

Report to: Governance and Audit Committee

Date: 27 November 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.
- 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. 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 15/10/2020 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.
- 2.6 Members will have seen that the London Borough of Croydon issued a Section 114 notice on 11th November 2020, which effectively stops any new / uncommitted expenditure across most of its service areas. The Combined Authority currently has an exposure to them in the form of a £5 million loan which matures 01/04/2021. For members information, the repayment of loan obligations do not fall into this notice and at this stage we do not envisage any issues with the repayment of this loan when due.

Key indicators

- 2.7 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.
- 2.8 One further RIDDOR incident has been reported since the previous meeting, taking the total for the year to two.
- 2.9 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 2020/21

- 2.10 As reported in July, since the balanced revenue budget was approved in February 2020, the Combined Authority financial position has been impacted by the pandemic. The original forecast impact reported in July 2020 was estimated at £12 million, across a range of income and expenditure budget lines. These figures were confirmed to the Combined Authority earlier this year and shared with Government in a range of forums with representations made for funding to meet these costs. These representations continue.
- 2.11 A more recent, high-level, forecast (as at September 2020) predicts an approximate £5 million impact, which is net of support grants provided as at that date by the Department for Transport. The funding gap has reduced due to funding received, revised estimates and actions taken to reduce expenditure. These figures will be kept under regular review, especially as further lockdown / second waves potentially occur and there is still a high level of risk and uncertainty for the coming months.

- 2.12 Whilst at present the level of general reserves would appear to be able to cover the forecasted financial impact there is a high risk in allowing reserves to fall. Critically the general reserves would then be depleted by approximately £4m below the level we required when the budget was approved in February 2020, at a time when there are still significant unknowns and risks for this and coming years. Members will recall that the Combined Authority follows a risk based reserves strategy which resulted in February in the conclusion that £7-8 million was the appropriate level of reserves required. Given the known risks today it is reasonable to expect that a similar level of reserves will be determined as required for 2021/22.
- 2.13 Key assumptions regarding bus operator spend continuing at 'normal' levels is built into these forecasts. This is the current approach supported by government and the industry and results in transport authorities making payments for journeys at pre-covid rates and not reflecting the drop in passenger numbers. Discussions are underway with DfT on options to manage bus operator expenditure going forwards.
- 2.14 Work is also underway to review spend and refine these forecasts with budget holders. A future update will be provided to the next meeting.
- 2.15 A summary of the 2020/21 current revenue spend to budget as at September 2020 is attached at **Appendix 1**. The 'red' areas of concern 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.

Capital 2020/21

- 2.16 Progress on capital budgets is being monitored through the Investment Committee which receives regular reports on expenditure forecasts and information. A summary is provided at **Appendix 2** for information. Though claims from partners are due for Qtr2, the figures are showing potential for spend being significantly lower than originally estimated.

Business planning and budget 2021/22

- 2.17 Work is continuing on the detailed business plan for 2021/22 and the accompanying budget, to be set within the context of a revised medium-term financial strategy.
- 2.18 Each directorate is producing a business plan based on delivering corporate priorities in the coming year. The budget will then show the costs of delivering these activities.
- 2.19 In setting its budget the Combined Authority recognises the challenging financial position faced by its local authority partners, including the impact emerging from the national pandemic and its need to respond to this. The need to achieve and demonstrate efficiency and effectiveness and demonstrate value for money from the organisation's activities is core to the approach being taken. A number of savings and reductions were built into the

baseline for 2020/21 and these will continue going forward, along with additional savings to be identified. The member led Budget Working Group has met and will continue to meet to consider these matters in more detail with regular reports being provided to the Combined Authority.

- 2.20 High level revenue budget estimates have been provided in the summary table below, which includes the previously reported annual deficit positions from the February 2020 approval, further potential impact of Covid-19 and emerging costs from the MCA readiness work.

	2021/22 £m	2022/23 £m	2023/24 £m
Opening Deficit	2.0	3.6	6.3
Covid 19 impact	2.0	0.0	0.0
MCA costs	2.5	1.5	2.5
Total (deficit)	6.5	5.1	8.8

- 2.21 The working assumption is that the devolution ‘gainshare’ is not available to ‘solve’ the revenue budget deficit and that the funding is for the region and its use to deliver economic growth programmes.
- 2.22 A further iteration of the revenue and capital budget will be provided to the Combined Authority meeting in December 2020. It will also form an agenda item for the next meeting of the Governance and Audit Committee in January for consideration ahead of the budget meeting in February.

Risk management

- 2.23 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.
- 2.24 A summary of the headline strategic risks is included at **Appendix 3** to this report. Since the last reporting period work to monitor key risks associated with the COVID-19 pandemic has taken place and a number of strategic risks related to the pandemic are presented within the corporate risk register.
- 2.25 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 continuing to be managed through the Combined Authority’s Gold command incident response structure.

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 – Revised revenue budget monitoring as at September 2020.

Appendix 2 – Capital spend 2020/21 as at September 2020.

Appendix 3 – Corporate risk register