

**Report to:** Governance and Audit Committee

**Date:** 30 September 2021

**Subject:** **Annual Accounts 2020/21**

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## **1. Purpose**

- 1.1 To present to the Committee for their approval the annual accounts (financial statements) for 2020/21 for the West Yorkshire Combined Authority.
- 1.2 To present to the Committee for their approval the response to the external auditor on a range of questions raised by them to 'those charged with governance'.
- 1.3 For information, the draft accounts for the Office of the Police and Crime Commissioner (OPCC), for its final accounting period to 10 May 2021, are presented to the Committee.

## **2. Information**

- 2.1 There is a statutory requirement for approval of the annual accounts by 31 July, but for 2020/21, due to the Covid-19 pandemic, a deadline of 30 September 2021 was agreed nationally. Despite this all effort was made to conclude the necessary work as early as possible and draft accounts were prepared and published in May / June 2021.
- 2.2 The accounts were also presented for audit at the same time and Mazars have substantially completed their audit work on the financial statements, 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 Members should note that further work is required on the Value for Money opinion before the final audit certificate can be issued. This work is due to commence shortly and will conclude no later than the end of December 2021.

- 2.4 It is not expected that the outstanding work and Value for Money assessment 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 in due course.
- 2.5 Members are therefore asked to consider today's report and associated appendices and approve the Statement of Accounts (financial statements) as presented. A verbal update will be provided at the meeting on the outstanding matters.
- 2.6 The following appendices are attached:
- Appendix 1** Final accounts of the Combined Authority 2020/21  
**Appendix 2** Treasury management statement  
**Appendix 3** Audit completion report
- 2.7 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.
- 2.8 There are a number of accounting / other matters in the accounts which are drawn to the Committee's attention below.
- 2.9 **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 2020/21 from £89 million to £91.3 million as a result mainly of the financial actuarial assumptions changing over the course of the year.
- 2.10 **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.

- 2.11 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 continued to impact during 2020/21, though the Combined Authority was still in receipt of its key funds and managed financial impacts through managed savings and representations with Central Government for support. In addition, the Combined Authority secured a devolution deal in March 2020 and became a Mayoral Combined Authority, in law, in January 2021. The deal includes 'gainshare' funding for 30 years, worth £1.14 billion, of which the first £38 million was received in March 2021.
- 2.12 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 many of its services. The Combined Authority's accounts have therefore been prepared on a going concern basis.
- 2.13 **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.
- 2.14 **Accounting policies** – there are no significant changes to note from last year.

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

- 2.15 The Combined Authority's accounts comply fully with the required accounting standards.
- 2.16 The final revenue budget position for 2020/21 was reported to the Combined Authority meeting in June 2021. The final position is a £4.8 million surplus that adds to the general reserves giving a balance of £13 million. Of this up to £2 million relates to a timing difference in the assumptions made on election costs. The year had started with a balanced budget, though early Covid-19 related forecasts forecast a potential £5 million deficit to be managed. As mentioned earlier, the position improved during the year through managed

savings, successful lobbying for government support grant and earlier, prudent forecasts not impacting as anticipated.

- 2.17 In comparison to 2019/20 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), Transforming Cities Fund (TCF), and capital element of the Gainshare funding. There has been an increase in capital grants unapplied of £30 million and in short term investments of £159 million at the end of March 2021. The capital expenditure for 2020/21 has increased by £159 million from £158 million in 2019/20.

### **Treasury Management statement (Appendix 2)**

- 2.18 The Treasury Management Statement for the year is set out in **Appendix 2**. The budget report to the Combined Authority in February 2021 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**

- 2.19 Total capital expenditure in the year was £314.8 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 £41.5 million which is then utilised by Combined Authority and the constituent Councils. The Combined Authority also received capital grants for the Leeds Public Transport Package (LPTIP £88.7 million) and Transforming Cities Fund (TCF £40 million). Some funding was carried forward from 2019/20, reflecting the practice of the Department for Transport in paying multi-year grants in advance. Similarly, funding will be carried forward to 2021/22 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.
- 2.20 The Local Growth Fund (LGF) of £100.3 million received for 2020/21 plus the carried forward amount from 2019/20 of £37.5 million have been applied in year and this has marked the end of the LGF programme. An underspend on the LGF related to the Transport Fund element has been accounted for in capital grants unapplied and the balance will be utilised on projects that have been re-profiled to 2021/22 and beyond.

### **Audit Completion Report – (Appendix 3)**

- 2.21 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.

- 2.22 The key messages are set out in the Executive Summary on page 5 of the report which overall anticipates that an unqualified audit opinion, without modification, be given on the financial statements.
- 2.23 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 in section 5 from page 17 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.
- 2.24 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.
- 2.25 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 24-25 of Mazars report and the Director, Corporate and Commercial 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.
- 2.26 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 2020/21, falls below the required level. The work on the value for money opinion needs to be completed before the completion notice can be issue.
- 2.27 In the report, page 15, 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 ).

### **Those Charged With Governance – Response**

- 2.28 Attached at **Appendix 4** is the response to a range of question raised by the external auditor to 'those charged with governance'. The draft response had

previously been circulated to Governance and Audit Committee members and amended following feedback. Members are asked to approve the final version.

### **Office of the Police and Crime Commissioner – 2020/21 Accounts (as at 9/5/21)**

- 2.29 For information, the final accounts (draft) for the OPCC can be found here(LINK). These are produced as at 9<sup>th</sup> May 2021, this being the final date before transfer of police functions to the Combined Authority and the winding up of the Office of the Police and Crime Commissioner as a separate legal entity. These accounts are now subject to review by the Police Joint Audit and Ethics Committee and for external audit (Grant Thornton) and will ultimately be presented for approval by the Combined Authority Mayor and Chief Financial Officer.
- 2.30 They are presented today for information only and as a useful reference, especially as from 2021/22 the Police accounts will form part of the Combined Authority group annual accounts and be considered by this Committee going forward.

### **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 2021.
- 6.4 That the Committee approve the response to the external audit question to 'those charged with governance'.

### **7. Appendices**

Appendix 1 – West Yorkshire Combined Authority – 2020/21 Statement of Accounts

Appendix 2 – Treasury management statement

Appendix 3 – Audit Completion Report 2020/21 (Mazars)

Appendix 4 – Those Charged with Governance – response to external audit.