
| LTP Grant | 13,104 | 13,104 | 13,104 | 13,104 |
| LTP Grant carry forward | 9,116 | 12,885 | 5,989 | |
| Highways Maintenance Plan | 31,550 | 31,550 | 31,550 | 31,550 |
| Non LTP Funding (Excluding Majors) | 2,810 | 63,773 | 81,725 | 17,775 |
| Growth Deal, Economy & WY+ TF | 74,349 | 73,510 | 100,340 | 40,000 |
| Other economic growth funding | 11,458 | 6,826 | 3,024 | 1,306 |
| Carry forward | 107,494 | 75,933 | 18,873 | 18,725 |
| Borrowing requirement | 2,221 | 10,566 | 59,647 | 160,815 |
| Total Funding Available | 252,102 | 288,147 | 314,252 | 283,275 |

2. CORE PRINCIPLES THAT UNDERPIN THE CAPITAL PROGRAMME

The core principles for the capital programme are summarised below and shown in more detail at Annex A.

- Capital investment decisions reflect the aspirations and priorities included within the Strategic Economic Plan, Transport Plan and other organisational strategies;

- Schemes to be added to the capital programme will be subject to our Assurance Framework, prioritised according to strategic and economic fit, availability of resources (capacity and financial) and scheme specific funding and factors such as legal / statutory obligations, health and safety considerations, value for money and the longer-term impact on the authority's financial position.
- The cost of financing capital schemes, net of revenue benefits, are profiled over the lifetime of each scheme and incorporated into the annual policy and resources strategy and budget.
- Commissioning and procuring for capital schemes will comply with the requirements set out in financial regulations and contract standing orders.

3. GOVERNANCE FRAMEWORK

The Combined Authority is the accountable body for the Local Enterprise Partnership (LEP) and receives significant capital funding from government. As the accountable body it ensures that all spending decisions are overseen by local elected politicians. A significant part of our expenditure is with district council partners who directly deliver a range of schemes to help transform the Leeds City Region economy.

The aim is for the Combined Authority to agree, with appropriate input from the LEP, the capital strategy and programme annually and in the event of a significant change in circumstances. In conjunction with the Assurance Framework, the Chief Finance Officer (Section 73) will consider the impact of proposed schemes in the capital programme with the medium term financial strategy, the capital resources available to the Combined Authority, the revenue implications of the proposed capital expenditure and any other relevant information.

Democratic decision-making and scrutiny processes provide overall political direction and ensure accountability for investment in the capital programme. These processes include:

- Combined Authority approving the plan which sets out the strategic priorities
- Combined Authority being ultimately responsible for approving the Capital Strategy, Treasury Management Strategy and capital programme.
- The Combined Authority, Transport Committee and Investment Committee receiving regular capital monitoring reports, approving variations to the programme and considering new programmes / projects for inclusion in the capital programme as part of the Assurance Framework and in line with LEP priorities.
- Managers being assigned projects in line with their responsibilities
- Overview and Scrutiny committee being able to call in decisions, receive and scrutinise reports
- All projects progressing through the capital programme follow the constitution, financial regulations and contract standing orders.
- The capital programme is subject to internal and external audit reviews.

Any new capital expenditure is considered as part of a thorough appraisal / evaluation in line with the requirements of the Assurance Framework. The appraisal / evaluation will outline the key benefits that are expected to arise from this

programme in relation to priorities and economic and strategic fit. The evaluation will include the financial considerations such as the expected cost and funding sources identified, benefit-cost ratio and value for money. Any risks to either the delivery or cost forecasts are to be considered as part of an appraisal / evaluation.

Approval to spend on individual capital schemes will only be given once procedural guidelines have been complied with and assessed to the satisfaction of the Assurance Framework which involves senior management, technical experts and Investment Committee, Transport Committee and Combined Authority as appropriate.

Senior managers within directorates monitor the delivery of the assigned capital programmes. Directorate management teams must consider and recommend all additions or variations to their directorate capital programme via the Assurance Framework before being agreed ultimately by the Combined Authority.

4. SHORT, MEDIUM AND LONG-TERM CAPITAL PLANNING OBJECTIVES

The Combined Authority approves annually a refresh of the indicative capital programme that covers a three year period. The capital programme for the Combined Authority is a longer term ambition, with the lifetime of new and existing assets stretching far into the future. The obligation for maintaining and improving operational buildings (including bus stations) is very long term and as such should be considered accordingly in financial and asset management planning. With regards to the latter an Asset Management Strategy is in development as at March 2019 and will be submitted for approval over the coming year.

The application and planning for the capital expenditure obligations and objectives for the Combined Authority can be considered over short, medium and long term time horizons.

Short to medium term (1-3 Years):

Within a shorter timeframe the focus of the capital strategy is towards the delivery and implementation of any capital scheme. At this stage, the management of potential risks in the acquisition or delivery of particular capital schemes is of significant importance for the Combined Authority.

Within the short term timeframe the capital programme may be amended with the introduction of urgent, high priority capital schemes. The programme will need to be flexible to ensure that the capital programme can incorporate schemes to meet the requirements or opportunities that arise, with any proposed changes being considered via the Assurance Framework. As part of capital programme and resource management, schemes may be phased over multiple years due to factors such as complexity, resourcing, legal and planning requirements.

Medium to long-term (4-10 Years)

There is typically a long lead time from identifying investment need or opportunity and to implementation. The medium term programme allows the Combined Authority to develop plans for the delivery and funding across capital projects as well as the

contribution of this capital expenditure toward the Combined Authority's objectives and individual service priorities.

Early evaluation can be developed to allow the Combined Authority to assess the expected benefits and costs of capital expenditure. The identification of sources of funding, specific grants, external contributions or revenue budget may be identified to fund capital projects.

The Combined Authority incorporates the capital programme expenditure and funding projections into medium term cashflow forecasting which in turn feeds into the treasury management strategy for the Combined Authority. Decisions on debt financing will be influenced by capital projections as well as forecast capital receipts.

The capital programme and the implications of the programme for the Minimum Revenue Provision (see later in the strategy for more detail) and debt financing costs are incorporated into the medium term financial strategy.

Long Term: 10 Years Plus

The Combined Authority has some longer term plans that requiring capital investment consideration including:

- the Strategic Economic Plan (2016 – 2036)
- West Yorkshire Plus York Transport Plan (to 2036)
- the Local Transport Plan, branded as the Local Transport Strategy (to 2040)
- Future plans for revolving funds from Growing Places Fund
- Reinvestment of Business Rate Income (to 2042)

The Combined Authority is able to review and develop strategies for meeting investment need in the much longer term where there is considerable uncertainty and complexity.

For example understanding economic, social and technological factors that drive regeneration and redevelopment initiatives, long-term planning issues to deliver objectives e.g. the Combined Authority's ambition to deliver on the key elements of the Strategic Economic Plan (including Clean Energy, Infrastructure for Growth), and asset management planning for long-term property need and investment.

There is a clear link between long term planning for capital and for treasury management purposes. The Combined Authority's debt portfolio contains loans that mature in up to 30-50 years time. The debt repayment profile needs to be managed alongside the longer term expectations for capital expenditure and funding forecasts.

Long-term forecasts are not easily predicted and the accuracy of all financial estimates will be limited. However, long-term forecasting is valuable in informing strategic plans taking account of the cumulative sustainability and affordability of existing and planned investment, which will need to be repaid over future periods. For major projects and investment the funding and financial implications need to be planned well in advance.

5. COMBINED AUTHORITY STRATEGIC ECONOMIC PLAN - CAPITAL INVESTMENT PRIORITIES

Capital investment plans are driven by the Strategic Economic Plan, the Combined Authority's key strategic document that sets out the vision, ambitions, values and priorities.

Key capital commitments in the capital programme include:

- Delivery of a programme of significant transport projects including Elland station, the rail park and ride programme and a potential new bus station at Halifax;
- Supporting district partners to deliver a range of major highways, public transport and sustainable transport initiatives including schemes through the West Yorkshire plus Transport Fund, Connecting Leeds and City Connect
- Supporting district partners to deliver a range of economic benefits including delivery of major capital infrastructure through the Skills Capital and Innovation and Flood Alleviation, and Housing and Regeneration programmes
- Alleviating fuel poverty and improving homes through the Better Homes and Warm Homes programmes
- Supporting digital inclusion through the provision of broadband infrastructure in urban and rural communities through the continued Superfast West Yorkshire and York programme
- Developing smart card technology, making it easier for bus and rail users when paying for their journeys
- Accelerating economic growth through the development of 10 sites within the Leeds City Region Enterprise Zone
- Delivery of the corporate head office accommodation project and Corporate Technology Programme.

6. ASSET MANAGEMENT PLANNING

The overriding objective of asset management within the Combined Authority is to achieve a corporate portfolio of property and equipment assets that is appropriate, fit for purpose and affordable. The Combined Authority's property portfolio consists mainly of operational properties (eg bus stations), investment properties (rented to tenants) and property held for development or regeneration purposes. The Combined Authority has specific reasons for owning and retaining property:

- Operational purposes e.g. assets that support core business and service delivery e.g. bus stations, office buildings and that provide a financial return (eg tenant rent)
- Regeneration, enabling strategic place shaping and economic growth.
- Delivery of major infrastructure eg in support of mass transit
- Delivery of the Enterprise Zone programme.

The Combined Authority is in the process of developing its Asset Management Strategy which will align with the Capital Strategy. It is anticipated that this strategy will include the approach to 'invest to save' projects, investment required, asset classes/ type, estimated revenue streams, risks, approach to lease, economic footprint, ethical value to the organisation.

Asset management is a key part of the Combined Authority's business management arrangements and is crucial to the delivery of efficient and effective services. The ongoing management and maintenance of capital assets will be considered as part of the strategy. The asset management planning includes an objective to optimise the Combined Authority's land and property portfolio through proactive estate management and effective corporate arrangements for the acquisition and disposal of land and property assets.

The Combined Authority will continue to realise the value of any properties that have been declared surplus to requirements in a timely manner, having regard to the prevailing market conditions.

7. COMMERCIAL ACTIVITY AND INVESTMENT PROPERTY

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines investment property as property held solely to earn rentals or for capital appreciation or both. Returns from property ownership can be both income driven (through the receipt of rent) and by way of appreciation of the underlying asset value (capital growth). The combination of these is a consideration in assessing the attractiveness of a property for acquisition.

In the context of the Capital Strategy, the Combined Authority is in the process of considering plans to use capital (including capital grant) to invest in property to provide a positive surplus/financial return. The Combined Authority funds the purchase of property by borrowing money or use of capital grant. The rental income paid by the tenant contributes to the cost of repaying the borrowed money each year and is part of the annual revenue budget.

The reasons for buying and owning property are primarily:

- Financial returns to fund services
- Market and economic opportunity.
- Economic development and regeneration.

Historically, owned property has provided strong returns in terms of a stable income. Property investment is not without risk as property values can fall as well as rise and changing economic conditions could cause tenants to leave with properties remaining vacant. The strategy makes it clear that the Combined Authority will continue to invest prudently on a commercial basis and to take advantage of opportunities as they present themselves, supported by our robust governance process.

8. LOANS

The Combined Authority has discretion to make loans for a number of reasons, primarily for economic development. These loans are treated as capital expenditure. In making loans the Combined Authority is exposing itself to the risk that the borrower defaults on repayments. The Combined Authority, in making these loans, must therefore ensure it is prudent and has fully considered the risk implications,

with regard to both the individual loan and that the cumulative exposure of the Combined Authority is proportionate and prudent.

The Combined Authority will ensure that a full due diligence exercise is undertaken and adequate, that the formal Assurance Framework processes are used to assess loan risk / opportunities and that security is in place. The business case will balance the benefits and risks. All loans under the existing programme are agreed by the Combined Authority and are subject to close, regular monitoring.

9. CAPITAL FUNDING

Capital expenditure for the Combined Authority is financed through a variety of sources, typically:

- Capital grants from government (including Local Enterprise Partnership funding)
- Non-Government funding (eg European Funding)
- Receipts from the sale of capital assets
- The use of revenue budget contributions and general reserves
- Leasing
- Section 106 contributions
- Private Finance Initiatives (PFI)
- Borrowing
- Joint Ventures
- Equity Investment

Capital Grants:

Capital resources from Central Government can be split into two categories:

- a. Ring-fenced – resources which are ring fenced to particular areas and therefore have restricted uses, specified by the funder.

This currently encompasses the vast majority of Government funding received by the Combined Authority.

- b. Non-ring fenced – resources which are delivered through grant that can be utilised on any project (albeit that there may be an expectation of use for a specific purpose).

Non-Government Funding

Where there is a requirement to make an application to an external agency to receive external funding, and, when appropriate, to commit Combined Authority resources as matched funding to any bid for external resources, the proposal goes through the Assurance Framework for consideration / approval. The business case

must demonstrate how the project aligns to the Combined Authority's priorities and how matched funding and any revenue consequences can be managed within the context of the capital and revenue budget, including consideration of the timing of which funds are used first.

Capital Receipts

Capital Receipts come from the sale of the Combined Authority's assets.

Where the sale of an asset leads to the requirement to repay grant, the capital receipt will be utilised for this purpose. Once this liability has been established and provided for, capital receipts will be available to support the capital programme as a corporate resource.

There will be no ring-fencing of capital receipts to specific projects unless the use of the receipt is governed by legislation or by a specific agreement. However, where the asset has been funded from prudential borrowing a review will be undertaken to determine whether the most cost effective option is to utilise the receipt to repay debt, considering the balance sheet position of the Combined Authority.

There is no current strategy for the use of capital receipts. However future consideration will be given to the following:

- To provide for an MRP holiday to the value of external loan payments generating a revenue budget saving;
- To consider forgoing the immediate capital receipt for longer term and sustainable income stream through development of sites or other projects.
- To invest in further economic activity in support of the SEP.

Revenue budget contributions and general reserves

An element of the revenue budget can be set aside to fund the capital programme (Direct Revenue Financing). The annual refresh of the capital programme will detail any amount that is forecast to be available in upcoming years, however with increasing revenue budget pressures and diminishing, available reserves, any such amounts will be limited and will need to be regularly reviewed.

A directorate / service area may wish to offer some of its revenue budget to support the financing of a capital project. This may be acceptable if it can be demonstrated that this funding is unrestricted.

Leasing

The Combined Authority does have the option to lease assets utilising an operating lease arrangement, though due to Prudential Borrowing this source of financing is becoming less attractive.

The International Accounting Standards Board have reviewed how leased assets are treated and in January 2016 issued a new standard for annual periods starting on or after the 1st January 2019. This will need to be reflected as part of any business case proposals.

Section 106 contributions (S106)

Our district partners make S106 agreements with developers / landowners as part of the planning approval process to ensure that new development mitigates its own impact and provides the necessary site specific infrastructure to support it. The Combined Authority accesses these contributions via the district partners as appropriate.

These contributions are site specific or can be ‘pooled’ for a maximum of five site specific projects. Any contributions received are ‘ring-fenced’ for the purpose as set out in the relevant S106 agreement and can be applied to fund schemes within the relevant capital programme.

The S106 contributions are time limited in that if they are not spent within an agreed timescale, typically 5 – 10 years, dependent on what has been agreed in the S106 agreement and any funds not spent in line with the agreement would have to be repaid to the developer, which, may include interest.

Consideration of available S106 funding should be taken into consideration when agreeing the use of the available funding and reduce the reliance on other sources of funding, predominantly borrowing.

Private Finance Initiatives (PFI)

PFI is a means by which the Combined Authority can facilitate major new infrastructure projects. PFI schemes involve partnerships between the public and private sector to fund public sector infrastructure projects with private capital.

Under PFI, a private sector contractor agrees to accept the risks associated with the design, construction and maintenance of the asset over the contract term, which is typically for a 25 year period. The public sector partner pays an annual fixed price during the contract term, part of which is subject to inflation. At the end of the term, the asset is wholly owned by the Combined Authority.

No PFI projects are currently being proposed and any future proposals would require approval by the Combined Authority having been evaluated beforehand through the Assurance Framework.

Borrowing

Any capital expenditure not financed by the above will need to be funded by borrowing. Existing Combined Authority debt is the consequence of historical capital expenditure. The Combined Authority can temporarily utilise other resources in lieu of external borrowing to fund capital expenditure (ie internal borrowing from cash balances).

The Combined Authority will investigate opportunities to resource capital projects using prudential borrowing where plans are sustainable, affordable and prudent. Full appraisal will take place to ensure that, where appropriate, sufficient revenue returns are generated to cover the cost of borrowing.

Where it is considered that prudential borrowing is the appropriate method of funding, but it requires additional revenue financing, the cost will be built into the revenue budget planning process. There are various debt instruments available for financing prudential borrowing and these are explored in more detail in the Treasury Management Strategy.

The Public Works Loan Board (PWLB) remains the Combined Authority's preferred source of long term borrowing given the transparency and control that its facilities continue to provide.

An alternative debt instrument available to the Combined Authority is the European Investment Bank (EIB) facility which was established in 2018. The EIB provides an option to provide a flexible financing offer to support the West Yorkshire plus Transport Fund. Many of the Combined Authority's schemes in the Fund meet the EIB funding criteria and this would provide an attractive alternative to the traditional PWLB lending. The UK's decision to withdraw from the European Union does not preclude this arrangement taking place.

It is not proposed at this stage that the Combined Authority enter into any other 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.

Joint Ventures (JV)

A joint venture is a cooperative enterprise entered into by two or more entities for the purpose of a specific project or other business activity. The reason for a joint venture is usually some specific project.

JVs are commonly formal arrangements and they can be short term or long term. Often the JV creates a separate business entity, to which the owners contribute assets, have equity, and agree on how this entity may be managed. The new entity may be a corporation, limited liability company, or partnership.

In other cases, the individual entities retain their individuality and they operate under a JV agreement. In any case, the parties in the JV share in the management, profits, and losses, according to a joint venture agreement (contract).

Joint ventures are often entered into for a single purpose but they may also be formed for a continuing purpose.

The Combined Authority has one JV with Leeds City Council for the Next Generation Technology (NGT) assets (primarily land and buildings).

Any future JV proposals require approval by the Combined Authority having been evaluated beforehand through the Assurance Framework or other relevant approval processes.

Equity Investment

An equity investment generally refers to the buying and holding of company shares in anticipation of income from dividends and capital gains.

The Combined Authority do not currently have any equity investments. Any future proposals require approval by the Combined Authority having been evaluated beforehand through the Assurance Framework or other relevant approval processes.

10. REVENUE BUDGET IMPLICATIONS FROM CAPITAL INVESTMENT DECISIONS

In approving the inclusion of schemes and projects within the capital programme, the Combined Authority ensures all of the capital and investment plans are affordable, prudent and sustainable. In doing so the Combined Authority will take into account the arrangements for the repayment of debt, through a prudent MRP policy in line with MRP guidance produced by the Ministry of Housing, Communities and Local Government.

The capital financing charges and any additional running costs arising from capital investment decisions are incorporated within the annual revenue budget and medium term financial plans. This enables the Combined Authority to consider the consequences of capital investment alongside other competing priorities for revenue funding.

Long Term revenue implications of capital investment decisions

Capital investment decision making is not only about ensuring the initial allocation of capital funds meets the corporate and service priorities but ensuring the asset is fully utilised, sustainable and affordable throughout its whole life. This overarching commitment to long term affordability is a key principle in any capital investment appraisal decision. In making its capital investment decisions the Combined Authority must have explicit regard to consider all reasonable options available. These would include sustainable revenue streams achieved through initiatives such as business rates receipts (EZ programme), tenant rental income (Bus station development) and interest earned from loans (Growing Places Fund).

11. RISK APPETITE

This section considers the Combined Authority's risk appetite with regard to its capital investments and commercial activities, i.e. the amount of risk that the Combined Authority is prepared to accept, tolerate, or be exposed to at any point in time. It is important to note that risk will always exist in some measure and cannot be removed in its entirety.

A risk review is an important aspect of the consideration of any proposed capital or investment proposal. The risks will be considered in line with the risk management strategies we have in place and commensurate with the Combined Authority's

relatively low risk appetite on financial matters. The Combined Authority's risk appetite statement is summarised in the table below.

| Current Risk Appetite: | Low Risk Appetite | | | | High Risk Appetite |
|-----------------------------------|-------------------|---|---|---|--------------------|
| | 1 | 2 | 3 | 4 | 5 |
| Compliance and Regulation | | 2 | | | |
| Operational/Service Delivery | | | 3 | | |
| Financial | | 2 | | | |
| Reputational/Marketing/PR | | 2 | | | |
| Strategic Transformational Change | | | | 4 | |
| Development and Regeneration | | | | 4 | |
| People and Culture | | | 3 | | |

Subject to careful due diligence, following the formal Assurance Framework or other appropriate approval processes, the Combined Authority may consider a moderately higher level of risk for strategic initiatives, where there is a direct gain to the Combined Authority's revenues or the ability to deliver its statutory duties more effectively and efficiently.

12. KNOWLEDGE AND SKILLS

The Combined Authority has professionally qualified staff across a range of disciplines including finance, legal and property, however there are a number of capital projects and programmes which will require the use or addition of specialist technical advisers or development of a new commercial team, e.g. future grants and loans programme, Enterprise Zones and new rail station development.

A review of capacity and skills gaps is currently under consideration to get the Combined Authority to the level of performance required, especially in relation to commercial skill sets and specialised procurement expertise. A review of financial ICT systems is also planned to ensure key functions are supported.

The Combined Authority establishes project teams from all the professional disciplines from across the Combined Authority as and when required and has a dedicated Delivery Directorate that focuses on delivering new capital proposals once they pass through Decision Point 2 of the Assurance Framework. In addition our Transport Services Directorate is responsible for the Combined Authority's assets including repair and maintenance, development and commercialisation of those assets.

External professional advice is taken where required and will always be sought in consideration of any major commercial property or investment decision.

13. Capital Programme Performance Monitoring

The Combined Authority Senior Management Team will review the financial performance of the capital programme on a regular basis.

Financial monitoring reports will be considered by the Combined Authority and Investment Committee at each of its meetings, together with a capital outturn report.

