

Report to: Governance and Audit Committee

Date: 27 November 2020

Subject: **Annual Accounts 2019/20**

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1. Purpose

- 1.1 To present to the Committee for their approval the annual accounts for 2019/20 for the West Yorkshire Combined Authority.

2. Information

- 2.1 Normally there is a statutory requirement for approval of the annual accounts by 31 July, though for 2019/20, due to the Covid-19 pandemic, a new deadline of 30 November 2020 was agreed. All effort was made to conclude the necessary work to the original timescales and draft accounts were prepared and published in May / June 2019.
- 2.2 The accounts were also presented for audit at the same time and Mazars have substantially completed their audit work, subject to completing the outstanding work as set out in their Audit Completion Report – Executive Summary (page 3), which is attached at **Appendix 3**.
- 2.3 It is not expected that the outstanding work will result in material amendments to the accounts and nor will it affect the results and closing reserves for the year. It is anticipated, therefore, that an unqualified audit opinion, without modification, will be given on both the financial statements and value for money conclusion.
- 2.4 Members are therefore asked to consider today's report and associated appendices and approve the accounts as presented. A verbal update will be provided at the meeting on the outstanding matters.
- 2.5 The following appendices are attached:

Appendix 1 Final accounts of the Combined Authority 2019/20

Appendix 2 Treasury management statement

Appendix 3 Audit completion report

- 2.6 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.
- 2.7 There are a number of accounting / other matters in the accounts which are drawn to the Committee's attention below.
- 2.8 **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 deficit has increased during the financial year 2019/20 from £84.6 million to £89 million as a result mainly of the financial actuarial assumptions changing over the course of the year.
- 2.9 **Pension Disclosure (Asset Valuation).** The West Yorkshire Pension Fund advised that the outbreak of COVID-19 has impacted global financial markets. Travel restrictions have been implemented by many countries and market activity is being impacted in many sectors. The valuation of pension assets they received from fund managers, especially property funds and their external valuers (CBRE) considered that less weight could be attached to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that external valuers were faced with an unprecedented set of circumstances on which to base a judgement. Where CBRE's valuation were used these were, therefore reported on the basis of 'material' valuation. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation than would normally be the case.
- 2.10 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. The Covid19 situation that emerged in March 2020 continues to evolve and the full impact yet to be realised. The Combined Authority is still in receipt of its key funds and currently managing the situation through use of reserves and representations with Central Government for support. In addition, the Combined Authority secured a devolution deal in March 2020 and is working

towards becoming a Mayoral Combined Authority over the coming year. The deal includes 'gainshare' funding for 30 years, worth £1.14 billion.

- 2.11 The going concern assumption is further 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.
- 2.12 **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.
- 2.13 **Accounting policies** – there are no significant changes to note from last year.

Final accounts of the Combined Authority (Appendix 1)

- 2.14 The Combined Authority's accounts comply fully with the required accounting standards.
- 2.15 The final revenue budget position for 2019/20 was reported to the Combined Authority meeting in June 2020. The final position is a £1.3 million surplus that adds to the general reserves giving a balance of £8.1 million. The year had started with a budgeted £1.2 million deficit, though a forecast undertaken during year estimated a £0.3 million surplus position with further updates indicating this position was likely to improve further towards the year end. 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).
- 2.16 In comparison to 2018/19 the Combined Authority's balance sheet shows an increased 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 several other upfront grant payments such as Leeds Public Transport Package (LPTIP) and Transforming Cities Fund (TCF). There have been increase in capital grants unapplied of £45 million and in short term investments of £87 million. The capital expenditure for 2019/20 has increased by £2 million (£158 million in 2018/19 and £145 million in 2017/18).

Treasury Management statement (Appendix 2)

- 2.17 The Treasury Management Statement for the year is set out in **Appendix 2**. The budget report to the Combined Authority in February 2020 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

- 2.18 Total capital expenditure in the year was £160 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 £43 million which is then utilised by Combined Authority and the constituent District Councils. The Combined Authority also received capital grants for the Leeds Public Transport Package (LPTIP £63.7 million) and Transforming Cities Fund (TCF £15 million). Some funding was carried forward from 2018/19, reflecting the practice of the Department for Transport in paying multi-year grants in advance. Similarly, funding will be carried forward to 2020/21 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.
- 2.19 The Growth Deal funding of £73.5 million received for 2019/20 plus the carried forward amount from 2018/19 of £31 million have been applied to some £70 million of projects originally identified within the programme submitted to government. An underspend on the Growth Deal in year has been accounted for in capital grants unapplied and the balance will be utilised on projects that have been re-profiled to 2020/21 and beyond.

Audit Completion Report – (Appendix 3)

- 2.20 Mazars have completed their audit work on the annual accounts and their conclusions are set out in their Audit Completion Report (draft) which is attached as **Appendix 3**. The Committee is required to consider this report before considering and approving the annual accounts. The auditors, Mazars, will be in attendance at the meeting to present their report and answer any questions.
- 2.21 The key messages are set out in the Executive Summary on pages 3-4 of the report which overall anticipates that an unqualified audit opinion, without modification, be given on the financial statements. It also anticipates an unqualified value for money conclusion.
- 2.22 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 10 onwards. There is one new recommendation made in relation to internal control that has been

identified and a management response is provided that also sets out the agreed action to be taken.

- 2.23 Some changes from the draft accounts are set out in section 4 and these have been addressed in the final accounts at **Appendix 1**. They are largely reclassifications, additional disclosures and/or presentational and therefore have no impact on the results for the year.
- 2.24 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 draft wording of that representation letter is included on pages 21-23 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.
- 2.25 Mazars are required to issue an audit completion notice by the statutory date of 30 November 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 as due to threshold changes the Combined Authority, for 2019/20, falls below the required level.
- 2.26 In the report, page 8, Mazars have mentioned the additional work they have had to undertake regarding independent quality review and the impact on the previously agreed fee (circa £26k). The intention is therefore to discuss the fee variation with management upon completion of the audit work. Any fee variation is subject to approval from the Public Sector Audit Appointments Ltd (PSAA).

3. Financial implications

- 3.1 The audit fee is set nationally by PSAA and is included in the Combined Authority's annual budget. As mentioned above, any fee variations 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 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 2020.

7. Appendices

Appendix 1 – West Yorkshire Combined Authority – 2019/20 Statement of Accounts

Appendix 2 – Treasury management statement

Appendix 3 – Audit Completion Report 2019/20 (Mazars)