West Yorkshire Combined Authority

| | |
|---|---|
| **Report to:** | Governance and Audit Committee |
| **Date:** | 23 July 2019 |
| **Subject:** | **Annual Accounts 2018/19** |
| **Director(s):** | Angela Taylor, Director, Resources |
| **Author(s):** | Jonathan Sheard |

## 1. Purpose

1.1 To present to the Committee for their approval the annual accounts for 2018/19 for the West Yorkshire Combined Authority.

## 2. Information

2.1 There is a statutory requirement for approval of the annual accounts by 31 July. Mazars and the Combined Authority have worked together to complete this work to this deadline.

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

**Appendix 1** Final accounts of the Combined Authority
**Appendix 2** Treasury management statement
**Appendix 3** Audit completion report

2.3 The accounts have been prepared on an International Financial Reporting Standards (IFRS) basis in accordance with the CIPFA Code of Practice on Local Authority Accounting UK.

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

2.5 **International Accounting Standard (IAS) 19 Employee Benefits** requires a particular accounting treatment of pension costs and liabilities. In effect the accounts provide a snapshot in time of the organisation's element of the West Yorkshire Pension Fund at the balance sheet date, based on information from the actuaries. In common with most local authorities this results in a deficit on

the scheme but under the Account and Audit Regulations (England) 2011 this apparent deficit is funded by the creation of a corresponding reserve. The reality is that the deficit in the scheme is being addressed through the annual employer contribution rates set by the actuary and will reduce within the required timescales. The liability will only crystallise should either the West Yorkshire Pension Fund cease to exist or Combined Authority cease to exist without a successor organisation to take on the liability. The Fund has undergone its triennial valuation, underlying assumptions were revisited and employer rates have been reset for the period up to 31 March 2020. The deficit has increased during the financial year 2018/19 from £74.8m to £84.6m as a result of mainly the financial actuarial assumptions changing over the course of the year, and a constructive obligation of £2.6m from two emerging national pension issues, the McCloud Judgement and Guaranteed Minimum Pension (GMP) Equalisation. These required a late stage adjustment to the accounts following on the Government being refused permission to appeal by the Supreme Court on 27 June 2019.

2.6 The outcome of the accounting entries for pensions set out in the previous paragraph often results in a negative balance sheet which would ordinarily give rise to a question regarding going concern. For 31 March 2019 this is not the case, due to an increase in cash and an overall strong balance sheet position. In any event it is not thought likely that the pension deficit will crystallise and the Combined Authority is making contributions to address this deficit as determined by the actuary.

2.7 The **going concern principle** is always required to be considered as part of the year end process. The IFRS Code's underlying assumption is that accounts shall be prepared on a going concern basis where the functions of the 'authority' will continue in operational existence for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. The Combined Authority relies on funding 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. The Combined Authority's accounts have therefore been prepared on a going concern basis.

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

2.9 **Accounting policies –** there are no significant changes to note from last year.

**Final accounts of the Combined Authority (Appendix 1)**

2.10 The Combined Authority's accounts comply fully with the required accounting standards.

2.11 The final revenue budget position for 2018/19 was reported to the Combined Authority meeting in June 2019. The final position is a £1.6 million surplus that adds to the general reserves giving a balance of £6.8 million. The year had started with a budgeted £1.4 million deficit, though a forecast undertaken during year estimated a £1 million deficit position with further updates indicating this position was likely to improve further towards the year end. The much improved year end position is mainly attributable to the subsidised bus services savings ahead of target (£1.3 million), reduced concessionary fares costs (£0.4 million) and a combination of early redemption fees and further loan interest accrued on Growing Places loans. Additionally the higher than expected cash balances, reflecting receipt in advance of a number of external funds, has generated £0.8 million of interest over budget.

2.12 In comparison to 2017/18 the Combined Authority's balance sheet shows a reduced level in assets. As accountable body for the Leeds City Region Enterprise Partnership, the Combined Authority has been in receipt of Growth Deal payments as well as a number of other upfront grant payments. In the previous years there have been increase in capital grants unapplied of £15 million and in short term investments of £35 million. The capital expenditure for 2018/19 has increased by £13 million (£158 million in 2018/19 and £145 million in 2017/18), some of which have utilised funding already received.