Where a potential cost overrun has been identified, the Combined Authority and Investment Committee will explore possible solutions in detail. It will also consider any underspending or identified surplus resources which can be reallocated to other priorities.

Where there is a delay in the commitment of programme/project resources, the Combined Authority requires programme / project managers / capital delivery leads to report the reasons for the delay and consider whether it would be appropriate to recommend the decommissioning of the project and the reallocation of non ring-fenced resources to other projects. It is recognised that there may be potential revenue consequences of doing this due to the capital accounting requirement to transfer abortive costs to revenue.

The Transport Committee meetings also includes monitoring reports on the implementation and delivery of the individual transport projects that they are responsible for in order provide additional oversight for specific schemes within their remit.

The performance of the capital programme is also measured by the prudential indicators which are reported as part of the Treasury Management Strategy and quarterly reviews with officers.

The Combined Authority annual Internal Audit Plan also includes a review of the capital programme and internal control environment that supports the decision making processes.

14. Investments for a Return

Beyond those investments for cash management purposes and for service enhancement the Combined Authority may also make investments, with a range of economic and social objectives in mind, but with a key element being on making a return on the investment. It is these types of investments which are the focus of this section of the Strategy.

The Combined Authority is an organisation heavily governed by statute and it is not a commercial organisation with the purpose of making a financial return for shareholders. Nonetheless like any organisation it does need to fund its activities and with more traditional funding sources, such as government grants, substantially decreasing, there is a need to look to more innovative ways of generating income. The financial return on investments being one such approach in addition to other intangible social and regeneration benefits these investments can yield.

The remainder of this section seeks to set out the nature of investments the Combined Authority will engage in and the circumstances in which it will do so.

Financial Investments

Financial Investments can fall into three categories, namely: Specified Investments, Loans and Non-specified Investments.

Specified and non-specified investments are only likely to be undertaken on either a short, or a long term basis as part of managing the Combined Authority's cash flows and are therefore covered by the Treasury Management Strategy rather than here.

Loans may also be used for treasury management purposes, but where they are used in support of service delivery objectives this is covered by the Loans and Guarantees Financial Instruction.

Non-Financial Investments

For the purposes of this strategy a non-financial investment is a non-financial asset held by the Combined Authority primarily, or partially to generate a surplus. This might be through an anticipated appreciation in the capital value of the asset, or by way of delivering a regular income stream, or a combination of both. However, in the current financial climate the emphasis is likely to be on assets that generate a regular income stream.

Although the Combined Authority remains open minded to consider a range of opportunities the high likelihood is that non-financial investments will involve property assets. Chosen carefully, property offers the opportunity for a higher yield and less volatility than financial investments, however, it is an illiquid asset and carries with it the inherent risk of being unable to respond quickly enough to changes in market conditions.

The Combined Authority is in the process of developing its Asset Management Strategy which will align with the Capital Strategy. It is anticipated that this strategy will include investment required, asset classes/ type, estimated revenue streams, risks, approach to lease, economic footprint, ethical value to the organisation.

15. Minimum Revenue Provision

Minimum Revenue Provision (MRP) is the charge to revenue made in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme. MRP, which is largely defined by regulation, is aimed at ensuring that the Combined Authority does not have time expired/fully depreciated assets whilst still holding associated outstanding debt.

For capital expenditure incurred on or after 1 April 2008 and funded through borrowing, MRP is calculated using the asset life annuity method. Using this method MRP is calculated in a similar way as calculating the capital repayment element of a fixed rate repayment mortgage. In accordance with provisions in the guidance, MRP will be first charged in the year following the date that an asset becomes operational.

The asset life annuity method calculation requires estimated useful lives of assets to be input in to the calculations. These life periods will be determined under delegated powers to the Chief Financial Officer, with regard to the statutory guidance.

However, the Combined Authority reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the asset life annuity method would not be appropriate.

As some types of capital expenditure are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

Recognising the impact of MRP on the revenue budget is an important element in determining the affordability and sustainability of borrowing to fund an asset. Essentially, if there is no on-going capacity within the revenue budget to afford the MRP then one shouldn't take out the borrowing in the first place. This is why a robust business case demonstrating a rate of return in excess of costs (including MRP) is important and to be considered as schemes progress through the Assurance Framework.

Annex A

CORE PRINCIPLES UNDERPINNING THE CAPITAL PROGRAMME

In considering schemes for inclusion in the capital programme, regard will be had to the following principles undertaken via the formal Assurance Framework:

- Strong strategic fit with existing SEP priorities;
- schemes to be included in the Capital Programme should follow an appropriate level of due diligence and assurance regarding deliverability /practicability (eg formal Assurance Framework);
- prior to mobilisation, all projects should be supported by an affordable and sustainable plan, including carefully consideration of value for money and options appraisal (eg benefit cost ratios);
- environmental and social sustainability issues should be built into project appraisal where appropriate
- capital appraisal should also promote schemes which provide a direct gain to the Combined Authority's revenues, including revenue savings, within agreed risk appetite, e.g. business rate growth, commercial investment return and "invest to save" outcomes;
- the financial implications of capital investment decisions will be properly appraised as part of the Assurance Framework;
- available resources will be identified for investment over the capital planning period;
- available capital funding will be optimised e.g. through surplus asset disposal strategy, maximising use of planning gain, by corporately pooling capital receipts and by exploring external financing sources;
- that capital funding decisions minimise or mitigate the ongoing revenue implications of capital investment decisions i.e. assessment made of lifetime cost and liabilities;
- the financial implications of capital investment decisions should be fully integrated into revenue budget and longer term financial plans i.e. lifetime cost and liabilities;
- robust governance arrangements are in place for all programmes and projects, clearly defining responsibility for the delivery of individual schemes within the capital programme;
- all capital schemes follow appropriate project management arrangements;
- there are effective working relationships with district partners and other delivery partners;
- that projects are reviewed on completion to ensure key learning opportunities are maximised;
- that projects are monitored throughout and upon completion to ensure anticipated benefits have been realised.

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Report to: Governance and Audit Committee

Date: 21 March 2019

Subject: Local Assurance Framework Review

Director: Melanie Corcoran, Director of Delivery

Author(s): Rachel Jones / Dave Haskins

1. Purpose of this report

- 1.1 To provide the Governance and Audit Committee with a further update on progress relating to changes proposed to the Leeds City Region Local Assurance Framework arising from its annual review, and with the recently issued review of the National Local Growth Assurance Framework (January 2019) and the Strengthened Local Enterprise Partnership report (July 2018).
- 1.2 To ask the Governance and Audit Committee to provide feedback on the final draft Local Assurance Framework.

2. Information

- 2.1 As reported at the Governance and Audit Committee in January, the LEP and Combined Authority are required to prepare a Local Assurance Framework as part of the Local Growth funding agreement. The framework must be reviewed annually, and uploaded onto the LEP's website. The deadline for this to be completed is 31 March 2019.
- 2.2 It covers all significant discretionary projects and programmes funded from Government or local sources that flow through the LEP and the Combined Authority, and has been prepared in accordance with HM Government Local Growth National Assurance Framework guidance (2019), and builds on a body of existing good practice. The LEP has to comply with this guidance for the relevant funding streams, but the principles are also applied to the Combined Authority as the accountable body for the LEP for all funding streams.
- 2.3 The 'Strengthened Local Enterprise Partnership' report sets out a number of Government commitments alongside a number of additional changes that Government will work with Local Enterprise Partnerships to implement. This has implications for the Local Assurance Framework, both for this review and the review for 2020, relating to the potential revisions to LEP geography.

- 2.4 A copy of the final draft Assurance Framework can be found in **Appendix 1**. The document has a new structure for this year, to reflect the requirements of the National Local Growth Assurance Framework. Much of the content of the new sections was in last year's update, but grouped together differently. A high level summary of the new structure can be found in **Appendix 2**.
- 2.5 The main updates required in order to be compliant with the revised National Local Growth Assurance Framework include:
- Requirement for the LEPs to set out arrangements regarding data protection, following introduction of the General Data Protection Regulations (GDPR)
 - A new requirement for LEPs to set out how contracts are managed and the LEP Board kept informed of progress
 - Further detail regarding the roles and responsibilities of the LEPs, and Section 151/73 Officers
 - Information relating to accountable body arrangements between the LEP and the Combined Authority
 - Detail to specify the role that is responsible for certain tasks, including ensuring value for money and scrutiny and recommendation for business cases and the final sign off for funding decisions
- 2.6 Other changes required to the Assurance Framework include an update to the delegated authority to reflect the recent changes to Investment Committee, and an update to reflect recent changes to stage 1 of the assurance process.
- 2.7 Section 151/Section 73 Officers are required to write to HM Government by 28 February 2019, ahead of next year's Local Growth Fund payment, to certify that the Combined Authority's Local Assurance Framework is expected to be compliant with the national framework by 31 March.

Next Steps

- 2.8 A final draft of the Local Assurance Framework will be presented to the LEP Board for approval on 26 March 2019. A working group of the Overview and Scrutiny Committee has provided input to the development of the updated version, as it has in previous years.
- 2.9 Feedback on the draft Local Assurance Framework from the Governance and Audit Committee will be forwarded to the LEP Board Chair, ahead of the LEP Board meeting.
- 2.10 It is envisaged that further changes will need to be made to the Local Assurance Framework as more projects move through the appraisal process, to reflect any future updates to guidance, feedback from the "Annual Conversation" with Government and as an evolution to the process as more projects are progressed.

2.11 It is anticipated that significantly more work will be required next year to ensure the wider changes to LEPs required as part of the Strengthened Local Enterprise Partnerships report and potential changes to the LEP geography are addressed in the Local Assurance Framework.

3. Financial Implications

3.1 None arising directly from this report. It should be noted that non compliance with government requirements in respect of the Combined Authority/LEP's Local Assurance Framework may impact on the receipt of Growth Deal and other funding.

4. Legal Implications

4.1 None arising directly from this report.

5. Staffing Implications

5.1 None arising directly from this report.

6. External Consultees

6.1 None.

7. Recommendations

7.1 The Governance and Audit Committee is asked to:

- (i) Note the changes that have been made to the Local Assurance Framework, as set out in this report.
- (ii) Provide any feedback on the draft updated assurance framework document, which will be forwarded to the LEP Board Chair ahead of the LEP Board meeting on 26 March 2019.

8. Background Documents

8.1 The National Local Growth Assurance Framework (2019)

8.2 Strengthening Local Enterprise Partnerships (2018)

9. Appendices

9.1 Appendix 1 – Local Assurance Framework DRAFT

9.2 Appendix 2 – Local Assurance Framework new structure

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Assurance Framework

13 March 2019

Version 1.03



In partnership with



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Executive summary

This is the Assurance Framework for the Leeds City Region Enterprise Partnership and the Combined Authority. It covers capital and revenue expenditure on projects and programmes funded by Government or local sources in the Leeds City Region. This includes funding received by the Combined Authority as the accountable body for the Leeds City Region Enterprise Partnership (LEP) in respect of the Local Growth Fund and a number of other funding streams.

The purpose of this Assurance Framework is to ensure that the necessary systems and processes are in place to manage funding effectively, and to ensure the successful delivery of Strategic Economic Plan (SEP) outcomes. Its focus is to ensure that necessary practices and standards are implemented to provide the Combined Authority, Government and local partners with sufficient assurance that decisions over funding (and the means by which these decisions are implemented) are proper, transparent and deliver value for money.

The document is set out as follows:

Section 1 – Introduction (page 6 onwards)

- Background, scope and purpose of the Assurance Framework, strategic priorities and the Combined Authority's role as accountable body for the LEP

Section 2 – Decision-Making Arrangements (page 13 onwards)

- Governance and key decision-making of the LEP and Combined Authority as the accountable body for the LEP

Section 3 – Transparency and Accountability (page 21 onwards)

- Arrangements to ensure transparent decisions are taken, including the role of audit, scrutiny, whistleblowing and requests for information and data protection. Additionally the LEP diversity statement

Section 4 – Local Engagement and Partnership Working (page 28 onwards)

- Outline of the arrangements and methodologies for engaging with stakeholders, cross LEP working and collaboration

Section 5 – Approach to prioritisation (page 31 onwards)

- Processes used to identify schemes and methodologies used to prioritise scheme

Section 6 – Assurance around programme and project delivery (page 35 onwards)

- The Assurance Process around project and programme delivery, including our approach to ensuring value for money

Section 7 – Monitoring and Benefits Realisation (page 52 onwards)

- Approach to monitoring and evaluation

Appendices of the Assurance Framework (page 57 onwards)

- Appendix 1 – Accountable body arrangements
- Appendix 2 – Section 73 Chief Finance Officer – responsibility arrangements
- Appendix 3 – Governance structures
- Appendix 4 – Economic services grants: delegation arrangements
- Appendix 5 – Assurance Process principles for ESIF Sustainable Urban Development (SUD) purposes
- Appendix 6 – Programme Appraisal Team (PAT) terms of reference

Glossary (page 78 onwards)

- Short description of key terms

This framework was reviewed by the Combined Authority on 14 February 2019 and the LEP Board on 26 March. It is compliant with the requirements set out in the National Local Growth Assurance Framework (2019) and Strengthened Local Enterprise Partnerships report (2018) and has been prepared in accordance with guidance issued by the Chartered Institute of Public Finance and Accountancy (the CIPFA guidance).

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1. INTRODUCTION

1.1 The Leeds City Region Enterprise Partnership

The Leeds City Region Enterprise Partnership (the LEP) is the strategic body responsible for a significant amount of public funding to drive inclusive growth, increase prosperity and improve productivity in the Leeds City Region.

It is an autonomous business-led public-private local partnership, which brings together the private and public sectors from across the Leeds City Region to provide strategic leadership.

The Leeds City Region spans 10 local authority areas: Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Leeds, Selby, Wakefield and York¹. Leeds City Region local authorities - these 10 areas plus North Yorkshire County Council - have been at the forefront of partnership working since 2004, building robust, transparent and accountable governance for over a decade.



The LEP vision for the Leeds City Region is: '**to be a globally recognised economy where good growth delivers high levels of prosperity, jobs and quality of life for everyone**'.

The LEP focusses its activities on the following:

Strategy: setting and developing strategy, including an evidence-based Strategic Economic Plan (SEP) [here](#) (to be replaced by the Local Industrial Strategy (LIS)) that identifies local strengths and challenges, future opportunities and the interventions

¹ The LEP is currently reviewing its geographical area, with a view to changes being implemented by April 2020.

needed to boost productivity, earning power and competitiveness across the Leeds City Region.

Allocation of funding: identifying and developing investment opportunities, prioritising the award of local growth funding; and monitoring and evaluating the impact of LEP activities to improve productivity across the local economy.

Co-ordination: using the LEP's convening power, and bringing together partners from the private, public and third sectors.

Advocacy: collaborating with a wide-range of local partners to act as an informed and independent voice for the Leeds City Region.

The LEP works collaboratively and in partnership with the West Yorkshire Combined Authority, as its accountable body – see further below.

1.2 The West Yorkshire Combined Authority

The West Yorkshire Combined Authority (the Combined Authority) was established on 1 April 2014² to work alongside the LEP in relation to devolved local growth funding and responsibilities. It supports business growth through its transport, economic development and regeneration functions, investing in economic infrastructure, and through its role in creating quality places.

The area of the Combined Authority is that of its five constituent Councils, the West Yorkshire authorities of Bradford, Calderdale, Kirklees, Leeds and Wakefield. It is the local transport authority for West Yorkshire.

York is a non-constituent council of the Combined Authority, and also appoints a Member to the Combined Authority. There is also a LEP Member on the Combined Authority³.

Further details about membership of the Combined Authority and its committees and panels are set out in Appendix 3.



² By the West Yorkshire Combined Authority Order 2014

³ Members from the wider Leeds City Region authorities are also appointed as voting members on some committees and panels of the Combined Authority.

1.3 The West Yorkshire Combined Authority's role as accountable body

The Combined Authority is the accountable body for the LEP, responsible for:

- carrying out finance functions on behalf of the LEP
- oversight of the LEP's financial and governance, transparency and accountability arrangements
- providing additional support as agreed by the LEP.

As accountable body, the Combined Authority is accountable to Government for complying with any conditions or requirements attached to funding allocated to LEP, or to the Combined Authority in its own right.

Appendix 1 to this Assurance Framework sets out the accountable body arrangements which the LEP has agreed with the Combined Authority.

The statutory Section 73⁴ **Chief Finance Officer** of the Combined Authority as accountable body, is responsible for overseeing the administration of the Combined Authority's financial affairs. This role is extended to include the financial affairs of the LEP.

The Section 73 Chief Finance Officer has a critical role in maintaining good governance and standards for the LEP, in particular compliance with this Assurance Framework.

Appendix 2 to this Assurance Framework sets out the responsibility arrangements for the Chief Finance Officer.

The Chief Finance Officer is required to formally report to the Ministry of Housing, Communities and Local Government on an annual basis, confirming compliance with the Assurance Framework.

1.4 Links between the LEP and the West Yorkshire Combined Authority

There are a number of strong linkages between the LEP and the Combined Authority, notably:

- the LEP Chair is a member of the Combined Authority
- the SEP forms the basis of the work of both the LEP and the Combined Authority
- West Yorkshire council leaders are members of both the LEP and the Combined Authority
- the Assurance Framework is adopted by both the LEP and the Combined Authority
- The Chief Executive Officer of the LEP is also the Managing Director of the Combined Authority.

⁴ Section 73 of the Local Government Act requires the Combined Authority to appoint an officer to be responsible for the proper administration of the authority's financial affairs. This role is carried out by the Combined Authority's Director of Corporate Services.

These strong linkages between the LEP and the Combined Authority mean that by working together:

1. Partnership is deepened
2. The collective voice of the region is stronger nationally and internationally
3. Costs are minimised, and efficiency maximised
4. It is easier and more efficient to produce joined up policy and delivery.

1.5 Scope of the Assurance Framework

This is the Assurance Framework for the Leeds City Region Enterprise Partnership and the Combined Authority. Agreeing and adopting a single Assurance Framework recognises that both the LEP and the Combined Authority seek to drive growth, through place-based and locally-controlled polices and funds and reflects the close relationship between the LEP and the Combined Authority as its accountable body.

This Assurance Framework covers capital and revenue expenditure on projects and programmes funded by Government or local sources in the Leeds City Region. This includes funding received by the Combined Authority as the accountable body for LEP funding in respect of the Local Growth Fund and a number of other funding streams.

The rest of this Assurance Framework sets out arrangements adopted by the Leeds City Region in relation to:

- governance and key decision-making arrangements (**Section 2**)
- transparency and accountability (**Section 3**)
- local engagement and partnership working (**Section 4**)
- approach to prioritisation (**Section 5**)
- the assurance around project and programme delivery, including ensuring value for money (**Section 6**)
- approach to monitoring and evaluation (**Section 7**).

1.6 Purpose of the Assurance Framework

The purpose of this Assurance Framework is to ensure that the necessary systems and processes are in place to manage funding effectively, and to ensure the successful delivery of Strategic Economic Plan (SEP) outcomes⁵. Its focus is to ensure that necessary practices and standards are implemented to provide the Combined Authority (as the accountable body for the LEP), Government and local partners with sufficient assurance that decisions over funding (and the means by which these decisions are implemented) are proper, transparent and deliver value for money.

The Seven Principles of Public Life (the Nolan principles)⁶ underpin this Assurance Framework to ensure that the LEP and the Combined Authority, their members and officers are upholding the highest standards of conduct and ensuring robust stewardship of the resources they have at their disposal.

⁵ The priorities of the SEP are: 1. Growing business, 2. Skilled people better jobs, 3. Clean energy and environmental resilience, 4. Infrastructure for growth

⁶ These are selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

The Assurance Framework is one element of the Government's wider assurance systems. The Accountability System Statements for both Local Government and the Local Growth Fund (LGF) set out other key mechanisms in relation to the City Region funding which include:

- regular reporting to the government against agreed output metrics
- an evaluation framework
- annual performance conversations between the government and city regions

The Assurance Framework is a key mechanism to ensure that robust systems and processes are in place to support the developing confidence in delegating funding from Government to the Leeds City Region.

The Assurance Framework is viewed as an essential part of good practice and of our development as a mature partnership that can increasingly be trusted by the public and by government to take its own investment decisions. The degree of flexibility in the Leeds City Region Growth Deal demonstrates that the City Region is one of those most trusted by government, and it is intended that this Assurance Framework keeps us at the leading edge in our approach to governance and appraisal.

1.7 Strategic framework for investment

Following publication of the Government's Industrial Strategy White Paper (November 2017), the LEP and Combined Authority supported an approach to build on and ultimately replace the SEP and broaden the City Region's policy range by working towards the development of a new, agile, long-term strategic framework, incorporating the Local Industrial Strategy (LIS). Based on robust evidence and demonstrating a clear understanding of the key strengths, assets and challenges in Leeds City Region, the new framework will focus on tackling the key challenges agreed by the LEP Board in 2018:

- the City Region's productivity gap is too large and growing
- Investment, particularly private investment, in research and development is too low
- living standards in the City Region have stalled
- stubborn deprivation persists.

The new framework will:

- reflect the City Region's expanded policy remit
- ensure Combined Authority and LEP strategies are aligned with a clear focus on tackling the above challenges and delivering inclusive growth outcomes
- maximise strategic assets and strengths e.g. a concentration of science, research and innovation assets; globally-competitive manufacturing sector and vibrant digital-tech sectors, including medical technologies
- place the City Region on the front-foot with an ambitious policy platform that improves competitiveness and ensures the benefits are shared fairly.

