

Report to: Governance and Audit Committee

Date: 30 July 2020

Subject: **Compliance and Monitoring**

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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

- 2.2 There have been no significant changes to internal controls in the period and monthly reconciliations are up to date.
- 2.3 Measures put in place to enable business to continue during the pandemic have been successful with committee and board meetings able to continue using virtual arrangements. Some minor changes to approvals processes have been documented and agreed to enable electronic approval of for example expense claims rather than signatures on paper.
- 2.4 The Regulatory and Compliance Board at officer level continues to meet and will provide information as required to this Committee and the Combined Authority. To date its meetings have considered assurances provided by the work undertaken by internal audit, health and safety, information governance, risks and controls and compliance including financial, procurement, 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.

Treasury Management

- 2.5 The regular governance meetings continue to be held with Leeds City Council to consider and review the transactions relating to investments and treasury management. The last meeting was on 16/4/2020 and no areas of concern were raised. The high level of cash balances was considered and the challenges this presents with regard to placing funds with approved counterparties.

Key indicators

- 2.6 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.
- 2.7 There have been no further reportable (RIDDOR) accidents reported since the previous meeting, leaving the total for the year at one.
- 2.8 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 budget

2019/20 – Final Outturn

- 2.9 A summary of the 2019/20 final revenue outturn is attached at **Appendix 1** and this was considered at the Combined Authority meeting on 25 June 2020.
- 2.10 The year had started with a deficit budget of £1.2 million, with reported forecasts during the year identifying that savings would accrue. The reforecasted budget approved in February 2020 (based on December actuals) set out an estimated £0.4 million surplus by the end of the year which meant a forecast general reserve of approximately £7 million as at the end of the financial year. It was expected that this level of general reserves would be required to help manage emerging pressures including Brexit, work on bus options following the announcement of the proposed sale of First Group's bus operations and 'cliff edge' funding for a range of projects and some of the initial costs of transitioning to a mayoral combined authority.
- 2.11 The final outturn (unaudited) for 2019/20 is a £1.3 million surplus which is an additional £0.9 million and puts the general reserves at approximately £8 million. The improved year end position is mainly attributable to the additional interest earned on short term investments due to the delays in the grant funded capital programme (£0.9 million), savings in bus operator payments (£0.2 million), savings across all supplies and services (£0.4 million) and

these offset by reduced income compared to that previously forecast (£0.5 million).

- 2.12 The COVID-19 pandemic had little financial impact on the 2019/20 revenue budget. Work on the impact in 2020/21 is covered later in the report.
- 2.13 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.

Revenue Budget 2020/21

- 2.14 A balanced budget was approved by the Combined Authority meeting on 6 February 2020. Work is underway on whether a revised revenue budget for 2020/21 is required to account for the impact of Covid-19. The current estimated impact was considered by the Budget Working Group in June 2020 and due to be considered by the Combined Authority on 27 July 2020. A verbal update will be provided at today's meeting. Additionally, the figures have been submitted to the MHCLG as we seek further financial support in addition to the contribution to bus costs secured through the Covid-19 Bus Services Support Grant (CBSSG).
- 2.15 In summary a potential impact of circa £12 million (high scenario) is currently estimated for 2020/21. The main areas expected to be impacted are:
- | | £m |
|--|-----|
| - Supported Bus Services impact | 4.9 |
| - Sales, Advertising & Investment Income | 5.2 |
| - Commercial rents | 0.9 |
| - Covid-19 Related Additional Cost | 1.0 |
- 2.16 The actual financial impact is still emerging and will be closely monitored and reported to each meeting of this Committee during the year. The impact on future financial years will also be reported here as part of the business planning and budget setting process.

2020/21 – Financial Monitoring as at June 2020

- 2.17 A summary of the 2020/21 current revenue spend to original budget as at June 2020 is attached at **Appendix 2**. A new format is presented, including a RAG rating to help identify those budget lines that are a concern. There are a number of emerging 'red' areas of concern to report. These are related to the Covid-19 pandemic as mentioned above. Key impacts are being felt across commercial income, bus station costs, commission from travel card / MCard sales, bus revenues (for gross cost contracts) and transport service costs. These forecasts have been shared with the Ministry of Housing, Communities and Local Government (MHCLG), and transport elements with Department for Transport (DfT). To date the DfT has approved some additional bus subsidy grant nationally, of which £2,079,000 has come to West Yorkshire. At present there is still no further information from MHCLG on any support payments to be made.

2.18 Regular forecasts will be undertaken during the year to assess the full impact of Covid-19 and updates brought to future meetings.

Risk management

2.19 In line with the provisions of the corporate risk management strategy, regular review of the key strategic risks affecting the organisation continues to be undertaken and the corporate risk register updated accordingly.

2.20 A summary of the headline strategic risks is included at **Appendix 3** to this report. Since the last reporting period this has been updated to reflect the key risks related to the ongoing COVID-19 pandemic. These strategic risks include the following key themes:

- Meeting corporate objectives
- Financial health of the organisation
- Impacts on unemployment across the Region
- Impacts on public transport
- Potential impact on delivery of capital programmes and release of capital funding

2.21 In addition to the strategic risks presented by the COVID-19 pandemic, the more specific operational risks are also being identified and managed by individual Directorates. The overall approach to the COVID-19 pandemic and the specific risks it causes is being managed through the Combined Authority's Gold command incident response structure.

2.22 The corporate risk register has also been updated since the last reporting period to take account of strategic risks associated with the programme of work underway to prepare for the transition to a Mayoral Combined Authority (MCA). These risks are being proactively managed by the MCA Ready Programme Board.

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 consider the information contained in this report.

8. Background Documents

None.

9. Appendices

Appendix 1 - Revenue Budget final outturn 2019/20.

Appendix 2 - Revised revenue budget monitoring as at June 2020.

Appendix 3 – Corporate risk register