**Treasury Management statement (Appendix 2)**

2.13 The Treasury Management Statement for the year is set out in **Appendix 2**. The budget report to the Combined Authority in February 2019 confirmed the treasury management arrangements in place for the year and no subsequent changes are proposed at this stage. These arrangements and prudential borrowing rules will continue to be applied throughout the coming year.

**Capital expenditure**

2.14 Total capital expenditure in the year was £158 million, funded through a combination of income streams but primarily grants from the Department for Transport and the Department of Communities and Local Government (in relation to the Growth Deal). These included the Local Transport Plan Integrated Transport block funding and highways maintenance grant totalling £42 million which is then utilised by Combined Authority and the constituent District Councils. The Combined Authority also received capital grants for the Clean Vehicle Technology Fund Cycle Safety grant of £4.4 million. Some funding was carried forward from 2017/18, reflecting the change by the Department for Transport in paying multi-year grants in advance. Similarly funding will be carried forward to 2019/20 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.

2.15 The Growth Deal funding of £74 million received for 2018/19 plus the carried forward amount from 2017/18 of £35 million have been applied to some £78.5 million of projects originally identified within the programme submitted to government. An overspend on the Growth Deal in year has been accounted for utilising capital grants unapplied and the remaining balance of capital grant unapplied will be utilised on projects that have been re-profiled to 2019/20 and beyond.

**Audit Completion Report (Appendix 3)**

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

2.17 The key messages are set out in the Executive Summary on pages 3-4 of the report which states that an unqualified audit opinion, without modification, is anticipated to be given on the financial statements. It also anticipates an unqualified value for money conclusion.

2.18 The rest of the report goes on to consider how the significant audit risks identified at the planning stage and the key areas of management judgement have been addressed and the outcome of that work. It also sets out observations on the internal control environment from page 9 onwards. There are four recommendations made in relation to internal control that have been identified. A management response is included for each one that sets out the agreed actions to be taken. The Committee will be aware that a large number of changes are underway within ICT as part of the Corporate Technology Programme which is providing investment to move towards a 'digital first' organisation that can work flexibly with reliable and effective tools and systems enabling better productivity. The recommendations made align with the changes planned to be introduced in the programme and will be fully addressed as part of that implementation.

2.19 Some changes from the draft accounts are set out on page 13 and these have been addressed in the final accounts at **Appendix 1.** Other than the adjustment for pensions as set out in paragraph 2.5 they are largely reclassifications and/or presentational and therefore have no impact on the results for the year.

2.20 The auditors will require a representation letter to be signed by management. This is a standard part of the process and effectively provides assurances that the Combined Authority has provided all necessary information and disclosures to the auditors. The wording of that representation letter is included on pages 18-20 of Mazars report and the Director, Corporate Services will provide a signed copy of this to the auditors. The letter of representation also confirms that no events have occurred in the period from the completion of the audit to

the date of the signing of the accounts which would require any changes to the accounts.

2.21 Mazars are required to issue an audit completion notice by the statutory date of 31 July to confirm that they have completed their work in relation to the annual accounts. There is not a requirement to audit the Whole of Government Accounts submission which will take place in August/September 2019. This is due to threshold changes and the Combined Authority, for 2018/19, falls below the required level.

## 3. Financial implications

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

## 4. Legal Implications

4.1 None arising directly from this report.

## 5. Staffing Implications

5.1 None arising directly from this report.

## 6. Recommendations

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

6.2 That Mazars audit completion report be considered.

6.3 That the Committee approve the attached annual accounts for the year ended 31 March 2019.

## 7. Appendices

Appendix 1 – WY Combined Authority – 2018/19 Statement of Accounts
Appendix 2 – Treasury management statement
Appendix 3 – Audit Completion Report 2018/19 (Mazars)