Outputs and deliverables for this work will include:

- **City Region Strategic Framework:** overarching framework that will replace the SEP; setting out specific, achievable and long-term ambitions and priorities, relating to evidence and specific challenges and future opportunities
- **Evidence:** setting out a robust and open evidence base, drawing out the relative strengths and weaknesses, with a greater emphasis on productivity and inclusive growth
- **Strategy development:** an agreed revised set of strategies and Implementation Plans, including a Local Industrial Strategy (LIS)
- **City Region Impact framework:** development of the ‘good growth’ impact framework presented in the SEP to further embed inclusive growth measures, ensuring that will investment will create better, more secure jobs that provide people with a real pathway to an improved quality of life
- **Output and outcome measures:** refinement of existing key performance indicators to reflect a broader policy range and inclusive growth. These will be used to inform programme and project level appraisal and evaluation frameworks, including the strategic and economic case assessments
- **Evaluation:** set out clear plans to evaluate progress, drawing on lessons of policy evaluation such as the What Works Centre for Local Economic Growth

It was also agreed that work would begin on the development of a Local Industrial Strategy (LIS) which will sit at the heart of the new framework aimed at driving growth, boosting productivity and earning power for a post-2030 economy. The development of a LIS for the City Region provides an opportunity to improve the productivity of the economy and deliver economic inclusion so benefits are felt by all, and firms become more competitive for a new international trading environment. The Government has stated that it will sign off all Local Industrial Strategies by early 2020 and the Combined Authority / LEP is working towards the production of a new strategic framework and Local Industrial Strategy within this timeframe.

In response to the recommendations set out in the Government’s ‘Strengthened Local Enterprise Partnerships’ review⁷, Leeds City Region and York, North Yorkshire, and East Riding (YNYER) LEPs submitted a proposal in support of a new LEP geography. If the proposal is accepted by Government, the new LEP will be fully functioning by April 2020. Plans are in place to align existing strategies and will be reflected in future developments.

1.8 Reviewing, approving and publishing the Assurance Framework

The LEP and the Combined Authority review the Assurance Framework annually to ensure that it meets:

- the needs of local investors, all our partners and the wider public
- the standards set out in the National Local Growth Assurance Framework, [here](#)

⁷ The review specified actions required by Government to strengthen LEPs in respect of *Leadership & Capacity* and *Accountability & Performance*. Following steps taken in January 2018 to make the Leeds City Region LEP among the most transparent in the country, it was well placed to address the new requirements.

The review includes input from the Combined Authority's Overview and Scrutiny Committee.

The Assurance Framework was reviewed by the LEP Board on 26 March 2019 and by the Combined Authority on 14 February 2019.

The Framework complies with the standards set out in the revised National Assurance Framework issued by Government in January 2019.

The Assurance Framework is a 'live' document, and may be subject to further revision and update to ensure that it remains fit for purpose. For transparency, the Assurance Framework is published on the LEP and the West Yorkshire Combined Authority websites, together with supporting information.

The Assurance Framework is reviewed annually and signed off by the LEP Board, the Combined Authority and the Section 73⁸ Chief Finance Officer.

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⁸ Appointed under Section 73 Local Government Act 1985

2. DECISION-MAKING ARRANGEMENTS

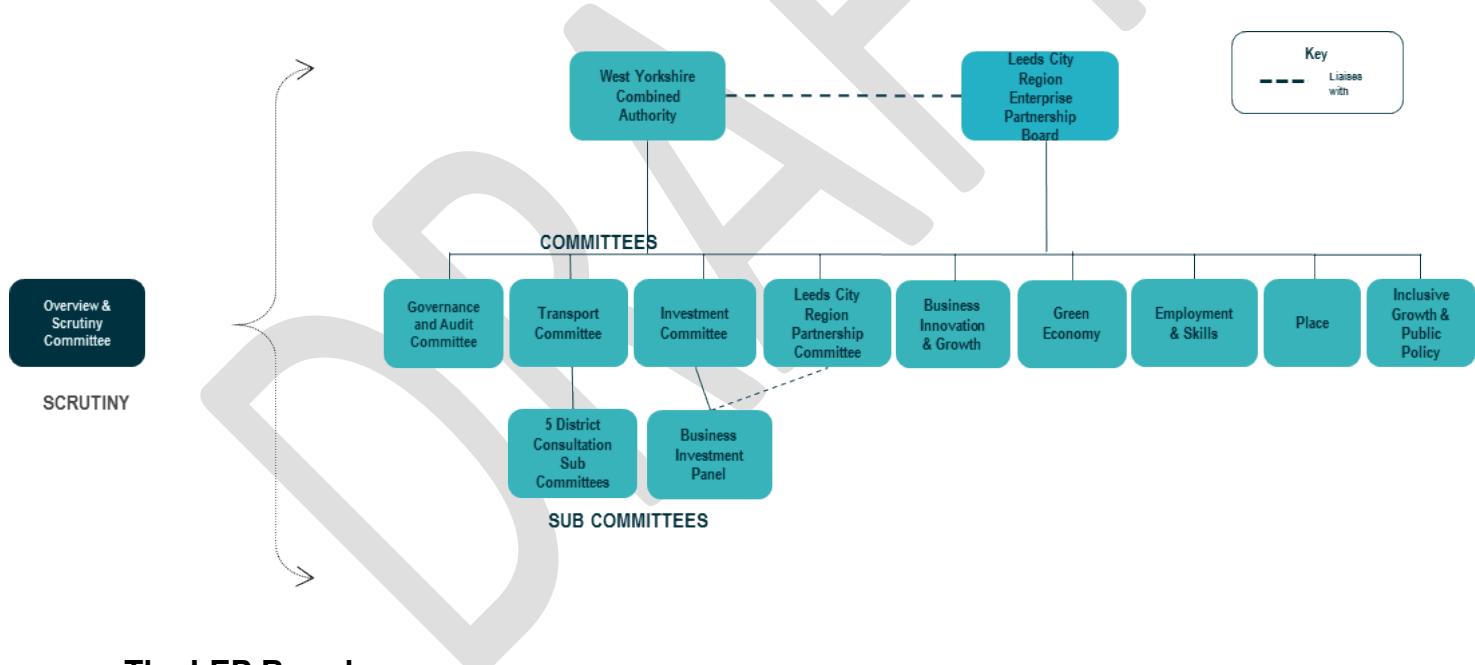
2.1 Introduction

As set out in Section 1, the principal decision-making bodies for the Leeds City Region are the Leeds City Region Enterprise Partnership (the LEP) and the West Yorkshire Combined Authority (the Combined Authority).

The LEP's accountability and decision-making arrangements benefit from being integrated with the Combined Authority. This means the LEP shares sub-board structures with the Combined Authority, ensuring joined-up decision-making while reflecting the particular roles set in this Assurance Framework. Government has recognised this brings clearer governance and transparency. Integration also provides for seamless processes in respect of strategy and delivery and significant efficiencies.

A structure chart of the LEP and Combined Authority is set out below in Figure 2.1:

Figure 2.1: Governance structure



The LEP Board

The LEP is responsible for setting strategic direction and will hold partners to account in the delivery of our strategic objectives. Responsibility for LEP decision-making rests with its LEP Board⁹, the decision-making forum for the LEP.

The LEP's Constitution can be found [here](#).

Key roles and responsibilities of the LEP Board include providing high quality leadership by:

⁹ The LEP Board may delegate decisions in accordance with the LEP's Constitution and the LEP Board's Procedure Rules

- setting the strategic direction for the sustainable economic growth of the Leeds City Region economy
- proposing key objectives and investment priorities to deliver the overall vision and strategy of the LEP
- overseeing the delivery of the SEP
- leading the development of Enterprise Zones in the Leeds City Region
- agreeing funding criteria, leading and coordinating funding bids and leveraging funding from the private and public sector to support the delivery of agreed LEP priorities
- working with the Combined Authority to set the forward strategy for attracting new financial and business investment into the area
- jointly approving a Business Plan and performance reporting with the Combined Authority on its plans and the SEP
- influencing key sub-regional, regional, national and international strategies
- publishing an annual report
- providing a link to Government on all aspects of the LEP's work.

Additional information on the LEP's transparency and accountability arrangements is set out in Section 3, supplemented by Appendices 1, 2, and 3.

Appendix 3 provides more information about the membership arrangements of the LEP Board.

The Combined Authority

As set out in Section 1, the Combined Authority is the accountable body for funding allocated to the LEP, as well as the publicly accountable decision-making body in respect of the Combined Authority's statutory functions. Appendix 3 provides more information about the membership of the Combined Authority.

Additional information on transparency and accountability arrangements is set out in Section 3, supplemented by Appendices 1, 2 and 3.

Appendix 3 provides more information about the membership arrangements of the Combined Authority.

2.2 Substructures of the LEP and the Combined Authority

2.2.1 Advisory Panels

The following advisory panels appointed by the Combined Authority¹⁰ report to the LEP. Their focus is on policy development, including criteria for the allocation of LEP funding. Panels are usually chaired by a LEP Board private sector or public sector representative.

¹⁰ These are advisory committees of the Combined Authority

Table 2.1: Advisory Panels to the LEP and Combined Authority

| | |
|---|---|
| Business Investment Panel | <p>This panel has a key role in the assurance process for the appraisal of business grants and loans in the City Region, carrying out due diligence in respect of funding applications.</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Panel can be found here. An advisory sub-committee of the West Yorkshire and York Investment Committee (see below), this Panel has representatives from the private sector and local authorities, some of whom are members of the LEP Board.</p> |
| Business Innovation and Growth Panel | <p>This panel advises the LEP and the Combined Authority in relation to business growth, including business support, innovation, digital, trade, and inward investment. Made up of representatives from the private sector, universities, policy-makers and delivery partners, this Panel ensures that our work is driven by the needs of business.</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Panel can be found here.</p> |
| Employment and Skills Panel | <p>This Panel brings employers together with local authority representatives and skills providers. It advises the LEP and the Combined Authority in relation to employment and skills within the City Region, for example, projects to address skills gaps in the City Region's key industry sectors, and create local leadership that drives improvements in skills and employment. Their work is driven by the needs of employers and the City Region's economy.</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Panel can be found here.</p> |
| Green Economy Panel | <p>This Panel brings together local authority and private sector representatives in the City Region, to advise the LEP and the Combined Authority in relation to environmental sustainability and achieving a zero carbon economy in the City Region.</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Panel can be found here.</p> |
| Place Panel | <p>Comprising local authority and private sector representatives, this Panel advises the LEP and the Combined Authority on promoting the quality of place in the City Region, including relation to housing growth, quality and regeneration, infrastructure planning, strategic land use and asset management, sustainable development and enterprise zones.</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Panel can be found here.</p> |

**Inclusive
Growth and
Public
Policy Panel**

This Panel advises the LEP and the Combined Authority in relation to securing inclusive growth throughout the Leeds City Region.

The terms of reference, membership, meeting dates, agenda items and minutes of the Panel can be found [here](#).

2.2.2 Decision-making committees

The Combined Authority has also appointed the following decision-making committees:

**Transport
Committee**

The Transport Committee has authority to progress schemes under the Assurance Framework, as set out in section 2.3 below.

In relation to transport-related investment, the Committee also has a specific role in liaising with the West Yorkshire and York Investment Committee to promote the strategic alignment of regional transport funding investment.

More generally, in accordance with the policies and strategies set by the Combined Authority, the Transport Committee meets to consider matters relating to its statutory transport functions. The Committee also oversees, and has strategic oversight of, public transport revenue expenditure funded by the West Yorkshire transport levy.

The terms of reference, membership of the Committee, the dates of future meetings and agenda items can be found [here](#).

**West
Yorkshire
& York
Investment
Committee**

The West Yorkshire and York Investment Committee has authority to progress schemes under the Assurance Framework, as set out in section 2.3 below.

In relation to transport-related investment, the Committee also has a specific role in liaising with the Transport Committee to promote the strategic alignment of regional transport funding investment.

The Committee is also authorised to advise the Combined Authority in relation to any function of the Combined Authority relating to economic development and transport-led regeneration. This includes advising on proposed funding submissions and reviewing the impact of schemes funded by the LEP and the Combined Authority.

The terms of reference, membership, future meeting dates and agenda items of the Committee can be found [here](#).

2.2.3 Other committees of the Combined Authority

| | |
|--|--|
| Overview and Scrutiny Committee | <p>This is a statutory committee of the Combined Authority which reviews and scrutinises decision-making by the LEP and by the Combined Authority (including in its role as accountable body for the LEP). See further section 3.8 for more detail.</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Committee can be found here.</p> |
| Governance and Audit Committee | <p>This committee fulfils the Combined Authority's statutory requirement to appoint an audit committee. It also carries out functions relating to promoting standards of conduct. See further section 3.7</p> <p>The terms of reference, membership, meeting dates, agenda items and minutes of the Committee can be found here.</p> |
| Leeds City Region Partnership Committee | <p>This committee provides a forum to bring together local authority representatives from all of the Leeds City Region authorities, to facilitate direct collective engagement with the Combined Authority, as the LEP's accountable body.</p> <p>The Committee advises the Combined Authority in relation to its role as accountable body. It also acts as a consultative forum on any matter referred to it by the Combined Authority, which may include matters raised by local authorities not represented on the Combined Authority, or by the LEP Board.</p> <p>The terms of reference, membership, meeting dates and agenda items of the Committee can be found here.</p> |

2.2.4 Business Communications Group

This group reports to the LEP Board. It is made up of spokespeople from key business representative organisations in the City Region. They play an active role in supporting business growth in the region by helping to coordinate effective communications between the LEP and the business community. They also act as an advisory group to the LEP Board; consulting with their members on barriers to growth and ensuring businesses are at the heart of all of our activities.

The Chair of BCG is the identified LEP Board member to represent the SME business community. See further section 4.1 for more detail.

The full list of membership can be found [here](#).

2.3 Investment Decisions – progress through the assurance process

All investment decisions are made by reference to:

- the SEP (until superseded by the Local Industrial Strategy)
- statutory requirements

- any grant conditions attached to funding
- local transport objectives

Decisions are based on merit, taking into account all relevant information available at the time.

All investment decisions are taken in accordance with the Assurance Process stages and activities, subject to agreed exceptions (such as small grant programmes, for example business growth grants and loans, where alternative arrangements are in place).

Section 6.2 sets out in detail the Assurance Process for schemes, and the decision points that take place at the end of each activity. These are summarised in Figure 2.2 below:

Figure 2.2: Overview of the Assurance Process



Subject to the exceptions **all schemes require approval from the Combined Authority at Decision Point 2 (Strategic Outline Case (SOC))**, in order to proceed to Stage 2: Development.

The Combined Authority also sets a bespoke approval pathway and approval route to be followed at all subsequent decision points in the Assurance Process for each scheme – see further information in section 6.3.7. In setting the bespoke approval pathway, the Combined Authority will take into account recommendations from the West Yorkshire and York Investment Committee, who consider in detail the size/scale/sensitivity/risks (i.e. the tolerances) around each specific scheme.

A bespoke approval pathway may delegate decisions to the Transport Committee, the West Yorkshire and York Investment Committee, or to the Combined Authority's Managing Director, subject to any scheme staying within agreed tolerances.

Possible options include:

- a scheme must be considered and gain the approval of the Combined Authority at each decision point during its development; or
- a scheme's approvals at subsequent decision points may be delegated to the West Yorkshire and York Investment Committee and/or the Managing Director, subject to scheme tolerances set at decision point 2 (SOC); or
- a scheme's approvals at subsequent decision points may be delegated to the Managing Director, provided that the project remains within scheme tolerances set at decision point 2 (SOC); or
- a scheme's approvals may be delegated to the Managing Director up to an identified decision point, at which point, the scheme should be referred back to the West Yorkshire and York Investment Committee and/or the Combined Authority for review or approval.

The Combined Authority must take any investment decision which has not been delegated to either the Transport Committee, the West Yorkshire and York Investment Committee or the Managing Director, including those decisions where a scheme has fallen outside of the tolerances identified by the Combined Authority.

Before taking any funding decision, a decision-maker needs to be satisfied that the Assurance Framework has been complied with. The Combined Authority's Programme Appraisal Team (PAT) has a key role in ensuring compliance with the Assurance Framework - see further Section 6.3.5 below.

The specific decision-making authority of the Transport Committee and the West Yorkshire and York Investment Committee in relation to progressing schemes under the Assurance Framework are as follows:

| | |
|---|---|
| Transport Committee | The Committee has authority to approve individual schemes within the Integrated Transport Block of the Capital Programme, up to a maximum cost of £3 million. (For schemes over £3 million, approval is given by the Combined Authority). |
| West Yorkshire & York Investment Committee | The Committee has authority to make any decision to progress a scheme ¹¹ under the Assurance Framework ¹² in accordance with any bespoke approval pathway and approval route for the scheme ¹³ , as delegated by the Combined Authority. |

Any investment decision taken by the Managing Director under delegated authority, is usually taken in consultation with the Combined Authority's Senior Leadership Team. The Managing Director reports their delegated decisions to the West Yorkshire and York Investment Committee.

The Managing Director also has delegated authority to approve the terms of any funding agreement in respect of a scheme, which has previously been approved by the Combined Authority or under delegated authority under decision point 5 (final costs and legal agreement approval).

2.4 Growth Service, Economic Development Loans and Business Grants

There are currently specific arrangements in place in relation to the approval and appraisal of business grants and economic development loans.

¹¹ Including determining change requests

¹² After decision point 2 (SOC) only

¹³ With the exception of those cases where the decision would result in a revised financial approval which exceeded the cumulative total of the financial approval and tolerance threshold agreed by the Combined Authority at decision point 2 (SOC), or decision point 3 (OBC) by more than 25%, in which case the decision must be taken by the Combined Authority.

| | |
|-----------------------------------|--|
| Growth Service | <p>The Growth Service for the City Region is funded directly from Business, Energy and Industrial Strategy (BEIS). BEIS is funding the Growth Service at £512,500 per year in 2018/19 and 2019/20.</p> <p>SME Growth Managers operate within the City Region's local authority partner councils, and their salaries are matched on a 50/50 basis by the local authorities who also employ them.</p> <p>Detailed progress on the Growth Service project is reported on a quarterly basis to the Business Innovation and Growth (BIG) Panel, and on a 6-weekly basis to the LEP Board by the BIG Panel Chair. There is also a private sector lead on the BIG Panel for the Growth Service, who runs their own small business(es).</p> <p>The BIG Panel is responsible for reviewing whether the project's output and expenditure targets are met, and for identifying and addressing risks and opportunities.</p> <p>In addition, detailed six-monthly reports and quarterly financial claims are sent to BEIS.</p> |
| Economic Development Loans | <p>Using a framework set out by the LEP, decisions are taken about entering into economic development loans for the Growing Places Fund, following consideration of the recommendations made by the Business Investment Panel (which has public and private sector representatives) and the West Yorkshire and York Investment Committee. The Combined Authority approves projects and the loan amount in principle and the Managing Director under their delegated authority finalises and approves the details, following appropriate due diligence.</p> <p>If there is an objection or issue in relation to an application, the Managing Director refers the application back to the Combined Authority for further consideration.</p> <p>If a loan or grant application comes from the wider Leeds City Region area (Barnsley, Craven, Harrogate, and Selby) then the Leeds City Region Partnership Committee is consulted.</p> <p>The Managing Director reports decisions on loans and grants made under delegated authority, to subsequent Combined Authority meetings.</p> |

Arrangements in relation to **economic services grants** are set out in Appendix 4 of the Assurance Framework. In addition, arrangements relating to the principles for ESIF Sustainable Urban Development (SUD) purposes are set out in Appendix 5.

3. TRANSPARENCY AND ACCOUNTABILITY

3.1 Transparency

The Combined Authority and the LEP are mindful of the need to build the trust and confidence of stakeholders and the public, in relation to our ability to take investment decisions. Promoting transparency in its decision making is a key part of this. We are committed to keeping records which demonstrate that all of our legal obligations are met and all other compliance requirements placed upon us, and these are accessible as set out below.

The Combined Authority designates a statutory **Monitoring Officer** who is responsible for ensuring that decisions conform to the relevant legislation and regulation¹⁴. This role is carried out by the Combined Authority's Head of Legal and Governance Services, who is responsible for providing legal advice to the LEP and the Combined Authority. A key part of the Monitoring Officer's role is ensuring that the legal responsibilities of the Combined Authority as accountable body in relation to ensuring the transparency provisions are met, as set out below.

The Monitoring Officer also has a key role in relation to conduct, including maintaining and publishing registers of interest for the LEP and the Combined Authority – see further below.

3.2 Meetings

Agenda, reports and minutes of **the LEP Board** are published on the Combined Authority's website, which is accessible from the LEP website, as well as the SEP and information relating to progress on delivery of all programmes. Agendas and reports (except any information which is confidential or exempt) are published five clear days before a LEP Board meeting in accordance with the LEP Board's Procedure Rules and the Access to Information Annex which can be found [here](#).¹⁵

These Rules also set out more detail on decision-making, including quorum arrangements for meetings of the LEP Board. All meetings of the LEP Board are open to the public, (including the LEP's annual meeting), except to the extent that the public are excluded in relation to confidential or exempt information in accordance with the LEP Board's Procedure Rules and the Access to Information Annex.

Minutes of each meeting are published in draft within ten clear working days of a meeting taking place. The final minutes are published within ten clear working days of being approved.

A process for the LEP Chair to take urgent decisions outside of LEP Board meetings is set out in the LEP Constitution [here](#). This provides for any such decision to be reported to the next meeting of the LEP Board and recorded and published in the

¹⁴ The Monitoring Officer is required by law to formally report to the Combined Authority where it appears to the Monitoring Officer that any proposal, decision or omission of the Combined Authority is unlawful or amounts to maladministration.

¹⁵ The Combined Authority will notify the Cities and Local Growth Area Lead when these are published, who has an open invitation to attend meetings as an observer.

minutes of that meeting. This power may be exercised, for example, to approve amendments to LEP governance documents, in order to comply with government requirements.

Specific statutory requirements apply to the **Combined Authority** in relation to transparency. Additionally it also complies with a number of good practice recommendations. The key arrangements in place are:

- the public's right to attend meetings and inspect documents of the Combined Authority as set out in its Procedure Standing Orders
- meetings of the Combined Authority are live streamed, enabling the public to watch the meeting over the internet
- notice of any up and coming key decision will be published on the Combined Authority website twenty eight days in advance of the decision
- agendas and reports of meetings of the Combined Authority and its committees (including advisory panels) are available to the public on its website, five clear days before a meeting [here](#)
- minutes of meetings are published on the Combined Authority website
- business case summaries of all projects/programmes coming forward for a decision are published on its website. Summaries of projects/ programmes can be found [here](#)
- key decisions taken by officers are published on the Combined Authority website
- The Combined Authority adheres to the Local Government Transparency Code which requires the publication of additional data

3.3 Diversity Statement

Leeds City Region is committed to achieving diversity and equality of opportunity both as a partnership and as a commissioner of services. The LEP promotes equality of opportunity and does all it can to ensure that no member of the public, service user, contractor or staff member working within a partner organisation will be unlawfully discriminated against. Our Equality and Diversity Policy including Diversity Statement can be found [here](#).

3.4 Requests for information and Data Protection

The Combined Authority is subject to the Freedom of Information Act 2005 and the Environment Impact Regulations 2000, and responds to statutory information requests in accordance with approved procedures.

The Combined Authority also deals with any requests for information from the LEP on its behalf, in accordance with the same procedures. Further information on the Combined Authority's Freedom of Information Policy can be found [here](#).

The Combined Authority is subject to the General Data Protection Regulation and Data Protection Act 2018 and must by law appoint a Data Protection Officer (DPO). The DPO¹⁶ assists the Combined Authority on the monitoring of compliance with the

¹⁶ The DPO sits within the Combined Authority's Legal and Governance Services team

data protection legislation advises on data protection obligations, provides advice regarding Data Protection Impact Assessments and is the contact point for data subjects and the supervisory authority.

The LEP and Combined Authority respects and is committed to protecting the individual with personal information. Our privacy notice can be found [here](#)

Requests made by data subjects under the General Data Protection Regulation and Data Protection Act 2018 will be dealt with in accordance with approved procedures.

The Combined Authority's Data Protection Policy can be found [here](#) and privacy notice issued by the LEP can be found [here](#)

3.5 Information about business cases

An overview of all scheme business cases and evaluation reports are published on the Combined Authority website. A nominated point of contact is made available to receive public and stakeholder comments.

Summaries of business cases to be considered by the West Yorkshire and York Investment Committee as part of the Assurance Process (See Sections 5 and 6) are published electronically ahead of meetings to allow for external views to be sought. There are exceptions to this rule in respect of commercial confidentiality. Links to the business case summaries following project approvals at key decision points can be found on the Combined Authority's project pages [here](#)

3.6 Use of resources and accounts

The use of resources by the Combined Authority are subject to the usual local authority checks and balances, including the financial duties and rules which require councils to act prudently in spending. These are overseen by the Combined Authority's Section 73 Chief Finance Officer¹⁷, its Director of Corporate Services. This post has statutory responsibility to administer the Combined Authority's financial affairs, and is responsible for ensuring that funding is used legally and appropriately. The Section 73 Chief Finance Officer's role extends to the LEP - see further Section 1.3 above and Appendix 2. All reports to the LEP Board must include any written advice on the matter provided by the Combined Authority's Section 73 Chief Finance Officer and Monitoring Officer.

The Combined Authority has clear accounting processes in place to ensure that all funding sources are accounted for separately and that funds can only be used in accordance with formal approvals made under the LEP and Combined Authority decision making arrangements.

The Combined Authority has a statutory duty to keep adequate accounting records and prepare a statement of accounts in respect of each financial year. This statement of accounts is [published](#) (usually in June in draft and in September as fully audited, although this may change in accordance with legislative requirements), and will cover expenditure from the Local Growth Fund and other funding sources

¹⁷ Appointed under Section 73 of the Local Government Act 1985

received from Government. A separate financial statement for LEP expenditure is planned for 2018/19.

The Combined Authority will publish a public notice each year, setting out a specific period during which any person may inspect and make copies of the Combined Authority's accounting records for the financial year.

During the same period, the local auditor must give a local government elector (someone registered to vote in the local elections) within West Yorkshire (or their representative) an opportunity to question the external auditor about the accounting records, and objections may be made to the auditor about any relevant item.

3.7 Audit

The Combined Authority complies with statutory requirements relating to audit arrangements, principal elements of which are:

- appointing an **audit committee**
- inspection by **external auditors**
- adopting **internal audit arrangements**

These audit arrangements apply to the LEP and to LEP funding in respect of which the Combined Authority is the accountable body.

The Combined Authority's Governance and Audit Committee fulfils the requirement to appoint an **audit committee**. By law this must include at least one independent person. The independent person chairs the Committee.

The terms of reference, membership, meeting dates, agenda items and minutes of the Committee can be found [here](#).

An annual independent audit is conducted by **externally appointed auditors** ensuring the Combined Authority operates a robust financial management and reporting framework, including in relation to the LEP.

The Combined Authority's **internal audit** function carries out independent and objective appraisals of relevant systems and processes, including ensuring that effective procedures are in place to investigate promptly any alleged fraud or irregularity. The Combined Authority's internal auditors provide assurances to the Combined Authority (through its audit committee, the Section 73 Chief Finance Officer) and to the LEP.

The Combined Authority's financial regulations set out further detail in relation to the Combined Authority's audit arrangements (found [here](#)).

3.8 Scrutiny

To secure independent and external scrutiny of decisions, the Combined Authority's statutory Overview and Scrutiny Committee reviews and scrutinises decision-making by the LEP and by the Combined Authority.

No member of the Combined Authority or the LEP may be appointed to the Committee. The terms of reference, membership, meeting dates, agenda items and minutes of the Committee can be found [here](#).

The Committee may produce independent reports and make recommendations on any matter considered by the LEP or relating to LEP governance. It may also review or scrutinise any Combined Authority decision in its role as accountable body for the LEP.

The LEP may also seek input from the Committee on any issue relating to policy and strategy development, or otherwise.

The Committee operates in accordance with Scrutiny Standing Orders, which can be found [here](#). These provide for the committee to require any member of the Combined Authority (including the LEP Member or a Chair of any committee or Panel) to attend to answer questions or provide information.

Further details on the LEP's agreement with the Combined Authority (in its role as Accountable Body) in respect of scrutiny arrangements are set out in **Appendix 1**.

The Overview and Scrutiny Committee has a specific power, in accordance with its Scrutiny Standing Orders, to "call in" decisions¹⁸ for further scrutiny after they are made. If the threshold of five scrutiny members, with at least two from different local authority areas, is met the Committee may instruct that the implementation of a decision be deferred while post-decision scrutiny takes place and make recommendations to the decision maker.

In anticipation of new statutory scrutiny guidance due to be published by the Government early this year, the Committee is also seeking to review the effectiveness of current scrutiny arrangements with a view to strengthening its role in terms of undertaking pre-decision scrutiny in relation to impending project approvals.

To support pre-decision scrutiny, officers will maintain a forward plan of projects in development and anticipate timescales and decision-point milestones and make this forward plan available to scrutiny members to review periodically on request.

Following the technical appraisal of business cases by case officers and subsequent consideration by the Programme Appraisal Team (PAT), officers will ensure that the relevant documents, information and analysis relating to each project can be made available to scrutiny members on request.

Schemes might be selected for further scrutiny based on a sectoral mix around cost, risk, complexity, aimed benefits or strategic value – as determined by the Committee's priorities and work programme. Scrutiny members could then look closer at a particular project or selection of projects.

Officers will support scrutiny members to have the opportunity to review projects, raise any concerns and ensure comments are reported and brought to the attention

¹⁸ Key decisions include investment decisions at decision point 2 of the Assurance Process.

of decision making committees and officers prior to the approval and progression of projects through decision points.

The pre-decision scrutiny review process serves as an important function in parallel to the Assurance Process, not as an additional step to delay the progress of projects in development as a matter of course.

3.9 Code of Conduct and Managing Conflicts of Interest

The LEP Board

The LEP is committed to ensuring that LEP Board members and officers demonstrate the highest standards of conduct, and act solely in the public interest. All LEP Board members are subject to a LEP Board Members' Code of Conduct [here](#) which reflects the Nolan Principles of public life:

- 1) Selflessness
- 2) Integrity
- 3) Objectivity
- 4) Accountability
- 5) Openness
- 6) Honesty
- 7) Leadership

The LEP Board Code of Conduct also requires LEP Board members to declare and register:

- acceptance or receipt of an offer of a gift or hospitality
- specific pecuniary and non-pecuniary interests

A register of the interests disclosed by each LEP Board member is accessible from the LEP website and published on the Combined Authority website. The Code sets out comprehensive requirements in relation to declaring interests at meetings, and the circumstances in which a conflict of interest will preclude a LEP Board member from participating in decision-making.

At the beginning of each meeting, all members present are asked to declare any potential conflict of interest. These declarations are minuted.

The LEP has also approved arrangements under which allegations that the Code of Conduct has been breached can be investigated and for making decisions on such allegations. These can be found [here](#).

The Combined Authority

Statutory provisions require the Combined Authority to adopt a Members' Code of Conduct which applies to members of the Combined Authority and to voting members of committees and panels appointed by the Combined Authority, including the advisory panels which report to the LEP. The Code sets out the conduct expected of members, including procedures for declaring and registering:

- acceptance or receipt of a gift or hospitality
- disclosable pecuniary interests, which are defined by the code

The Code is publicly available [here](#).

Failing to comply with requirements for registering and disclosing pecuniary interest may be a criminal offence.

Members' interests are publicly available on the Combined Authority website through each of the Committee home pages [here](#).

The Combined Authority has also approved arrangements under which allegations that the Code has been breached can be investigated and for making decisions on such allegations. This can be found [here](#).

Officers

Combined Authority officers service both the LEP and the Combined Authority. Officers must comply with the Combined Authority's Code of Conduct for Officers, which also reflects the Nolan Principles of public life and requires officers to register personal and prejudicial interests. Officers also need to comply with a Gifts and Hospitality policy. Failure to comply with the Code may lead to disciplinary action.

Senior officers and other officers involved in advising on LEP decisions are also required to complete and keep under review a separate LEP Officer register of interests. The register of the LEP's Chief Executive Officer is published on the LEP web-site ([LINK](#)).

The LEP and the Combined Authority have jointly approved a Conflicts of Interest Policy which provides an overview of how conflicts of interest are managed.

Appended to the Policy is a Conflicts of Interest Protocol: loans or grants to businesses which sets out a process which the LEP and the Combined Authority follow to demonstrate that applications from businesses for loans or grants are dealt with in an impartial, fair and transparent ([LINK](#) when approved).¹⁹

3.10 Complaints and whistleblowing

Complaints procedures and whistleblowing policies are in place, to promote accountability.

The LEP has adopted a confidential complaints procedure, which can be found [here](#). The Combined Authority will also consider any complaints received in accordance with its agreed complaints procedure, which can be found [here](#).

Any complaints about the LEP will be dealt with in accordance with the approved complaints process.

The LEP has adopted a whistleblowing policy, which can be found [here](#). The Combined Authority has also adopted a whistleblowing policy, which can be found [here](#), to investigate and resolve any case where it is alleged by stakeholders,

¹⁹ The policy and protocol are to be considered by the LEP Board on 26 March 2019 and by the Combined Authority on 25 April 2019

members of the public or internal whistle-blowers that the Combined Authority is acting in breach of the law, failing to adhere to the framework or failing to safeguard public funds.

3.11 Resources and capabilities

The LEP and the Combined Authority ensure that members and officers have the capacity and capability to deliver their respective roles. They support people to develop their expertise and update it to take account of developments.

The Combined Authority has a scale of staff resource with the necessary key functions to enable it to:

- manage the process, including supporting business case development
- carry out programme and project appraisal
- co-ordinate and manage the decision process (e.g. time of meetings and associated paperwork)
- oversee the delivery, monitoring and evaluation of schemes (e.g. benefits realisation management, financial and resource management, risk)

The Combined Authority draws on external expertise and technical support such as financial, economic, property, legal and evaluation advice, for example through consultancy frameworks or from partner organisations including Homes England, local authorities, Skills Funding Agency and others.

4. LOCAL ENGAGEMENT AND PARTNERSHIP WORKING

4.1 Local Engagement

Engagement with stakeholders and the wider public is regarded as a central part of the process to develop, monitor and implement the SEP, the Growth Deal and all other aspects of the work of the Combined Authority and the LEP.

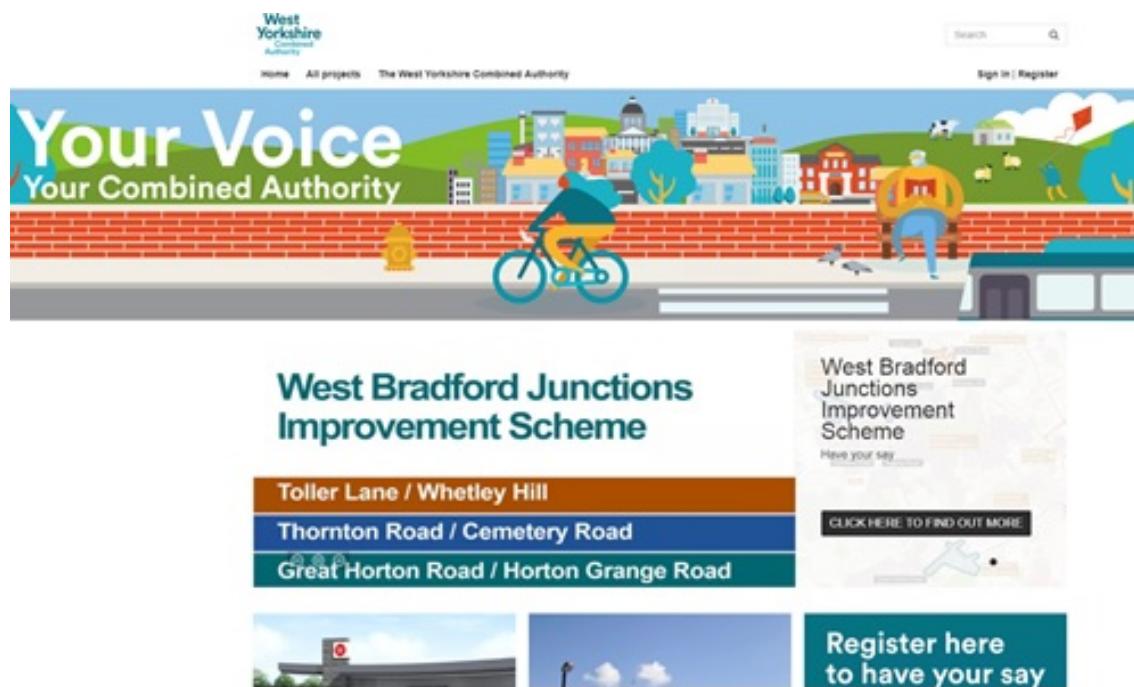
To support this process, a set of consultation and engagement protocols have been developed and the Consultation and Engagement team work with colleagues to ensure these principles are applied in any consultation and engagement activities that are undertaken. As well as carrying out insightful, robust, consultation and engagement activities, relevant legislation must be adhered to. Partners are encouraged to adhere to these protocols where possible.

Engagement with stakeholders and the wider public is as inclusive as possible, using the following principles:

- Stakeholders and members of the public are aware of our approach to consultation and activities;
- Stakeholders and members of the public are able to have their say on proposals when they are still at a formative stage;
- Consultation is open, transparent and accessible;
- The consultation process is well planned, managed and coordinated and achieves value for money;
- Consultation is effective, meaningful and of a consistently high quality; and
- Consultation feedback is properly considered and outcomes are reported in a timely way.

To support any face-to-face engagement, a digital engagement hub ([yourvoice](#)) has been developed that enables information to be shared and feedback sourced electronically in a more interactive way. Tools available to use include surveys, Q&A, mapping, polls, forums, guest books, newsfeed, ideas and stories. A screen shot of the Your Voice web page can be seen in figure 4.1 below.

Figure 4.1: Your Voice website page



Stakeholders are engaged in all work that the LEP and Combined Authority undertake. Regular updates are provided to existing panels and committees such as the District consultation sub committees. As part of the LEP's work with business, a Business Communications Group has been established, made up of representatives from key business organisations in the City Region. The group plays an active role in supporting business growth in the region by helping to coordinate effective communications between the LEP and the business community. The group also acts as an advisory group to the LEP Board; consulting with their members on barriers to growth and ensuring businesses are at the heart of all our activities.

A Partnership Strategy has been developed and engagement and communication with partners takes place through a range of channels, including social media, press releases, websites, events and e-newsletters. Social media has been used particularly effectively for informal engagement on policy, future strategy and project development.

New methods to engage with key stakeholders, businesses and the public are continually sought and effectiveness and share lessons learnt monitored.

4.2 Arrangements for collaborative cross-LEP working

The LEP is committed to collaborating across boundaries, where interests are aligned when developing strategies and interventions to maximise their impact across their different objectives. This helps to ensure a more efficient use of resources and secure a better outcome than operating in isolation.

There are a number of areas where the LEP works closely and interfaces with neighbouring and other regional LEPs. These include:

- Regular meetings (currently monthly) of the NP11 group of pan-Northern LEPs – at LEP Chair and Director level
- Active participant of the LEP Network at Chair, Director and operational levels to share best practice and influence policy design
- Officers from neighbouring Yorkshire LEPs meet regularly to discuss approaches to business support (including the Northern Powerhouse Growth Hub Network), Brexit, energy, and work on the LEP Review
- Yorkshire Hubs collaborated on the Northern Powerhouse Investment Fund, including regular meetings to determine contributions from their ESIF allocations
- through Transport for the North, where there is a significant degree of cross-LEP collaboration, from the Partnership Board through to officer working group meetings around Northern Powerhouse Rail, Strategic Transport Plan and Roads Strategy
- core Cities forums, which take place 4 times a year, covering a wider spectrum of national policy issues
- the LEP is also invited to attend the Sheffield Combined Authority as an observer, given the close links between the two functional economies

The LEP receives a report each year on the collaboration that has taken place and the opportunities for further collaboration.

4.3 How growth priorities are supported by collaboration and joint delivery

The Combined Authority works collaboratively with a range of partners. Some examples of this are provided below.

The LEP delivery of **Skills Capital** allows for greater coherence and understanding in the way that further education providers across the City Region are aligning curriculum offers to reflect the skills requirements set out in the Leeds City Region SEP and skills strategy. The Employment & Skills Panel (see table 2.2 for further information about this Panel) review conditions for the grant programme to address gaps in skills provision and to hold an overview of future revenue allocations.

Collaboration with partners supports the understanding of employment opportunities in the region to maximise Gross Value Added (GVA). It encourages improved collaboration between colleges and employers so that new curriculums are more aligned to employer needs.

LEP Growth Service is a ‘hub and spoke’ collaboration with local authorities, universities and private sector business support organisations.

The Combined Authority’s **transport strategy and policy teams**, working closely with partner councils, Network Rail and Highways England, operate and run a strategic Land-Use Transport Interaction (LUTI) model which can forecast evidence to support the impacts of investment priorities on employment, housing and GVA. These models are also used to test investment projects and programmes to help sift into priorities and inform their strategic business cases. They are particularly helpful in understanding cross-boundary implications of investment and transport policies.

The **Growth Funded housing and regeneration programme** is developed jointly with public sector partners. Proposals are put forward by either local authorities or organisations working closely with the Combined Authority's strategic partners. These proposals are developed into business cases through close collaboration with the Combined Authority and in some cases joint due diligence with other agencies. In many instances projects may have multiple funding streams, with some of these coming from the public sector. When this occurs, a joint approach towards delivery is developed whenever possible. The Place Panel (including representatives from local authorities, private sector representatives, Homes England (previously Homes and Communities Agency) and the National Housing Federation) brings together organisations with a common interest in delivering infrastructure, homes and jobs and makes recommendations to ensure a strategic approach to the delivery of these outputs, especially where this involves the use of public sector assets.

DRAFT

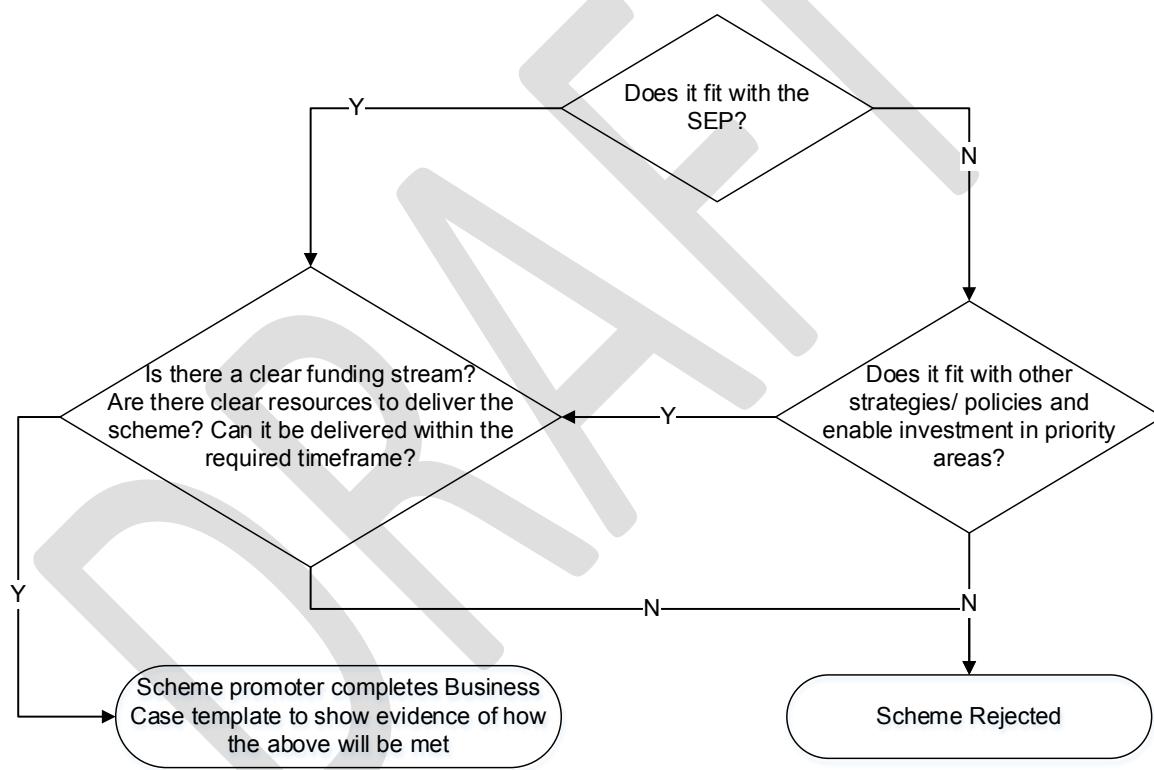
5. APPROACH TO PRIORITISATION

5.1 Introduction

The approach for identifying and prioritising those programmes and projects that are most likely to provide value for money, maximise economic benefits and deliver against the Leeds City Region SEP's vision and strategic priorities, is set out in the following sections.

5.2 Identifying candidate schemes

Local partners, the Policy and Strategy Directorate and the LEP will largely be responsible for identifying and developing candidate schemes for inclusion in the project process. To assist the identification of schemes, a number of guiding principles are used:



Scheme promoters are required to submit evidence on standard West Yorkshire Combined Authority Business Case templates which have been designed in line with HM Treasury five cases guidelines, and designed to capture evidence relating to the guiding principles above.

Calls for proposals

Other avenues for potential schemes to access funding opportunities from the LEP/the Combined Authority could be through funding competitions with specified deadlines for submissions as well as open calls where the LEP/the Combined

Authority will be seeking ongoing Business Case submissions from scheme promoters.

All calls for proposals with specified deadlines, including details of the application and decision process and assessment/eligibility criteria are openly advertised on the LEP/the Combined Authority website and promoted with public sector partners and the business community.

5.3 Methodology for prioritising investment

Once schemes have been identified, the prioritisation of schemes to enter the process (at Stage 1) is then critical to the creation of a focused programme of investment across the four priorities of the SEP.

When comparing schemes for prioritisation, they are considered in the context of creating a balance between projects within a programme, in relation to funding opportunities and bids that come forward.

In order to facilitate the prioritisation of schemes in an objective, consistent and transparent way, they are compared on the basis of their potential to deliver on the criteria they were originally identified on, as well as their ability to offer value for money.

5.3.1 Assessment criteria

The Assurance Process will inform decision-making by providing an objective, transparent and rigorous system of appraisal to assess programmes and individual projects objectively. It is a flexible process that can be adapted to the specific nature, scale and scope of the project and/or programme. It sets out how all City Region projects and programmes, whether they are housing, regeneration, transport, low carbon, skills, innovation or anything else that comes to the LEP and the Combined Authority for consideration, will be appraised and evaluated based upon the evidence provided.

The Assurance Process will be applied to the assessment of all projects and programmes funded from Government or local sources that flow through the LEP and the Combined Authority, drawing on national guidance (e.g. Green Book, Treasury five cases, WebTAG and CLG Appraisal Guidance).

The following assessment criteria are used:

- fit with the SEP and other relevant strategies
- clear evidence of the rationale and need (or demand) for the project
- the additional GVA and employment impacts as well as the wider benefits, at the Leeds City Region level
- contributes to our 'good growth' aspirations. This will also now include inclusive growth objectives and the Local Industrial Strategy (LIS) once developed
- clearly defined inputs, activities, outputs, and anticipated outcomes and an assessment of additionality of benefits
- proposed delivery timescales

- confirmation that the investment represents value for money and is the preferred option
- clear detail of the financial costs of the proposal and evidence of the need for the LEP/the Combined Authority support and availability of match funding
- the project is deliverable, has robust risk management, delivery and monitoring and evaluation arrangements

Preference will be given to those schemes that:

- deliver ‘high’ value for money (e.g. a benefit cost ratio or other appropriate value for money (VfM) benchmarks that meets established guidance for the project type being assessed)
- offer the potential to generate a return
- maximise private sector and other public sector investment

It should be noted that there will also be cases when the Combined Authority approves schemes where there is a lower value for money case. This could be where there are convincing wider economic and environmental impacts, where a scheme meets multiple SEP priorities or the scheme is part of programme that has a high overall value for money. There may also be instances where there is a need to invest quickly in conjunction with significant levels of private sector leverage, in order to unlock a major development, or where social value is sought to be maximised (e.g. through the West Yorkshire Plus Transport Fund programme). On occasions projects offering high VfM as well as high risks may be taken forward within the context of a portfolio that has an overall balance of risk.

5.3.2 Tools for estimating economic and wider benefits

All programmes and projects will be expected to have a positive (direct or indirect) impact on growth through job creation, skills improvement, productivity, improved connectivity etc. to ensure that the good growth aspirations articulated in the SEP are realised. Going forward, this will also include inclusive growth aspirations.

Net additional economic output, measured by Gross Value Added (GVA) per pound invested will be used as a key metric for determining whether a project delivers value for money. Other measures of value for money will be used where necessary to provide more information on the richness and scale of the potential impact of projects. Such measures include total cost per job and total GVA per job.

In order to assess GVA and jobs growth, as well as wider economic benefits, both quantitative and qualitative assessment will be required. The LEP/Combined Authority will take into consideration the broader strategic value of proposals, particularly with regard to their potential to deliver increased GVA impact, as well as carbon and wider social benefits (e.g. contribution to the good growth principles set out in the SEP and LIIS once in place), in finally determining whether to approve a scheme.

A range of tools and models will be used to help estimate the wider economic impact of scheme proposals in order to facilitate the prioritisation and decision-making process. These currently include:

- **Bespoke transport models** – will be developed and used for transport schemes to establish forecasts of the impacts of interventions.
- **The Regional Econometric Model (REM)** - will be used on non-transport schemes to help determine their net additional employment and net additional GVA impact.
- **The Urban Dynamic Model (UDM)** – will be used for transport schemes to understand how employment and GVA growth could be constrained without the proposed transport intervention(s). The work undertaken by Transport for the North (TfN), and the sharing of methodologies and best practice, are also important in this area
- **Skills Value Model** – An in-house approach has also been developed to quantify the impact of skills interventions. The approach allows the estimation of potential increase in earnings attributable to acquiring a new qualification.

The qualitative assessment will seek to consider the strategic importance of the scheme (e.g. an assessment of how the scheme contributes to the priorities and objectives of the SEP). This more qualitative assessment is particularly important for revenue programmes, the direct effects of which are traditionally more difficult to quantify.

The outcomes of the assessment of applications made in response to funding opportunities are reported to the LEP Board, the Combined Authority and the West Yorkshire & York Investment Committee.

6. ASSURANCE AROUND PROGRAMME & PROJECT DELIVERY

6.1 Introduction

This section sets out how the Assurance Process is used in the development and delivery of all LEP/West Yorkshire Combined Authority projects and programme investments.

6.2 Assurance Process

The Assurance Process (set out in Figure 6.1) is a three stage system for project control to deliver value for money in a transparent and accountable way.

Figure 6.1: Overview of the Assurance Process



It has been designed to take all schemes through their project/programme lifecycle, and provides a practical ‘step-by-step’ framework to aid the development of business cases, to ensure successful delivery and monitoring and evaluation for making key decisions. The Assurance Process is both scalable and proportionate and offers a structured process for appraising, developing, planning, delivering and evaluation that is in line with HM Treasury guidance to deliver best public value.

The Assurance Process is used by the following:

- **project promoters:** it provides a pathway to allow promoters to develop proposals in a way that will give them the best chance of success
- **decision makers:** it is a framework to provide the information they need to take investment decisions and to prioritise between different proposals in a clear and transparent manner
- **partners and the wider public:** to give confidence that there is a clear and transparent framework to appraise and prioritise schemes and to take investment decisions

An important feature of the Assurance Process is its flexibility in that it can be adapted to the specific nature, scale and scope of the project and/or programme. For example, it offers the potential for accelerated decision-making by allowing small scale, less expensive projects to move quickly through the decision points described below.

Programmes that are comprised of multiple projects for their delivery may also be subject to accelerated decision-making. In these instances, the assessment of the cost and benefit information may be at a high level with the programme level business case providing the strategic context for subsequent investments (projects). Following approval to fund the programme, the projects comprising the programme

must be subject to individual business cases. The programme must be approved at decision point 2 (Strategic Outline Case - SOC) before any projects can proceed through the next stages of the Assurance Process.

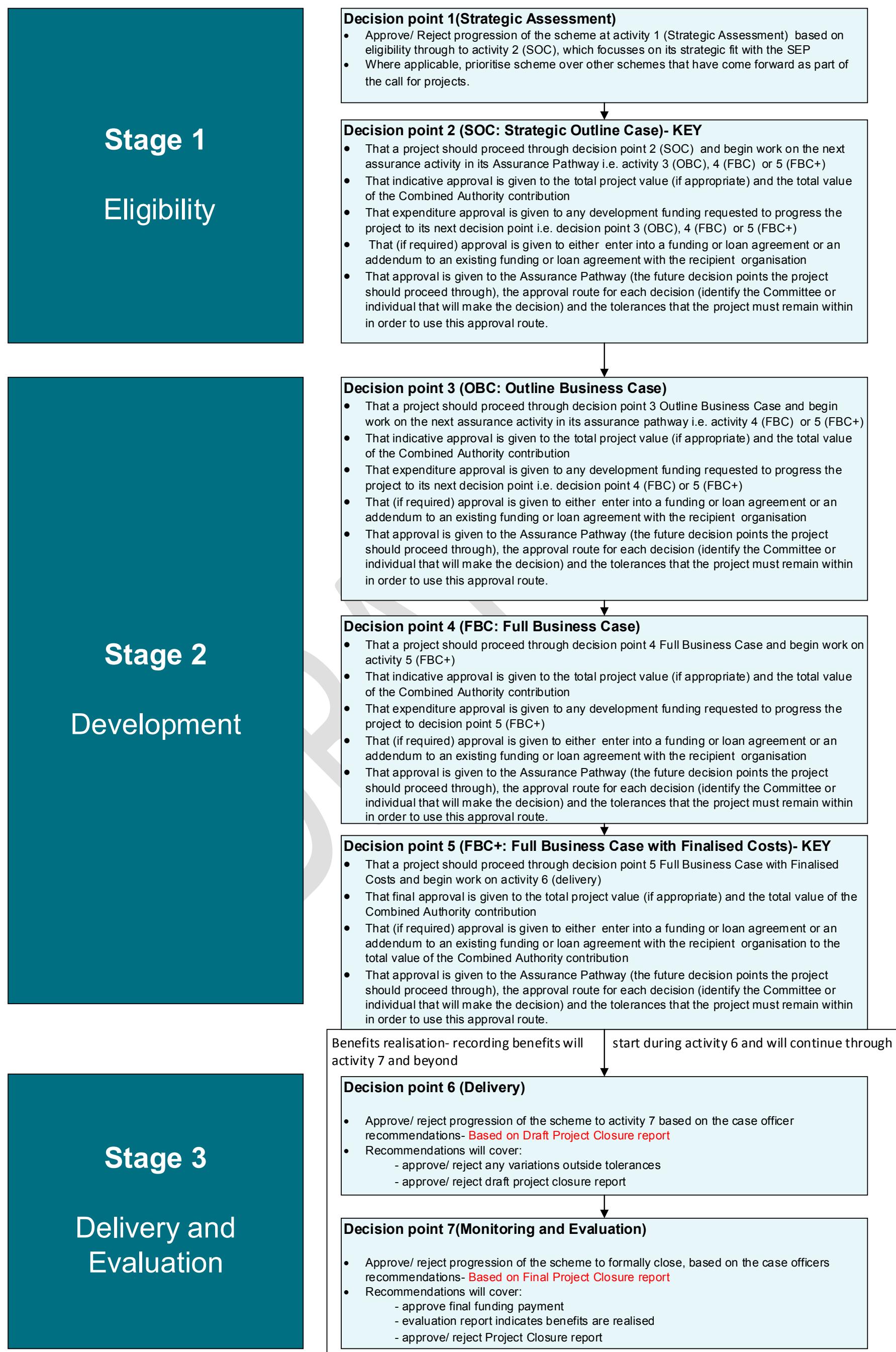
Overview of the Assurance Process

Under each stage outlined above there are a series of activities (7 in total) that need to be carried out in order to progress each scheme. Whilst there are seven possible activities, not all would apply to all schemes and the process and intensity of appraisal applied can be tailored for each scheme depending on its type, scale and complexity, with the appropriate activities applied (e.g. not all schemes will be required to complete an outline business case (decision point 3); they could proceed straight to full business case, decision point 4).

Benefits realisation is considered to be something that runs through all of stage 3 (Delivery and Evaluation). Scheme promoters should gather baseline information and be starting to capture benefits as soon as the scheme is being delivered in activity 6 (Delivery), and this will continue through scheme closure and beyond.

At the end of each activity, a scheme is required to go through a decision point. It is here where a scheme is appraised against the HM Treasury ‘five cases Model’. As such, project sponsors must demonstrate that a robust, accurate and compelling business case exists at each stage of the process (subject to the assurance pathway and approval route as recommended by the Combined Authority’s Programme Appraisal Team (PAT)). All schemes must be approved by the Combined Authority at decision point 2 (SOC). Further information can be found in Figure 6.2.

Figure 6.2: The Assurance Process- This applies to all LEP and Combined Authority funded schemes



6.3 Business case requirements at each stage of the Assurance Process

A key objective of the Assurance Framework is to support the Combined Authority in assessing whether potential investments offer good value for money and have the capacity to generate and deliver the growth objectives set out in the SEP or specific objectives relevant to a funding stream or other strategic objectives.

Along with the focus of the business case changing as a scheme progresses through the Assurance Process, the focus of the business case appraisal is structured around a series of key appraisal questions which enable the appraiser to review and test the evidence presented in the business case across the ‘five cases’. Project promoters are made aware of the key appraisal questions in order to guide the presentation of evidence in the business case.

All projects will undergo a ‘five cases’ assessment, in line with the Treasury Green Book, to ensure a project demonstrates that the outcomes and outputs are deliverable, that the associated business case is a sound one and that the scheme represents value for money. This process has recently been modified to align more closely with Green Book principles.

Stage 1: Eligibility

As part of activity 1 (Strategic Assessment) of the assurance process, the promoter is required to complete a Strategic Assessment form. For the majority of schemes, this will be completed in the initial stages of scheme development to enable early testing of the scheme with the Combined Authority. At this stage the scheme information will consist of the challenge which the scheme seeks to address and a high level identification of the possible strategic responses that could be implemented to address the challenge (rather than a specified single option). The Strategic Assessment form has a number of purposes:

- To provide the Combined Authority with information on a scheme proposal.
- To identify the potential for the scheme to deliver against the LEP/Combined Authority’s Policies, Strategies, Plans, Targets and Indicators (its strategic fit).
- To provide a high level range of costs and programme information.

The Strategic Assessment Form will be considered by Combined Authority Policy and Delivery officers. They will determine:

- If the scheme is eligible for LEP/Combined Authority funding.
- If the scheme has sufficient strategic fit to proceed to activity 2 (SOC) and if there is potential for a greater level of strategic fit through the consideration of a wider range of options.
- Based on the high level cost and programme provided what level of funding contribution can be made to the scheme based on the funding streams the Combined Authority will have available to it at the relevant time.
- Any recommended conditions that will need to be fulfilled during activity 2.

If officers assess that the scheme sufficiently meets the eligibility criteria above it will be recommended to the Director of Delivery, in discussion with the Director of Policy, Strategy and Communications, for approval to proceed to activity 2 (SOC) of the

Assurance Process. Any schemes which are not recommended for approval will be referred to the Programme Appraisal Team for further guidance.

Approval at decision point 1 (Strategic Assessment) provides promoters with assurance that the scheme is determined to be eligible for LEP/Combined Authority funding and it is a worthwhile investment for the Promoter to commit resources to the further development of the scheme. Decision point 1 approval does not guarantee that a funding allocation will be made for the scheme within the LEP/Combined Authority's portfolio, this decision would instead be made at decision point 2 in most instances.

Following progression through decision point 1 (Strategic Assessment), all schemes will progress to activity 2 and the promoter will then be required to complete a SOC. The SOC will provide evidence of how the scheme performs against each of the Treasury's five cases (strategic, commercial, financial, economic & management) but will place most focus on the strategic case for the scheme and the initial economic appraisal. In line with the HM Treasury's Green Book guidance, this will involve the appraisal of the long list of potential options, in order to select a "preferred way forward". The preferred way forward will encompass a short list of selected options, which will ultimately be assessed as part of activity 3 (Outline Business Case - OBC). Each option identified as part of the preferred way forward will have a high level cost, programme and benefit forecast and will clearly demonstrate why that option has been selected over and above other options identified as part of the long list process.

In advance of the SOC being submitted to the Combined Authority, a case officer will be assigned and briefed on the scheme. Once the SOC is received by the Combined Authority the case officer will undertake the SOC appraisal. This appraisal will determine and recommend whether a scheme proposal proceeds through decision point 2 (SOC) into Stage 2 (Development) of the Assurance Process and is invited to prepare a business case – outline or full – depending on the agreed pathway. The SOC appraisal will assess the scheme's potential to deliver economic benefits and assess the scheme's deliverability, and is focussed on the strength of the strategic case. The case officer may require additional information to the SOC in order to complete their appraisal.

A summary of the criteria used to aid the stage 1 (Eligibility) assessment and prioritise and select those schemes that will progress to stage 2 (Development) are set out in Table 6.1 below.

Table 6.1: Overview of the Stage 1 assessment criteria

| Criteria | Description |
|------------------------|--|
| Strategic Case | <ul style="list-style-type: none"> • Has the challenge and the resulting scheme been clearly defined? • Is it clear why LEP or Combined Authority investment is needed and what it will be used for? • Does the scheme have a clear alignment to the Combined Authority's Strategic Priorities, Headline Initiatives and funding source? • Will the project contribute to the Local Enterprise Partnership's and Combined Authority's targets and indicators either directly or indirectly? • Does the scheme meet the 'good growth' or 'inclusive growth' principles? • Is there a clear rationale/need/market failure case for investment? • Have the scheme objectives been clearly set out? |
| Commercial Case | <ul style="list-style-type: none"> • Has evidence of need/demand for the project been identified? • Is the market for the project clearly understood? • Does the project unlock other downstream investments? • Has the scheme considered how it will procure the solution? |
| Economic Case | <ul style="list-style-type: none"> • What potential does the project/programme have to deliver economic benefits/growth e.g. through jobs, unlocking sites, skills uplift, etc.? • Do projected outputs and outcomes appear realistic/achievable? • Has the project/programme undertaken an options appraisal which has defined a preferred way forward? • Where appropriate has strategic and economic modelling been used to carry out an initial test of a project to identify a GVA/£ ratio e.g. Urban Dynamic Model (UDM) or the Regional Econometric Model (REM) • Does the project appear to offer the potential of reasonable value for money and where possible has this been presented in the form of a benefits cost ratio for each of the options shortlisted in the preferred way forward • Does the scheme have a Benefits Register? |

| | |
|---|--|
| Financial Case | <ul style="list-style-type: none"> • Is the amount and timing of LEP or Combined Authority investment and match funding clearly set out for each short-listed option in the preferred way forward? • Has the loan first principle been considered? • Has other funding been confirmed or is there a clear timescale for confirmation? • Is there a proposal for the Combined Authority to achieve any financial return through the project? • How are the scheme costs made up? Are they robust and realistic? |
| Management Case | <ul style="list-style-type: none"> • How will the scheme be managed, are the appropriate arrangements in place / outlined. How 'delivery ready' is the project? • Are delivery timescales clearly indicated and are they realistic? E.g. A high level development and delivery timetable identifying any potential barriers or constraints (e.g. planning, legal, land ownership issues). • What are the main risks facing this scheme? • How will the scheme be managed, are the appropriate arrangements in place / outlined. How 'delivery ready' is the project? How will the scheme be managed, are the appropriate arrangements in place / outlined. • Is there a Risk Register and/or Risk Plan? • Are there any potential barriers/constraints to the scheme that will impact on delivery? • Has an initial assessment of any potential State Aid implications been undertaken? • Are there any linkages/Interdependencies with other schemes that could affect delivery • Is the appropriate project / programme management documentation in place? • Have the appropriate supporting technical studies been undertaken? • Has the promoter demonstrated any lessons learnt? |
| Other criteria (if applicable) | <ul style="list-style-type: none"> • For transport schemes this could include modelling to predict changes in carbon emissions, accidents, mode splits and impacts at different geographies including deprived communities. |

Stage 2: Development

The Business Case template uses a detailed ‘five cases’ assessment of the scheme that demonstrates that the outcomes and outputs are deliverable, that the associated business case is a sound one and that the scheme represents value for money.

At this stage the Business Case template seeks to build on the evidence presented in the SOC in order to present the full details of the scheme across the ‘five cases’ model.

Table 6.2: Stage 2 assessment criteria

| Criteria | Description |
|---------------------------|---|
| Strategic Case appraisal | <ul style="list-style-type: none"> • Does the project clearly set out the strategic drivers for this investment? • Does the project contribute to the achievement of the Leeds City Region’s Strategic Economic Plan • Does the project link to other activity being delivered either within the City Region or nationally? • Does the project meet other national, sub-regional and local strategies and policies? • Does the project set out why LEP or Combined Authority funding is required in order to be undertaken? • Has the project undertaken any engagement/consultation with key stakeholders and beneficiaries affected by the scheme? • Does the project clearly set out its objectives? • Does the project clearly set out the key activities to be funded? |
| Commercial Case appraisal | <ul style="list-style-type: none"> • Has the project provided evidence to support the market demand justification for this project? • Has the project provided evidence to support the projected take-up by the market? • Does the project have a preferred procurement strategy/approach? • Has the project considered risk allocation and transfer? |
| Economic Case appraisal | <p><u>All Projects:</u></p> <ul style="list-style-type: none"> • What long list of options have been considered? • What critical success factors (CSF) have been used to evaluate the long list of options? • How has the long list of options been appraised? • What is the short list of options? • How has the short list of options been appraised? • How does the scheme contribute to the SEP Headline Indicators • What methodologies have been used to calculate the monetised benefits? • What methodologies have been used to calculate the monetised costs? • How is uncertainty in the appraisal dealt with? • Does the project identify any wider benefits? |

| Criteria | Description |
|----------------------------------|--|
| | <ul style="list-style-type: none"> • Does the project identify any low carbon and environmental benefits • What is the scheme value for money position? • Is the preferred option clearly defined? <p><u>Additional assessment criteria for transport projects:</u></p> <ul style="list-style-type: none"> • What methodologies have been used for modelling and appraisal of the scheme? • What transport model(s) have been used for the scheme appraisal? • What forecasting methodologies have been used for the scheme appraisal? • How has the impact of the scheme on travel demand and behaviour been incorporated? • How is uncertainty in the appraisal dealt with? • How the scheme impacts across different social groups? • Does the project have an Appraisal Summary Table? • Does the project have a Transport Economic Efficiency Table? • Does the project have an Analysis of Monetised Costs and Benefits Table? • Does the project have a Public Accounts Table? |
| Financial Case appraisal | <ul style="list-style-type: none"> • Has the project got a calculated outturn capital cost? • Has the project got a clear cash flow and funding profile? • Does the project have any revenue, ongoing/operational costs associated with it? • Does the project have any other funding sources? • Have the main financial risks been identified? • Has the project addressed how will cost overruns would be dealt with? • Does the project offer any potential to generate a commercial return to pay back funding? • Does the project have any State Aid issues to address? • Is the Combined Authority funding a loan? |
| Management Case appraisal | <ul style="list-style-type: none"> • Does the project have a clear delivery plan? • Is there more than one delivery partner involved in the delivery of this project? • Does the project have a clear programme? • Has the project set out any delivery constraints? • Does the project have an adopted approach towards risk management? • Has the project completed a Quantified Risk Assessment (QRA)? • Does the project have a Communications Strategy? • Does the project have a Benefits Realisation Plan? |

The Business Case appraisal is effectively a risk-based appraisal that is designed to enable the Case Officer to test and report on key scheme risks across the five cases. This ensures that decision-makers at any level of delegation fully understand scheme risks, particularly in terms of benefits realisation, financial outcomes and value for money. It provides the basis on which any conditions precedent for a funding agreement can be proposed.

Business Cases are rated against an appraisal framework and each of the five cases is given a RAG (red, amber, green) rating based on the response to the key appraisal questions as follows:

| | |
|-------|---|
| RED | Does not adequately address one or more of the key assessment questions |
| AMBER | Addresses all of the key assessment questions but specific issues may require further consideration or action |
| GREEN | Presents a clear and comprehensive response to the key assessment questions |

The main findings in respect of the five cases are then brought together into a single assessment summary and an overall scheme RAG rating. It is anticipated that schemes receiving an overall red rating may require the applicant to provide extensive additional information prior to subsequent reappraisal. Schemes receiving an overall amber rating may require special conditions (or conditions precedent) to be addressed prior to a final decision being made. There may also be conditions concurrent or subsequent included in any resulting grant agreement between the applicant and the accountable body, which require resolution in advance of the next decision point.

6.3.2 Assessment of economic impact & value for money

A range of tool-kits and approaches are used to demonstrate the wider economic benefits and value for money in order to prioritise and assess the overall Business Case for a scheme. In line with recognised VfM guidance, the assessment will consider:

- **Economy:** Minimising the cost of resources used
- **Efficiency:** The relationship between the output from goods or services and the resources to produce them
- **Effectiveness:** The relationship between the intended and actual results of public spending (outcomes and meeting objectives)

As set out in the LEP National Local Growth Assurance Framework guidance, the methodology used to assess VfM will be in line with the established guidance prescribed by the relevant government department:

Table 6.3: Methodology to assess value for money

| | |
|--|---|
| Transport | The standard against which the Combined Authority will assess the robustness of the economic case of transport projects with a capital cost in excess of £5 million will be the established WebTAG methodology. |
| Housing | The appraisal will draw on advice and guidance from Homes England (HE) alongside MHCLG's appraisal guide for residential and non-residential development. |
| Enterprise, business support and Innovation | These projects will need to demonstrate ability to deliver VfM through evidence-based Business Cases aligned with HM Treasury Green Book guidance, with a commitment to publishing results to add to the evidence base on what works and contribution to local and national policy goals and growth. |
| Skills Capital | The Appraisal will continue to draw on Skills Funding Agency (SFA) guidance |
| Regeneration | Projects will be in line with the National Planning Policy Framework and the Planning Practice Guidance. For projects beyond housing and transport interventions, for example, enabling works, land assembly, utilities and/or public realm projects, the MHCLG appraisal guide will be used in helping to appraise their costs and benefits. |

Guidance is now available relating to the inclusion of Land Value Uplift (LVU) in the economic case. Scheme promoters are advised to liaise with Combined Authority officers to agree the methodology to adopt for the calculation of these benefits at an early stage of the appraisal process.

The approach adopted for the appraisal of a scheme will be proportionate to the scale and risk of the proposal. Some **investment appraisal techniques** used are:

Table 6.4: Investment appraisal techniques

| | |
|----------------------------------|---|
| Cost Benefit Analysis | This calculates the costs and benefits for each year covered by the proposal and other shortlisted options (including the do-nothing/ do minimum 'counterfactual' position), which are then summed to produce a net figure for each year. |
| Net Present Value | This calculates the difference between the present value of cash inflows and the present value of cash outflows. Investments with a positive net present value will be acceptable. |
| Accounting Rate of Return | This compares the profit that is expected to be made from an investment to the amount that is needed to invest. |
| Internal Rate of Return | This measures the profitability of potential investments and allows schemes to be ranked by their overall rates of return rather than their present net values. |
| Payback Method | This calculates how long a scheme will take to pay back the money spent on it based on expected cash flows. |

Wider economic impact assessment

In order to generate a prioritised shortlist of schemes, a wider economic impact assessment will be undertaken which uses a range of tools and models. The Assurance Process draws on a line of nationally recognised value for money benchmarks relevant to the type of scheme under review for example:

- WebTAG for the appraisal of transport schemes
- HE Additionality Guidance and other appropriate sources, including MHCLG Appraisal Guidance for housing and regeneration schemes
- evaluation evidence produced by the What Works Centre for Local Economic Growth

Other measures of value for money will be used where necessary to provide more information on the richness and scale of the potential impact of schemes. Such measures include:

- total cost per job
- total GVA per job
- cost benefit ratio
- grant per job

The adopted approach also aims to provide a ‘level playing field’ between the wide-range of intervention types that are being considered across the four strategic priorities of the SEP. This, in conjunction with consideration of inclusive growth, allows the LEP and the Combined Authority to maximise the employment and productivity outcomes from available funding, as well as the geographical spread of these benefits.

6.3.3 Compliance with DfT's WebTAG guidance

All transport schemes will be subjected to the minimum requirements on modelling and appraisal, Value for Money (VfM) statement, assurance and evaluation as set out in the National Assurance Framework Guidance (LEP and Single Pot).

The modelling and appraisal work will be scrutinised to ensure it has been developed in accordance with WebTAG, is robust, and is fit for purpose. A mix of both internal and external resources (partner, local authorities and independent consultants) in the form of a review panel will be used, so that appropriate and independent recommendations can be provided to decision makers. Opinion from DfT may be sought for high value or contested schemes. Responsibility for quality assurance of the assessment and scrutiny will rest with the Combined Authority’s Head of Feasibility and Assurance.

An Appraisal Specification Report (ASR) should be developed by the scheme promoter at the start of stage 2 (development) and agreed with the Combined Authority, which sets out how the scheme will be appraised. An Appraisal Summary Table (AST) and VfM Statement will be produced by following WebTAG and DfT's VfM guidance. A VfM Statement will be produced for decision makers summarising the conclusions from VfM assessment taking into consideration whether benefits

outweigh the costs whilst identifying key risks and sensitivities that may affect the VfM conclusion. The statement will be prepared by the scheme promoter.

To maintain VfM for major transport investments from public funds, the Combined Authority is committed to approve schemes with a final VfM of 'High' or above. In exceptional circumstances any scheme with a VfM category lower than 'High' may be approved. An example of such a transport scheme could be one which unlocks a major development site or a scheme which can be directly attributed to job creation and/or GVA growth, and the justification will be set out in reports, seeking approval from the boards. Additionally, a transport scheme may have a low BCR, but is part of a programme that can evidence a 'high' BCR as a minimum. Some schemes may have a low BCR right through to FBC (decision point 4). When this is the case, a condition will be put on the scheme that final approval is subject to a satisfactory BCR being evidenced.

6.3.4 Appraisal proportionality

The level of appraisal will be proportionate to the nature, scale and scope of each project and/or programme. For example, **where a scheme carries greater risk and/or is more complex, the intensity of the appraisal will reflect this**. This is not simply a matter of the financial scale of a project, but will also need to take account of how the project is structured, its processes and dependencies. The capital-intensive nature of transport projects and the accompanying high costs mean that transport schemes will have different financial thresholds in terms of how they are treated.

The approach to appraisal is set out in the Appraisal Specification Report (ASR), under the guidance of the Head of Feasibility & Assurance. Usually, where a project is multi-faceted and the elements are easily separable, proportionality will be based on the proposed costs of the various elements.

6.3.5 Who will undertake the appraisal of projects?

Programme Appraisal Team (PAT)

The Programme Appraisal Team (PAT) is comprised of West Yorkshire Combined Authority officers who oversee the Assurance Process as projects/programmes progress through it.

The PAT is an internal assurance group and has no formal approval making powers. The PAT make recommendations, which are then reported through the current Combined Authority governance arrangements for a formal decision.

The PAT consists of a core membership representing Combined Authority programme delivery, feasibility and assurance, policy, economic, legal, and financial functions. Attendance at PAT meetings is supplemented by case officers, independent technical advisers, peer group representatives (including representatives from partner councils and/or third party private businesses) and other attendees as required to supplement the decision making process.

The PAT terms of reference are attached in Appendix 6.

The Combined Authority appraisal function

The responsibility for appraisal of projects sits with the Director of Delivery. Each scheme will be assigned a case officer when it enters the Assurance Process. The case officer is a Combined Authority officer, and will be responsible for carrying out the appraisal of a scheme. This may be done using their own expertise, or where necessary bringing together expertise from within the Combined Authority or from external advisors and partners. This may cover financial, transport, economic, property, legal matters and experience of the relevant priority areas of the SEP. The case officer will have an appropriate degree of impartiality from the scheme.

As part of the appraisal process, a review meeting may be held with the promoter, to discuss any key issues arising from the ongoing appraisal. This meeting could be multi-disciplinary, and involve external resource as appropriate (e.g. for Combined Authority projects to demonstrate impartiality, or where specific knowledge and skills are required and which don't exist internally). Wider independent advice may also be sought in some cases, including liaison with DfT and HMT economists.

There will be a clear separation between the appraisal function and the project sponsor/promoter. This means that staff carrying out appraisal will not be involved in advising on project and business case development activity. All case officer reports are signed off by the Head of Feasibility and Assurance.

Following each assessment of a project, a template will be completed by the case officer that reports the findings of the appraisal and this will be reviewed by the Programme Appraisal Team (PAT).

The Combined Authority appraisal function and Programme Appraisal Team (PAT) scrutinise and quality assure the process to ensure that the work undertaken is independent of the authority promoting the scheme. The Director of Delivery has overall responsibility for ensuring value for money for all projects and programmes.

6.3.6 When will schemes be assessed?

It is expected that discussions between the scheme promoter and the LEP/Combined Authority will be an ongoing and iterative process.

There will be a number of avenues for potential schemes to access funding opportunities from the LEP/Combined Authority. For example, this could be through funding competitions with specified deadlines for submissions as well as open calls where the LEP/Combined Authority will be seeking ongoing business case submissions from scheme promoters.

All calls for proposals with specified deadlines, including details of the application and investment decision process, will be posted on the LEP/Combined Authority website and promoted with public sector partners and the business community.

A standard timescale for the assessment of business cases at each decision point will be set and communicated to all promoters, however depending on the complexity of the scheme and the quality of information provided within the business case further time may be required. This will be agreed with the promoters at the earliest appropriate opportunity.

As part of the decision point 2 (SOC) approval, timescales for the approval of future decision points will be agreed and set out between the promoter and LEP/Combined Authority. The promoter (with support from their key contact in the Combined Authority and the PMO) will then be required to determine the submission and appraisal timescales relevant to each decision point in order to establish a clear picture of what needs to be done next in the development of a scheme. A stage certificate is issued, which includes any conditions that are set by the PAT and formalised through the funding agreement.

6.3.7 Reporting of appraisal findings

Approvals Pathway

Schemes will be assessed on a case by case basis, with the approvals pathway set out and agreed by the Combined Authority, as the accountable body for the LEP at Decision Point 2, which best serves the needs of the Combined Authority in carrying out the correct level of assurance, enabling schemes to progress quickly, and enabling the Combined Authority to respond quickly to investment opportunities. There are seven possible approval routes at each Activity.

The key principle is that the PAT will review a scheme at a decision point (with the exception of decision point 1) to check whether the Assurance Process has been applied correctly and assess whether a scheme is eligible to progress to the next activity. The Investment Committee is asked to review the PAT's recommendations early on in the process in advance of the Combined Authority or the Managing Director making any formal approval. This will usually be at decision point 2 (SOC) at entry into the process for development, and the case officer is responsible for preparing the information on a scheme that is reported to the Investment Committee.

Whilst schemes will by default always be seen by the PAT at each decision point, the PAT also have the option to defer the responsibility for seeing a scheme's business case at decision points as they see fit e.g. LEP Loans may be seen by the PAT at decision point 2 with a SOB, then come back at decision point 4 with a Full Business Case that will be assessed by the Business Investment Panel instead.

In the case where the situation arises that the PAT agrees to recommend to reject a scheme, it is the role of the PAT to advise Investment Committee of this recommendation – and then for the Investment Committee to recommend to either approve or reject proposals to the decision maker.

Depending on the cost, complexity and risk of a scheme, the Investment Committee may request that a scheme is referred back to the Investment Committee at subsequent decision points for their recommendation to progress along the Assurance Process in advance of decision point 5 (FBC plus finalised costs).

There is also the option for the Investment Committee to recommend to the Combined Authority that further approvals after decision point 2 (SOC) be delegated to the Investment Committee, or to the Combined Authority Managing Director to facilitate speeding up the delivery of schemes that are considered low cost, less risky and less complex, and which remain within tolerances.

6.3.8 Due diligence assessment

Due diligence is the independent verification of key information and assumptions. The purpose of due diligence is to protect all parties from acting on incorrect or impartial information.

Due diligence may be carried out at any point in the development of a scheme, however it will be formally required as part of activity 5 – finalising costs. Information requirements at this stage will depend upon the nature of the scheme, the findings of the full business case (decision point 4) assessment and any outstanding actions still to be undertaken prior to any funding agreement being approved. The Business Investment Panel has a key advisory role in this process for business grants and loans.

Each case will of course be different depending upon the nature of the scheme, but could include:

- **Lending:** financial standing of delivery body, company ownership and creditworthiness, value of security offered and details of any existing charge, terms of loan including drawdown and repayment, consideration of State Aid
- **Recoverability:** projects need to demonstrate the income from which the loan will be repaid
- **Deliverability and risk:** confirmation that the project is ready to start and a risk management plan is in place
- **Final economic impact/VfM statement:** jobs created, contribution to the City Region economy and other outputs/outcomes such as remediated land, apprentice positions, houses built, private sector deliverability

The Combined Authority will seek to review and potentially strengthen our approach to due diligence, particularly in light of recent wider industry experience.

6.4 Release of funding, cost control and approval conditions

The funding offer will be bespoke to each individual scheme. The arrangements for the draw down and release of funding will be set out initially during Stage 1 (eligibility) and then agreed during Stage 2 (development) of the Assurance Process. Some schemes may also be eligible of the provision of development funding in order to progress the scheme from decision point 2 (SOC) to decision point 5 (FBC with finalised costs). At the point where funding is released the Combined Authority will enter into a funding agreement with the promoter. The following funding conditions could apply and will be specified in the funding agreement:

- funding to scheme promoters will be capped at the maximum level
- any potential overspend will be escalated by the project sponsor to the Combined Authority. The Combined Authority will consider the appropriate options as part of a change request, which will include a requirement for the business case to be re-worked and presented back to the Combined Authority for further consideration
- the Promoter's Chief Internal Auditor to provide assurance and to certify all expenditure on an annual basis

- the Promoter's Chief Finance Officer to sign off all expenditure on an annual basis
- claw-back provision in place to ensure funding is only to be spent on the specified scheme and that any cost savings achieved on the completed scheme are returned
- The Combined Authority, as the accountable body, will determine the release funding. Advance payments will only be made in exceptional circumstances.
- The Combined Authority may arrange for local audit of schemes to detect any misuse of funds.
- All organisations that receive funding through the Combined Authority and/or LEP are contractually required to acknowledge our support and that of Government in all communications and marketing activity. This includes use of logos on relevant communications materials, inclusion of specified wording in press releases and development of stories and case studies that showcase the impact of projects.

The LEP and Combined Authority will look to recover funding where there has been non-compliance, mis-representation or under-performance. The Accountable Body arrangements in Appendix 1 set out how concerns are elevated, including taking a legal opinion on the likelihood of recovery. When the LEP and Combined Authority decide not to pursue recovery where non-compliance has been identified, and has legal grounds to do so, there must be a compelling justification for such a decision.

Overall, the Combined Authority's internal audit arrangements will sign off all total expenditure as part of the annual audit process.

6.5 Management of contracts

West Yorkshire Combined Authority who are the accountable body supporting the delivery of effective contract management across LEP funded programmes and agreements has implemented a performance management framework which is aimed at ensuring that a high level of contract performance is achieved and that all contract deliverables and obligations are met. At a minimum level, the framework will ensure that the following key contract management elements are implemented:

1. Combined Authority contract managers have a thorough understanding of all contract requirements, deliverables and provider obligations.
2. Regular contract performance meetings are held with providers to review contract delivery in order to maintain ongoing quality and performance of the contract.
3. Performance reporting updates are submitted on a regular basis to the Combined Authority by providers, highlighting performance against key performance indicators and other deliverables.
4. Implementation of regular quality and compliance audits which provide the required evidence in support of contract compliance.
5. Combined Authority are committed to providing general support to key providers in working towards a successful programme delivery.
6. Ongoing programme risk and issues management including implementation of risk logs associated with contracts.

7. Ensure ongoing delivery of value money through effective change management control in accordance with the contract terms and conditions.
8. Problem resolution and implementation of improvement plans where necessary to support increased performance.

Currently the LEP Board receives regular high level reports on the progress of LEP funded programmes and projects together with any significant risks, issues and opportunities. More detailed reporting including specific supplier performance against these programmes and projects are reported to the relevant LEP panel/committee (including the Business Innovation and Growth panel and Employment and Skills panel) and also to the Combined Authority's Senior Management Team.

Any contract negotiations that result in material changes will be assessed and dealt with through the standard variation process as determined within the Combined Authority Contract Standing Orders.

The LEP Board will be consulted on all contract changes that are considered to be critical in nature towards the delivery of LEP funded programmes, projects and the key Economic Plan.

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7. MONITORING AND BENEFITS REALISATION

7.1 Introduction

The following section sets out the approach to monitoring and benefits realisation, including ongoing reviews of the Assurance Process.

7.2 Scheme Monitoring and Benefits Realisation

Monitoring during development and delivery (Activity 3 (OBC) to 7 (Close and Review) inclusive)

All projects are monitored throughout their progression through the assurance process. In 2018/19 the Combined Authority introduced a web based Portfolio Information Management System (PIMS) to ensure a consistent approach to monitoring and management of all projects. A key benefit of PIMS is that information is available to view by all parties to the project, this helps to ensure the accuracy of the data held.

The system provides the following benefits:

- **Transparency**
 - allows informed and improved decision making
 - provides visibility of project progress
 - provides a full audit trail of project data
 - linkages and dependencies between various projects in the portfolio can be viewed and managed more easily
- **Consistency**
 - provides a robust and automated method of project assurance
 - standardised templates and reports offer robust project controls
 - centralised repository for cost and risk management activities will provide a uniform approach.
- **Efficiency**
 - manual data input and manipulation is retained by the PMO and verified by project sponsors.
 - standardised reports, documents and dashboards enable project teams and stakeholders to concentrate on delivery
 - resource management allows for resource planning ahead of demand
 - the organisation's ability to plan using future project deliverables is increased
 - lessons learnt can be more easily understood and shared between stakeholders
- **Focus on delivery**
 - aggregation of project data can identify trends in advance

- facilitates alignment of projects to corporate strategy
- recommendations and actions to be carried out in a more structured and timely way

Key metrics of information on performance are reported at regular intervals from when a scheme enters Stage 2: Development and include expenditure, progress, outputs and benefits, risks and issues, match funding. A rolling schedule of growth deal funded schemes is published on the LEP/Combined Authority websites.

The individual project monitoring information feeds into an overall report for Combined Authority funding, which is reported to the Combined Authority/LEP to enable effective management of all projects and programmes and schemes are being delivered.

All Combined Authority/LEP Board monitoring reports are published on the Combined Authority and LEP websites.

Close and Review (Activity 7)

The purpose of activity 7 is to confirm that a project has met all key requirements and deliverables in accordance with the funding agreement and completed any outstanding compliance requirements highlighted during activity 6 and in the Final Monitoring Report. Also, to capture feedback and lessons learnt to inform the development and delivery of future projects.

The output from activity 6 at decision point 6 is a draft Project Closure Report.

The output from activity 7 at decision point 7 is a Project Closure Report.

Benefits realisation (ongoing through activities 6 and 7)

All projects funded by the Combined Authority and the LEP are required to have an effective benefits realisation plan in place at the end of activity 5, which will form a key aspect of a project's business case. Benefits realisation reporting will be used to assess the effectiveness and impact of investing public funds and the extent to which projects are contributing to the overall objectives of the Combined Authority and the LEP. The development of an appropriate baseline at the start of Stage 3 is crucial to this process.

Growth Deal monitoring and evaluation strategy

A SEP evaluation strategy is in place and has been used to further assess how well and cost effectively schemes have delivered, and the learning points that have emerged.

The principles behind the evaluation strategy are that it is locally owned, managed and draws on local systems; it will be proportionate and selective (e.g. not everything will be evaluated) and that partnership working with LEPs and government takes place to identify opportunities for thematic evaluations that could be conducted across LEP areas or centrally commissioned.

The strategy, which draws on recognised evaluation techniques and methodologies (e.g. to determine net impact/understand economic impact, etc.), plays an important role in strengthening the evidence base in order to inform the future strategic direction of policy development and assist in the design and delivery of future policy by:

- **Establishing evaluation frameworks with supporting tools and templates:** such as the adoption of agreed indicators and measures, data collection procedures and reporting mechanisms
- **Identifying benefits and impacts:** Establishing the outcomes and impacts of a given project or programme and understanding whether the project under/over performed
- **Demonstrating value for money:** showing that the public funds (e.g. Local Growth Fund, Leeds Public Transport Investment Programme, Growing Places Fund, Regional Growth Fund, Enterprise Zone, etc.) the LEP, the Combined Authority and partners are managing are being used effectively and efficiently and are delivering a positive return on investment
- **Understanding the key lessons learnt:** Exploring what is working well and what is not, including management, content, delivery, recruitment and how far projects or programmes are meeting beneficiaries' needs

To bring our approach to monitoring and evaluation in line with MCA's, the strategy now requires updating, including work on methods/approaches, baselining, data collection, and the need to update the overarching impact framework. It is important to note that the overarching framework will need to incorporate inclusive growth metrics and indicators, to reflect the Local Industrial Strategy currently being developed.

The strategy will be reviewed and updated over the next 6 – 12 months, to include: refinement of the overarching impact framework to incorporate inclusive growth metrics and indicators; a review of evaluation methods/approaches to ensure that they reflect and draw on new guidance on the recommended framework for evaluating local economic growth policies (e.g. [as here](#)); and updating programme/project level evaluation plans for the schemes that are intended to be evaluated under each of the four SEP priorities (including identifying new schemes that may be subject to a local evaluation).

Ahead of the development of the updated strategy it is anticipated that a much greater focus on the following themes which will shape the requirements for the range, nature and scale of evaluation activity which will be needed to support projects developed under the Leeds City Region assurance framework.

These key themes are likely to focus on:

- **Strengthening our understanding of the impacts, outcomes and additionality of all forms of projects at an early stage in their design to improve the ex-poste evaluation of our interventions.** All project sponsors will be required to adopt a consistent approach to the use of "Logic Models" – this will improve the alignment of the Assurance Framework with MHCLG's Local Growth Assurance Framework guidance. Logic models represent an essential element of project and programme development and whilst the requirements for the use of logic models will be proportionate to the scale of the intervention, it is viewed that all projects will benefit from this approach. It will allow for a clear focus on those inputs and outcomes that are most relevant to the impact of the project's objectives.

- **Communicating and synthesising the learning from project evaluation –** the updated strategy will place a greater focus on synthesising consistent messages from project learning across all project types – with these insights flowing directly from the relationships set out in the project logic model. The current project closure documentation will be reviewed to ensure that it is fit for purpose in this context. Greater emphasis will be placed on the structured communication of the outputs from project closure reports through learning and dissemination events and the project closure reports will be designed to shape this messaging.
- **Understanding the wider benefits flowing from Growth Deal interventions** – the updated strategy will more clearly define the relationship between project monitoring, benefits realisation and the net additionality achieved across the wider Leeds City Region geography. The updated strategy in this theme will consolidate and align with the Independent Evaluation of Growth Deal currently being conducted by MHCLG.

Five Year gateway review

As part of the Leeds City Region Growth Deal agreement, the West Yorkshire plus Transport Fund will be subject to five-yearly gateway reviews to assess impact. The Government has indicated that the gateway review will focus on evaluating the progress and performance of the investment fund with economic growth becoming the primary measure for assessing impact.

An independent panel, as agreed with HM Government, has been established to undertake the review. The first gateway review in 2019-20 will determine the availability of future Government payments for 2021-22.

The evaluation component of individual West Yorkshire plus Transport Fund scheme's benefits realisation plans will need to complement the five year gateway review. A local evaluation framework for the Transport Fund has been produced, and evaluation plans have been developed. Delivery of key agreed milestones is now underway.

A review of the overall monitoring and benefits realisation activity forms part of the action plan, and will advise on the development of an overarching monitoring and benefits realisation framework.

7.3 Risk Management

Risk is managed in line with HM Treasury 'Orange Book' Guidance on the Principles and Concepts of Risk.

The LEP has agreed that the Combined Authority through the Section 73 Chief Finance Officer, manages risk on the LEP's behalf. The Combined Authority recognises that effective risk management is an integral part of good corporate governance and as such should be a part of everyday management processes. The Combined Authority is committed to ensuring the robust management of risk and as such a corporate risk management strategy is in place to set out a consistent approach to all risk management activities undertaken throughout the organisation. This includes the Combined Authority's risk appetite statement, which is based on risk category. The strategy was endorsed by the Governance and Audit Committee in July 2018 and the current version can be found [here](#)

The Portfolio Management Office (PMO) will champion risk management in projects, programmes and portfolios, providing a management lead in these areas and ensuring that appropriate arrangements are maintained. The Head of PMO is has overall responsibility for the identification and management of project, programme and portfolio risk, but the day-to-day coordination of corporate risk management activities is undertaken by the Corporate Planning and Performance Manager and responsibility for management of risk sits with Directors, Heads of Services, and risk owners.

Identification and Assessment of Risk

Full project-level risk analysis and mitigation/contingency plans are required for each scheme as part of the application process and in developing the business case.

Monitoring risk

Funding recipients are required to report headline risks and issues through PIMS.

Programme Managers produce a risk register, which will include escalated project risks. These are reviewed at each of the relevant funding programme management groups and where escalation is required reported to the Portfolio Management Group (PMG).

A strategic risk register with mitigations and responsibilities at portfolio level is also produced and reviewed quarterly by the PMG.

Risks contained within the above mentioned risk registers can also be escalated to the Combined Authority directorate level risk registers or to the Combined Authority's corporate risk register as needed.

Appendix 1 – Accountable Body Arrangements

Agreement between the Leeds City Region Enterprise Partnership and the West Yorkshire Combined Authority

1. Introduction

The LEP is the strategic body responsible for a significant amount of public funding to drive inclusive growth, increase prosperity and improve productivity (“LEP activity”). The LEP works collaboratively and in partnership with the West Yorkshire Combined Authority, as its accountable body (“the Accountable Body”).

2. Accountable Body roles and responsibilities

Underpinning good governance is an expectation of mutual support between the LEP and the Accountable Body. The Accountable Body is responsible for:

- carrying out **finance functions** on behalf of the LEP, and
- **oversight** of the LEP’s financial and governance, transparency and accountability arrangements,
- providing **additional support** as agreed by the LEP.

The LEP has agreed that the Accountable Body’s specific roles and responsibilities are:

a) Finance functions

On behalf of the LEP, the Combined Authority holds, allocates and releases all funding for LEP activity (“LEP funding”) including the Local Growth Fund and, Growing Places Fund.

This includes approving and entering into agreements relating to LEP funding.

The Accountable Body does not use any LEP funding for their own purposes, nor without a clear mandate from the LEP.

The Section 73 Chief Finance Officer shall ensure that appropriate financial statements are provided to the LEP in a timely manner; a separate financial statement for LEP funding is planned for 2018/19.

The Accountable Body is responsible for treasury management and borrowing functions relating to LEP activity and funding.

LEP funding is included in the Accountable Body’s accounts, and the LEP’s web-site links to the Accountable Body’s accounts.

b) Oversight functions

The Accountable Body has oversight of the LEP’s financial and wider governance, transparency and accountability arrangements, including compliance with the Assurance Framework. The Accountable Body through its Section 73 Chief Finance Officer ensures that LEP funding is administered properly, that is, that LEP funding is spent or released:

- in accordance with formal approvals only, and not for unapproved purposes²⁰,
- with propriety and regularity and to deliver value for money,
- subject to the statutory checks and balances which require the Accountable Body to act prudently in spending,
- in accordance with the Assurance Framework and any other relevant procedure, and
- in compliance with any grant requirements and conditions.

The Accountable Body ensures that decisions on LEP funding are:

- reached in line with clear and transparent processes,
- made on merit
- taken in accordance with the Assurance Framework,
- compliant with all legal requirements including relating to State Aid, public procurement, transparency, data protection and the public sector equality duty.

The Accountable Body also promotes the highest standard of conduct by the LEP, LEP Board members and officers, by reference to the seven principles of public life.

Scrutiny

The Combined Authority's statutory Overview and Scrutiny Committee has a key role in securing independent and external scrutiny of LEP activities. The Committee's terms of reference reflect that the Committee may make reports or recommendations on any matter considered by the LEP or relating to LEP governance. The Committee may also review or scrutinise any decision made, or other action taken, in connection with any function of the Combined Authority, including in relation to its role as Accountable Body.

The LEP recognises the role of the Combined Authority's statutory Scrutiny Officer in facilitating the Overview and Scrutiny Committee to carry out appropriate scrutiny of LEP Board decision-making and LEP achievements.

The LEP agrees to respond positively to any request to share information with the Committee, so that the Committee has the necessary information to provide robust scrutiny and advice. Any member of the LEP Board, including any private sector representative, may be asked to attend or otherwise contribute to a meeting of the Committee.

The contribution of the LEP to any meeting of the Overview and Scrutiny Committee will be recorded with the outcome in the minutes (published on the Combined Authority's web-site). The LEP will ensure that there is a link from the LEP web-site to the Overview and Scrutiny Committee's published reports and minutes.

Audit

To ensure they have proper processes in place to manage risk, maintain an effective control environment and report on financial and non-financial performance, the LEP utilises the Accountable Body's Governance and Audit Committee, and its internal

²⁰ Including the services of lobbyists

and external auditors to provide assurances in relation to LEP activities, as well as the Section 73 Chief Finance Officer.

The LEP and the Accountable Body (through its Governance and Audit Committee) will agree a risk based internal audit plan for each financial year of LEP and Combined Authority activities, that will provide assurance to the Section 73 Chief Finance Officer and the LEP Board at appropriate points through the financial year.

c) Support functions

The Accountable Body acts as the independent secretariat to the LEP²¹, providing the following technical and other support:

- compiling, maintaining and publishing agenda, reports and minutes of meetings in accordance with agreed procedures
- retaining all documentation relating to the Local Growth Fund and other funding sources
- dealing with any request for information, complaint or concern raised in accordance with the appropriate procedure
- appraisal functions as set out in the Assurance Framework,
- legal advice
- recovering funding where there has been non-compliance, misrepresentation or under-performance²²
- risk management.

3. Section 73 Chief Finance Officer - Resources

The Accountable Body will ensure that the Section 73 Chief Finance Officer is given appropriate resources to carry out their functions in respect of the LEP, including audit. The LEP and the Accountable Body shall keep resource needs under review and consider if they are appropriately met.

4. Non-compliance by the LEP

Any decision of the LEP made in contravention of processes set out in the Assurance Framework will be invalid on the basis of non-compliance, unless the LEP has given prior approval for variation in respect of the LEP's decision-making process.

²¹ The Combined Authority is not a constituent member of the LEP, nor does it appoint any representative to the LEP Board. Local authority representatives are appointed in their capacity as district councillors, not members of the Combined Authority.

²² The Accountable Body will report to the LEP Board providing information on projects which have received funding, including

- a description of projects where concerns have been identified,
- relevant details including the amount of funding awarded and the sum at risk due to the concerns, and
- where recovery of funds is considered, a legal opinion which sets out the legal basis for recovery and likelihood of success

In the event that the Accountable Body is not able to endorse any decision of the LEP, the Section 73 Chief Finance Officer would refer the matter back to the LEP for re-consideration.

The LEP and the Accountable Body are committed to proactively raising with the Cities and Local Growth Unit any significant instance of non-compliance, non-delivery or mismanagement by the LEP which cannot be resolved locally. Should any such instance arise, the Chief Finance Officer will also report it to the LEP Board and to the Combined Authority's Governance and Audit Committee.

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Appendix 2 – Section 73 Chief Finance Officer – responsibility arrangements

1. Introduction

The Combined Authority must by law²³ make arrangements for the proper administration of its financial affairs and secure that one of its officers has responsibility for the administration of those affairs. This role is carried out by the Combined Authority's Director of Corporate Services, and extends to include the financial affairs of the LEP.

The Chair of the LEP and the LEP's Chief Executive Officer have agreed the following responsibility arrangements with the Section 73 Chief Finance Officer of the West Yorkshire Combined Authority (the Combined Authority), recognising the role of the Section 73 Chief Finance Officer in relation to instilling good and proportionate LEP governance, including the oversight of the proper administration of the LEP's financial affairs.

2. Financial administration

The Section 73 Chief Finance Officer shall be supported by the LEP and the Combined Authority (in its capacity as accountable body for the LEP) to carry out such checks as are necessary to independently ensure the proper administration of financial affairs in the LEP.

The LEP shall act promptly working with the Combined Authority to address any concerns or improper financial administration identified. The Section 73 Chief Finance Officer will report all concerns to the LEP's Chief Executive Officer in the first instance, making recommendations about any improvements required.

The LEP is responsible for ensuring that all concerns are addressed.

The Chief Finance Officer will report any significant concerns directly to the LEP Board, setting out any improvements required. The LEP Board and the Section 73 Chief Finance Officer shall agree an action plan setting out how such concerns are to be addressed. This may include identifying training needs to ensure compliance.

There will be a standing item on the LEP Board agenda reporting on progress on implementing the action plan, until the Section 73 Chief Finance Officer is satisfied that the issue has been resolved.

The Section 73 Chief Finance Officer will notify the Cities and Local Government Unit of any significant concern where

- the concern is about systemic financial problems, repeated non-compliance or fraud, or
- an action plan cannot be agreed, or

²³ Section 73 of the Local Government Act 1985

- in the opinion of the Chief Finance Officer, the LEP Board does not achieve sufficient progress against the action plan.

3. Advice of the Section 73 Chief Finance Officer

The Section 73 Chief Finance Officer shall work with the Chair of the LEP and the LEP's Chief Executive Officer to ensure that procedures are in place to consider the financial implications of decisions before and during the decision making process.

The LEP shall ensure that the Section 73 Chief Finance Officer is given sufficient access to information in order to carry out their role. The Section 73 Chief Finance Officer or their nominee shall be entitled to:

- attend all LEP Board agenda setting meetings.
- have access to all LEP Board documentation (including LEP Board reports before publication),
- comment on any proposed decisions, by
 - recording an opinion on financial implications and an assessment of risk (such as delivery risks and cost overrun risks) in any report to the LEP Board or relevant Panel, and/or
 - attending and speaking at any meeting of the LEP Board²⁴ or relevant Panel.

Should the LEP Board decide on a course of action which goes against the advice of the Section 73 Chief Finance Officer, the LEP Board must indicate the rationale for their decision, which will be recorded in the minutes of the meeting. However, in the event that the Accountable Body is not able to endorse any decision of the LEP, the Section 73 Chief Finance Officer would refer the matter back to the LEP for re-consideration.

If the role of the Section 73 Chief Finance Officer results in a potential conflict of interest, impartial advice should be sought by the LEP's Chief Executive Officer to ensure transparency from a source which is external to the Combined Authority.

4. Risk management

The LEP has agreed that the Combined Authority through the Section 73 Chief Finance Officer, manages risks on the LEP's behalf. The risk appetite of the LEP is understood by both the LEP Board and the Section 73 Chief Finance Officer.

The Section 73 Chief Finance Officer ensures that the Combined Authority's risk management strategy addresses

- risks arising in relation to LEP activity
- the process for the LEP Board to oversee risk and the escalation of risk analysis and risk management requirements within the LEP²⁵

At the beginning of the financial year, the LEP and the Section 73 Chief Finance Officer will agree the budget risks facing the LEP. These will be kept under review by

²⁴ See further LEP Procedure Rules. The Section 73 Chief Finance Officer is not a member of the LEP Board and does not vote.

²⁵ Drafting Note - Risk management Strategy to be reviewed to ensure fully reflects this requirement

the Section 73 Chief Finance Officer throughout the year, who will report any significant issues to the LEP Board.

5. Audit

The LEP and Combined Authority have agreed audit arrangements as set out in the Assurance Framework and Appendix 1. The Section 73 Chief Finance Officer and the LEP's Chief Executive Officer shall report to the LEP Board on any completed audit by internal or external auditors where any recommendations relate to the LEP, and provide a copy to the Cities and Local Growth Unit as appropriate.

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Appendix 3 – Governance Structures

LEP Board

Membership

A majority of the members of the LEP Board must be private sector representatives.

The LEP's Constitution [here](#) sets out requirements in relation to LEP Board membership, including eligibility criteria, appointment processes, terms of office (including arrangements for resignation), and provisions relating to the LEP's Chair and Deputy Chair.

The LEP website [here](#), and the Combined Authority's website [here](#) provide details of all current members of the LEP Board.

The LEP Board has adopted an Equality and Diversity Policy including Diversity Statement explaining how the LEP seeks to ensure diverse representation at LEP Board and sub-board level which is reflective of their local business community (including geographies and protected characteristics). This can be viewed [here](#).

The LEP Board annually reviews its membership having regard to its Diversity Statement, taking into account the skills, knowledge and competencies it needs, the geography of the Leeds City Region, its key business sectors and different sizes of business operation.

The LEP Board appoints its private sector representatives, including the Chair, in accordance with open recruitment processes which are set out in the LEP recruitment procedure (which also covers succession planning and induction arrangements for private sector representatives) which can be found [here](#).

One LEP Board member is appointed to represent and engage with the SME business community, and another as Diversity Champion.

The LEP has adopted a LEP Board Members' Remuneration and Expenses scheme which can be found [here](#).

West Yorkshire Combined Authority

Membership

Members are appointed to the Combined Authority in accordance with the Order which established the Combined Authority. This provides that West Yorkshire constituent councils each appoint at least one Member to the Combined Authority, with a further three West Yorkshire appointments to reflect the balance of political parties among the West Yorkshire councils.

York is a non-constituent council of the West Yorkshire Combined Authority, and also appoints a Member to the Combined Authority, as does the LEP. These two Members are non-voting, except in so far as the Combined Authority gives them voting rights.

The Combined Authority's website [here](#) provide details of all current members of the Combined Authority.

Voting members on committees and panels include members from the constituent councils, the non-constituent council, local authorities in the wider Leeds City Region and private sector representatives – see further section 2.

Officers

Combined Authority officers serve both the LEP and the Combined Authority. They are appointed on merit in accordance with open recruitment arrangements and new officers undergo a structured induction process.

The authority of officers to act on behalf of the Combined Authority is set out in the officer delegation scheme [here](#).

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Appendix 4 – Economic Services grants: approval arrangements

The Combined Authority's Managing Director has delegated authority from the Combined Authority to make **Economic Services grants**²⁶.

The Managing Director is not required to discharge their delegated authority personally, and may sub-delegate their authority to any other officer.

The following table sets out sub-delegations which the Managing Director has made to other officers in respect of making Economic Services grants²⁷:

| Programme | Limits | Sub-delegation | Appraisal/ Consultation |
|---|---|--|--|
| Access Innovation – capital grants | Up to £20k | Executive Head of Economic Services Head of Business Support | - |
| Access Innovation – Revenue Grants | Up to £25k | Executive Head of Economic Services Head of Business Support | - |
| | £25k-£100k | Executive Head of Economic Services | Access Innovation Programme Advisory Group |
| Apprenticeship Grant for Employers | Up to £2.5k per apprentice and up to £5k per business | Executive Head of Economic Services Head of Employment and Skills | - |
| | Up to £5k per apprentice and up to £10k per business | Executive Head of Economic Services | |
| Business Growth Programme | Up to £25k | Head of Business Support | - |
| | Up to £50k | Executive Head of Economic Services | - |
| | £50k-£100k | Executive Head of Economic Services | Appraisal Advisory Group |
| | £100k-£250k | Managing Director (no sub-delegation) | Business Investment Panel |

²⁶ Any application where a potential conflict of interest arises from the involvement of a member of the LEP Board or the Combined Authority with the business will be dealt with in accordance with the **Conflicts of Interest Protocol: loans or grants to businesses** which sets out the process which the LEP and the Combined Authority follow to demonstrate that applications from businesses for loans or grants are dealt with in an impartial, fair and transparent manner (to be approved by the LEP and the Combined Authority)

²⁷

These officers may not exercise their sub-delegated authority where any conflict of interest arises.

| Programme | Limits | Sub-delegation | Appraisal/ Consultation |
|--|---------------|--|---|
| Digital Inward Investment Fund | Up to £25k | Head of Business Support Head of Trade and Investment | Digital Inward Investment Fund Appraisal Group |
| | Up to £50k | Executive Head of Economic Services | |
| Resource Efficiency Fund | Up to £10K | Executive Head of Economic Services Head of Business Support | - |
| Strategic Business Growth | Up to £25k | Head of Business Support | - |
| | Up to £40k | Executive Head of Economic Services | |
| Strategic Inward Investment Fund | Up to £250k | Managing Director (no sub-delegation) | Business Investment Panel |
| | Over £250k | Managing Director (no sub-delegation) | PAT, Business Investment Panel , Investment Committee and/or Combined Authority |
| Any other economic services grant under a funding stream or programme not listed above: | Up to £25k | Relevant Head of Service ²⁸ (in relation to decisions within their remit) | None |
| | Up to £100k | Executive Head of Economic Services | |
| | £100k-£250k | Managing Director (no sub-delegation) | Business Investment Panel |

Membership of the Panels referred to in the above table, in respect of economic services grants arrangements are as follows:

²⁸ That is, the Head of Business Support, Head of Trade and Investment or Head of Employment and Skills

| Panel | Programme | Membership |
|--|----------------------------------|--|
| Access Innovation Programme Appraisal Group | Access Innovation | Officers from the Combined Authority; officers from District Authorities; University Representatives; Innovate UK; Ministry of Housing, Communities and Local Government |
| Appraisal Advisory Group | Business Growth Programme | Officers from the Combined Authority; officers from District Authorities; Business Enterprise Fund |
| Business Investment Panel | Business Growth Programme | Local authority public sector members; senior private sector representatives with expertise in relevant sectors (e.g. banking, accounting, law) |
| | Strategic Inward Investment Fund | |
| Digital Inward Investment Fund Appraisal Group | Digital Inward Investment Fund | Officers from the Combined Authority |

Appendix 5 – Assurance Process principles for ESIF Sustainable Urban Development (SUD) purposes

Purpose

The urban agenda and the role of cities in driving forward smart, sustainable and inclusive growth is central to the successful delivery of the 2014-20 ESI Funds Growth Programme in England.

The Leeds City Region Sustainable Urban Development (SUD) Strategy, which aims to address integrated urban challenges and opportunities in our area, was submitted to the Ministry of Housing, Communities and Local Government (MHCLG) back in September 2015 and has now been formally agreed.

The Ministry of Housing Communities and Local Government – otherwise known as the Managing Authority - agreement of the SUD Strategy will ensure that funds worth up to 10% of the Leeds City Region European Structural and Investment Funds (ESIF), European Regional Development Fund (ERDF) allocation will be made available in order to implement the SUD strategy.

In order to put in place the delegated functions that are required by Article 7 of the EU Regulation 1301/2013, with regard to project selection, MHCLG have now established the West Yorkshire Combined Authority as an Intermediate Body (IB) in line with Articles 123 and 125 of EU Regulation 1303/2013.

The Combined Authority, as the Intermediate Body will, in order to make decisions with regard to its role in the project selection process, use the principles of the Assurance Process as outlined below. Any process will be undertaken in line with the selection criteria as defined by the ESIF national Growth Programme Board.

This appendix presents the Leeds City Region Assurance Process as the model and framework that the Combined Authority has adopted in assisting in the selection of projects as part of the ESIF programme 2014-2020 for SUD.

Background

- In July 2012 the Leeds City Region agreed a 'City-Deal' with HM Government giving greater local control over spending and decision-making particularly with regard to economic development, regeneration and transport. This 'City-Deal' agreed to the creation of a West Yorkshire Combined Authority and a commitment to develop an Assurance Process. The Assurance Process, once approved by HM Treasury, would provide a consistent, robust appraisal process for projects and programmes to inform investment decisions.
- In light of this, and the flexibility that is inherent within the Assurance Process, it represents a means to structure the local appraisal of ESIF SUD projects rather than developing a separate process. This approach complements the formal technical assessment carried out by MHCLG.

Introduction to selection of projects using the Assurance Process principles

The process adopted here reflects the guidance issued by MHCLG and adheres to the process and role of the Intermediate Body.

The Investment Committee provides advice to the Combined Authority in line with the nationally agreed criteria and in line with the agreed and signed Memorandum of Understanding between the Combined Authority and MHCLG.

The Investment Committee provides advice to the Combined Authority to whether proposals set out at Outline and subsequently Full Application appropriately address:

Local strategic fit as defined in the Selection Criteria^[1] for the ERDF 2014-2020 programme, which includes how:

- the proposed operation contributes to the needs/opportunities identified in the Call for Proposals to which it is responding.
- the proposed operation is aligned to the local growth needs set out in the local ESI Funds Strategy and contributes to the specific objectives, outputs and results of the relevant priority axes set out in the Operational Programme.

In addition, the Combined Authority provides advice to MHCLG on the following value for money and deliverability selection criteria:

Value for money

- The operation must represent value for money. In assessing value for money, MHCLG take account of:
 - efficiency: the rate/unit costs at which the operation converts inputs to the Fund outputs.
 - economy: the extent to which the operation will ensure that inputs to the operation are at the minimum costs commensurate with the required quality.
 - effectiveness: the extent to which the operation contributes to programme output targets, results and/or significant strategic impact at the local level.

Deliverability

- the operation is deliverable within the requirements of the fund specific Operational Programme taking account risks, constraints and dependencies
- evidence has shown that this type of operation is effective or where the operation is new or innovative, the risks have been considered and appropriate mitigations put in place.

Using the Assurance Process principles

The Assurance Process is designed to ensure any projects seeking public finance should be subjected to a rigorous appraisal. HM Treasury has developed the Green Book which provides the basis for how projects should be appraised using the ‘five cases model’ to carry out a holistic assessment.

The five cases are:

^[1] Selection Criteria [here](#)

1. **Strategic**: does the scheme fit with the aims of the City Region's Strategic Economic Plan? (**used for selection of projects for SUD as part of the ESIF Strategy**)
2. **Economic**: is the scheme value for money? (**used for selection of projects for SUD as part of the ESIF Strategy**)
3. **Commercial**: is there demand for the scheme and is it commercially viable?
4. **Financial**: is the scheme affordable and sustainable?
5. **Management**: is the scheme deliverable with achievable objectives? (**used for providing advice on the selection of projects for SUD as part of the ESIF Strategy**)

The Green Book details approaches and tools that can be adopted in order to effectively appraise projects. It is accepted that the detail and extent of appraisal should reflect the size and complexity of projects, but within all appraisals there should be some consideration of each of the five cases.

The Assurance Process has been developed in line with these principles and was a key requirement that emerged from the LEP's City-Deal. Discussions with HM Treasury are continuing to ensure alignment with central government processes and expectations. The Assurance Process will be used by the LEP and the Combined Authority for all of its different funding regimes, providing a consistent and robust approach to appraise projects. This means all projects, irrespective of objectives or thematic area (transport, regeneration, housing, skills, innovation, enterprise etc.), will be assessed under this 'single' framework. This will better able the LEP and the Combined Authority to compare and prioritise projects and programmes.

It is the Assurance Process which is used to form the basis for the 'local' appraisal and selection of SUD ESIF projects outside the formal MHCLG assessment.

For the purposes of selecting SUD ERDF projects, the key principles of the Assurance Process are used – but only using cases 1, 2 and for advice case 3 as described above and in line with the nationally agreed criteria and the agreed and signed Memorandum of Understanding between the Combined Authority and MHCLG.

Strategic Fit – Proposed scope

The proposed assessment of strategic fit is currently structured around the four pillars of activity that are central to the Leeds City Region Strategic Economic Plan (SEP):

1. Growing businesses
2. Skilled People, Better Jobs
3. Clean Energy and Environmental Resilience
4. Infrastructure for growth

Promoting social inclusion and combating poverty, designed to reflect aspects of the social outcomes that are promoted within the ESIF programme, are integrated within the pillars.

The pillars have been broken down into activity that could contribute to strategic outputs within the respective pillar and projects would be scored against these criteria.

Value for Money (VfM) – Economic impact – proposed scope

In assessing the value for money of each of the projects, the process effectively mirrors that of the Assurance Process - ensuring that the costs and benefits of projects are taken into account and wherever possible quantified.

This is more straightforward for some projects than others and there is an onus on reflecting local intelligence and priorities. New jobs and catalytic projects are ‘worth’ more in some areas than others simply because there are fewer jobs or because it is more difficult to create and sustain jobs in certain locations. This is especially the case where disadvantage is long-term and entrenched.

The Research and Intelligence team own and manage the Regional Econometric Model, a complex tool that enables scenarios to be assessed in terms of their net economic impact. This provides a range of outputs with a focus on impacts in terms of employment and gross value added (a measure of economic impact). These outputs can be calculated over a range of different geographies.

Other approaches are used to quantify the outputs/outcomes that by their nature have a direct impact that is more social rather than economic.

In terms of the local assessment, additional measures of value for money are being used where necessary to provide more information on the potential impact of projects. Such measures and ratios include:

- Total GVA of the project
- Ratio of GVA to Total Cost AND public sector support
- Total cost per job
- Total GVA per job
- Cost benefit ratio
- Grant per job
- Cost per business assist
- Cost per skill outcome
- Capital / build costs

The appraisal is informed and supported by national and local research in terms of the costs of outputs and outcomes. This includes elements such as guidance issued by OFFPAT, evaluations of RDA activity and more recent, evidence emerging from the What Works Centre for Local Economic Growth and bespoke evaluations such as that carried out on the Combined Authority’s Business Growth Programme (BGP).

Undertaking the work

The responsibility of the Assurance Process is the responsibility of the Director of Delivery, to whom a Head of Feasibility and Assurance reports.

The Head of Feasibility and Assurance commissions the Head of Research and Intelligence (under the Director of Policy, Strategy and Communication), to undertake the appraisal work on local strategic fit and economic - value for money

(VfM). The appropriate policy lead will also support the approach, under the supervision of the Head of Research and Intelligence, to provide the advice that is considered and discussed by the Investment Committee. This in turn, leads to recommendations to the Combined Authority to make decisions on the selection of operations.

Reporting

The results from the appraisal are presented in a summary assessment report, provided by MHCLG, alongside MHCLG's own formal technical assessment. This provides an insight into the strengths and weaknesses, bringing together the metrics and other qualitative and quantitative information.

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Appendix 6 – Programme Appraisal Team (PAT) terms of reference

1. Introduction

- 1.1. The Programme Appraisal Team (PAT) are West Yorkshire Combined Authority officers who oversee the Assurance Process as projects/programmes progress through it.
- 1.2. The Assurance Process is part of the Leeds City Region Local Assurance Framework (2019).
- 1.3. The PAT is an internal assurance group independent of scheme promoters and has no formal approval making powers. The PAT make recommendations which are then reported through the current Combined Authority governance arrangements for a formal decision/approval.

Figure 1: West Yorkshire Combined Authority Assurance Process



Objectives of the PAT

- 2.1. Ensure the Leeds City Region Local Assurance Framework principles are applied consistently at all stages of the Assurance Process and to facilitate the progress of projects through decision points. This will include:
 - a) Receiving and reviewing project case papers and appraisal reports from case officers and considering case officer recommendations at decision points.
 - b) Requesting further information/clarifications as appropriate to facilitate recommendations and approvals in accordance with delegations.
 - c) Ensuring that appropriate levels of appraisal, including peer consultation and review, has been undertaken as part overall scheme appraisal.
 - d) Providing decision point recommendations/approvals in accordance with delegations.
 - e) Recommending PMO Pathway for projects/programmes once accepted into Stage 2: Development.
 - f) Receiving and reviewing change requests for projects/programmes where a change falls outside of set tolerances in order to make recommendations in accordance with delegations.
 - g) Provide an interface between Leadership Team, case officers, and key partners/stakeholders to escalate matters where required, and

report to Senior Leadership Team where a decision requires Managing Director approval

3. How the PAT will operate

PAT Membership:

- 3.1. The PAT consists of a core membership representing West Yorkshire Combined Authority policy/strategy, delivery, legal, and financial functions.
- 3.2. Meetings will be chaired by the Director of Delivery.

Table 1: PAT Membership

| Role on the PAT | Responsibilities on the PAT | Suggested Membership |
|------------------------------------|---|---------------------------------------|
| Director | Chair – to oversee the PAT | Director of Delivery |
| Feasibility & Assurance | Vice-Chair – to oversee the PAT in absence of the Chair To ensure the principles of the Leeds City Region Local Assurance Framework are adhered to. In particular being responsible for the robustness of scheme appraisal and its conformity with Green Book (and components of this such as WebTAG) | Head of Feasibility & Assurance |
| Transport Policy | To ensure Projects/Programmes meet SEP Objectives in relation to transport. | Head of Transport Policy |
| Economic Policy | To ensure Projects/Programmes meet SEP Objectives in relation to economics. | Head of Economic Policy |
| Finance | To oversee any financial matters | Head of Finance |
| Legal | To oversee any legal matters | Head of Legal and Governance Services |
| Research and Intelligence | To ensure all Projects/Programmes are following a robust, effective and proportionate monitoring & evaluation to ensure Project/Programme outcomes and benefits meet SEP Objectives. | Head of Research and Intelligence |
| PMO | To ensure the principles of the Leeds City Region Local Assurance Framework are adhered to. In particular being responsible for the Assurance Process and making sure Projects/Programmes are following the Process and West Yorkshire Combined Authority Governance appropriately. | Head of PMO |

PAT Attendance:

- 3.3. The PMO will provide secretariat services to the PAT
- 3.4. Case officers, independent technical advisers, peer group representatives (including representatives from partner authorities and/or third party private businesses) and other attendees as required will attend the PAT to supplement the decision making process.
- 3.5. The PAT also plays an ongoing role in refining and developing the Assurance Processes to improve how it is implemented and in operationalising the Assurance Framework.

Meeting Format

- 3.6. The PAT will meet on a regular cycle (monthly or more frequently subject to the programme) with an agenda based around the Assurance Process Activities. Projects/programmes being discussed at the PAT will be allocated time slots in which discussion and recommendations will be made.
- 3.7. Promoters will attend meetings by invite only. Where a promoter does attend to present their scheme, they will only be present to their allotted time slot. They will be asked to leave the meeting in advance of any recommendation being made by the PAT.

Records of Meetings

- 3.8. Meetings will be minuted, with draft minutes being circulated to the PAT members after a meeting has taken place. The minutes will be formally agreed and considered signed off at the following meeting.
- 3.9. Actions and recommendations relating to each specific project/programme being discussed will be captured and communicated to case officers and promoters separate to the official minutes.

Conflict of Interest

- 3.10. Where conflict of interest issues arise during a meeting e.g. scheme comes forward for discussion which member of the PAT is the Senior Responsible Officer for, the SRO will leave the meeting and will not be part of any discussions and recommendations in relation to their scheme. Where this happens, this will be minuted.

Making Recommendations

- 3.11. The PAT's recommendations will depend on the decision point for any given scheme summarised in the Leeds City Region Local Assurance Framework.
- 3.12. The PAT may recommend a scheme to not progress through a decision point or for additional information in order for a scheme to progress at any given decision point.

3.13. All PAT Recommendations are reported through the current West Yorkshire Combined Authority governance arrangements for a formal decision/approval.

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GLOSSARY

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| ASR | Appraisal Specification Report: A report produced by the scheme promoter, in conjunction with the West Yorkshire Combined Authority, setting out the agreed approach to appraisal of the scheme, as part of the Assurance Process. |
| AST | Appraisal Summary Table: A summary of the key consequences relating to the environmental, economic and social impacts of a trunk road scheme. They are used to help determine which schemes should proceed and if they do, to decide which options to choose. |
| BCG | Business Communications Group: A group of people made up of key representatives from organisations in the City Region. They support business growth and act as an advisory group to the LEP Board. |
| BCR | Benefit Cost Ratio: An indicator used in cost-benefit analysis that attempts to summarise the overall value for money of a project or proposal. |
| BEIS | Business, Energy and Industrial Strategy: A ministerial department supported by 47 agencies and public bodies. It brings together responsibilities for business, industrial strategy, science, innovation, energy and climate change. |
| BGP | Business Growth Programme: The department for Business, Energy & Industrial Strategy set up grants for businesses that meet certain requirements. Businesses can apply to the Leeds City Region LEP to obtain these grants. |
| BIG | Business Innovation and Growth Panel: The panel consists of senior councillors from key businesses and representative bodies across the City Region. The panel reports to the LEP Board and the Combined Authority. |
| CBA | Cost Benefit Analysis: A systematic approach to estimating the strengths, weaknesses and alternatives for a decision to be made. It involves adding up the benefits of a course of action and then comparing these with the costs associated with it. |
| CSF | Critical Success Factors: A management term for an element that is necessary for an organisation or project to achieve its goals. |
| DCLG | Department for Communities and Local Government: Now known as Ministry of Housing, Communities and Local Government (MHCLG). A ministerial department supported by 11 agencies and public bodies. They create places to live and work and give more power to local people to shape what happens in their area. |

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| DfT | Department for Transport: A ministerial department supported by 19 agencies and public bodies. They would work with agencies and partners to support the transport network and plan and invest in transport infrastructure. |
| EoI | Expression of Interest: A document that describes the potential project/ programme requirements and/ or specifications detailing how they would be met. |
| ERDF | European Regional Development Fund: Aims to strengthen economic and social cohesion in the European Union by correcting imbalances between its regions. The ERDF focuses its investments on several key priority areas and is designed to reduce economic, environmental and social problems in urban areas. |
| ESIF | European Structural and Investment Funds: Includes money from the European Social Fund, European Regional Development Fund and European Agricultural Fund for Rural Development. They apply to projects backed by the ESIF. |
| EU | European Union: An association of European nations formed in 1993 for the purpose of achieving political and economic integration. Incorporating the European Community, the European Union's member states are Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. In 2016 the United Kingdom voted by referendum to withdraw from membership in the European Union. |
| EZ | Enterprise Zone: An area in which state incentives such as tax concessions are offered to encourage business investment. |
| FBC | Full Business Case: A Business Case provides justification for undertaking a project or programme. It evaluates the benefit, cost and risk of alternative options and provides a rationale for the preferred solution. |
| GPF | Growing Places Fund: Funding from the Department for Communities and Local Government that supports key infrastructure projects designed to unlock wider economic growth, create jobs and build houses in England. This fund comprises of £730 million. |
| GVA | Gross Value Added: Measures the contribution made to the economy and is a key indicator of the state of the whole economy. It measures the value of goods and services produced in an area. |
| Green Book | HM Treasury guidance for public sector bodies on how to appraise proposals before committing funds to a policy, programme or project. |
| HE | Homes England: |

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| | Formerly known as Homes and Communities Agency. A non-departmental public body that is sponsored by the Department for Communities and Local Government. HE helps create successful communities by making more homes and business premises available to the residents and businesses who need them. |
| HMT | Her Majesty's Treasury: The government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth. |
| IPPR North | Institute for Public Policy Research (IPPR) North: This programme looks at the stage of civil society and the voluntary sector in the North of England. The programme aims to inform and shape local, regional and national policymaking regarding the role of civil society in the North of England in the future. |
| LCR | Leeds City Region: Encompasses the eleven local authority areas of Barnsley, Bradford, Calderdale, Craven, Harrogate, Kirklees, Leeds, Selby, Wakefield and York along with North Yorkshire County Council. |
| LEP | Local Enterprise Partnership: Locally-owned partnerships between local authorities and Businesses. They play a central role in deciding local economic priorities and undertaking activities to drive economic growth and create local jobs. |
| LGF | Local Growth Fund: Growth Deal funding provided to Local Enterprise Partnerships for projects that benefit the local area and economy. |
| LTP | Local Transport Plan: Identify priorities for maintaining and improving local transport systems based on the needs and wants of residents and organisations in the region, and put forward plans of how they will be achieved. These improvements are then given funding to be put into action. |
| LVU | Land Value Uplift This is quantification of the net benefits of a proposal. This measures the difference of value from the land's current use to when it is used for another purpose as an economic uplift and captures all private sector costs of development. |
| MD | Managing Director: The person who is in overall charge of the running of an organisation or business. |
| MHCLG | Ministry of Housing, Communities and Local Government: Formerly known as Department for Communities and Local Government (DCLG). A ministerial department supported by 12 agencies and public bodies. They create great places to live and work, and to give more power to local people to shape what happens in their area. |
| NPV | Net Present Value: The difference between the present value of the future cash flows from an investment and the amount of investment. NPV is used to analyse |

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| | the profitability of a projected programme or project. |
| Nolan Principles | The seven principles of public life, which are the basis of the ethical standards expected of public office holders. |
| OBC | Outline Business Case: This sets out the preliminary thoughts regarding a proposed project/ programme. It contains information needed to help make a decision regarding the implementation of the project/ programme such as envisaged outcomes, benefits and potential risks associated. |
| Orange Book | HM Treasury guidance for public sector bodies on risk management. |
| PAT | Programme Appraisal Team: A team formed to ensure compliance with the assurance framework. It is a formal group of West Yorkshire Combined Authority officers who oversee the Assurance Process. |
| PCR | Project Closure Report: The final document produced for the project and is used by senior management to assess the success of the project, identify best practice for future projects, resolve all open issues and formally close the project. |
| PIMS | Portfolio Information Management System: A management system used to provide transparency, consistency, efficiency and focus on delivery. |
| PMO | Portfolio Management Office: The office that prioritises and controls an organisations projects and programmes in line with its strategic objectives and capacity to deliver. |
| QRA | Quantified Risk Assessment: A structured approach to identifying and understanding the risks associated with hazardous activities. The assessment takes inventory of potential hazards, their likelihood and consequences. |
| RAG | Red, Amber and Green rating: Also known as the traffic light system and used as a visual cue to project performance. |
| REM | Regional Econometric Model: Incorporates aspects of four major modelling approaches; Input- Output, General Equilibrium, Econometric, and Economic Geography. It estimates the changes in total regional income and employment. |
| SEP | Strategic Economic Plan: A long-term plan that shows how the LEP and Local Authorities will grow the economy and how its ambitions will be achieved. |

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| SME | Small and Medium Enterprises: A company is defined as an SME if it has a staff headcount of either <50 (small) or <250 (medium sized). The company also needs to have a turnover or balance sheet total of ≤€10m (small) or ≤€50m (turnover) or ≤€43m (balance sheet) (medium). They represent 99% of all businesses in the EU and can be eligible for support (research funding, innovation funding etc.) and can have reduced fees for EU administrative compliance. |
| SOC | Strategic Outline Case (SOC) The purpose of the SOC is to confirm the strategic context for the project, to make the case for change and to determine ‘the preferred way forward’ |
| SUD | Sustainable Urban Development: The development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Urban development should be guided by a sustainable planning and management vision that promotes interconnected green space, a multi-modal transportation system, and mixed-use development |
| TfN | Transport for the North A statutory sub-national transport body, which is a partnership of public and private sector representatives working with central government and national transport bodies to develop and deliver strategic transport infrastructure across the North of England. |
| UDM | Urban Dynamic Model: A simulation of how transport interacts with population, employment and land-use over long periods of time, typically ten years or more. It helps understand how transport could contribute to economic regeneration. |
| VfM | Value for Money: The most advantageous combination of cost, quality and sustainability to meet customer requirements. |
| WebTAG | Web-based Transport Appraisal Guidance: Guidance on the conduct of transport studies. It provides advice on how to set objectives and identify problems, develop potential solutions, create a transport model for the appraisal of the alternative solutions and how to conduct an appraisal which meets the department's requirements. |
| West Yorkshire Transport Levy | An annual levy on the West Yorkshire authorities, which is used to invest in priority projects/programmes across West Yorkshire, helping to deliver a number of key transport priorities. |

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Agenda Item 10

Item 12 - Appendix 2

Appendix 2

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*New section for 2019 update

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