

**Report to:** Finance, Resources and Corporate Committee

**Date:** 8 June 2022

**Subject:** **Financial Performance Report**

**Director:** Angela Taylor, Director, Corporate and Commercial Services

**Author:** Katie Hurrell, Head of Finance

Is this a key decision?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for call-in by Scrutiny?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information or appendices?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
If relevant, state paragraph number of Schedule 12A, Local Government Act 1972, Part 1:	
Are there implications for equality and diversity?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

## 1. Purpose of this report

- 1.1 To consider the latest financial position for 2021/22 and emerging inflationary and other financial pressures identified for the coming years.
- 1.2 To advise the Committee of a planned delay to the external audit process for 2021/22.

## 2. Information

### Financial Outturn 2021/22

- 2.1 The 2021/22 financial year was a challenging one for the Combined Authority, as the Mayoral election and devolution of powers came into being in May 2021, along with the integration of the Police and Crime Commissioner functions. Covid restrictions continued to stay in place for the start of the year, having an impact on bus patronage recovery.
- 2.2 The financial year 2021/22 has now been closed and final reviews and checks are underway. As previously reported the final position is expected to be a contribution to reserves of between £2.5 million and £3 million and a further update will be provided to the meeting. This is primarily due to salary savings in excess of the vacancy target alongside underspend within the concessions budget, reflecting both the recovery of bus patronage in the region and the re-

basing of the reimbursement calculations. A full detailed report will be made available to FRCC at the next meeting in July.

- 2.3 A full position on capital spend will also be provided to that meeting, with initial figures showing spend down a little on that forecast but higher than previous years. Adjustments will be made between funding streams as in previous years to ensure all funding is maximised within the prescribed timescales for expenditure.
- 2.4 Members are reminded that at the Combined Authority meeting in February 2022, approval was given to set up a ringfenced reserve with the forecast underspend in concessions against budget, in preparation for funding the ongoing difficulty of post Covid recovery in the bus service industry.
- 2.5 In addition to the above and considering known financial pressures, it is recognised that if there is an opportunity then it would be prudent to further allocate funds into earmarked reserves, particularly to be able to respond to ongoing financial uncertainties and challenges, of which the greatest is the emerging position on inflation.

#### Budget 2022/23 – Financial Pressures

- 2.6. It is anticipated that a small surplus will be transferred into reserves from 2021/22. Consideration is being given to using some of this to support ongoing strategic pressures, including learning and development and organisational development work.
- 2.7 These need to be considered in the wider context of available reserves and how these are to be managed within the current and future financial years, through reforecasting and budgeting, given that currently budgets after 2022/23 are not balanced and are in a deficit position.
- 2.8 There are still significant financial uncertainties and challenges which may require mitigation through contingent reserves, including cliff edge funding, inflation and post-COVID pressures as outlined below.

#### Cliff Edge Funding

- 2.9 This continues to be a risk, specifically in Economic Services. The Growth Service team had its annual 22/23 BEIS grant funding cut by 50% compared to last year. This was identified as a risk in preparing the budget, and as such the team has been underwritten by WYCA for one year pending clarification on the funding being made available from Government and other funding opportunities identified. There are a further 10 projects due to finish in 2022/23, and consideration will need to be given to funding these in other ways, moving staff on to other funded work or reducing staff numbers.

## Inflation

- 2.10 Rates in the UK hit 9% in April of this year, and are set to reach 10% in Q2, with expectations of further increases to come. This will have impacts on a wide range of budgets, some of which have already included an element of inflation, though these are based on assumptions made last year and are thus at risk of being too low for the coming year.
- 2.11 The Commercial team has undertaken a review of the larger and more strategic 'gold' contracts to consider the risk of large inflation rises on both contract renewals (which have indexation built in) and for retendering, excluding bus and capital infrastructure delivery contracts. A number of contracts are fixed price but of those due to be retendered or with indexation increases due later in the year there is a potential increase in 2022/23 of over £1 million above the budgeted amounts. This increases significantly in future years, particularly when the existing electricity contract is due for renewal next year.
- 2.12 Alongside this, non-commercial budgets such as employee costs are also budgeted at varying rates of inflation. For example, in line with the approach taken by the West Yorkshire local authorities, salary inflation was assumed to rise at 2% annually. Every additional 1% over this would cost WYCA an additional £0.3m.
- 2.13 There will be some relief from the full impact of these rises on the investment income, as investment rates are expected to increase alongside inflation, and we are still holding significant cash balances which will generate additional interest above that budgeted.
- 2.14 Further work is now taking place across the organisation to consider the impact of these expected changes and start to feed into an updated medium term financial strategy that will be considered over the summer and into autumn when detailed budget planning needs to take place.
- 2.15 A separate piece of work is underway to compile a full review of the impact inflation may have across the current and future capital programme and will be providing a detailed update on this later into the summer.

## Covid

- 2.16 Covid and new working patterns continue to suppress bus patronage. Government support grants received in 2021/22 to maintain operator payments at pre-Covid levels will be wound down in the second part of 2022/23, with an expectation that bus usage will recover, however if this fails to materialise then there is a risk bus operators will struggle to maintain all current routes at budgeted levels. Alongside this, bus driver shortages and increasing fuel costs will continue to put pressure on operator profits, which could also lead to cuts in services.

## External Audit 2021/22 Update

- 2.17 The transfer of the Police and Crime functions to the Combined Authority from 10 May 2021 introduces new complexities to the preparation of the annual accounts, introducing a consolidated Combined Authority Group accounts including West Yorkshire Police. This will cover the period from 10 May 2021 for police funds and from 1 April 2021 for the Combined Authority's general fund.
- 2.18 There has been an ongoing issue nationally across local authority accounts audits. Last year, only 9% of local authority accounts in England met the audit publication deadline of 30 September 2021 (the Combined Authority is one of the few in the country to have met this deadline). As a result, the government has extended the statutory deadline for audit completion for 2021/22 to November 2022.
- 2.19 At the last Governance and Audit Committee Mazars, the external auditors, advised of a particular complication arising as a result of the delay in West Yorkshire Police's audit completion for 2020/21 (by Grant Thornton which only concluded on 29th April 2022). This has prevented Mazars, who will also be the auditor for West Yorkshire Police from this year, commencing any audit handover and preparation work on the West Yorkshire Police accounts and they are now focussed on NHS audits, to be followed by more routine audits. Audit work will therefore not commence until the end of the year and it is proposed that the year-end accounts for 2021/22 will be signed off for both the Chief Constable and the Combined Authority in January 2023.
- 2.20 The finance teams from the Combined Authority and West Yorkshire Police are working well together and currently are preparing the draft accounts, aiming for the statutory deadline at end of July and available for public inspection on 1 August 2022.
- 2.21 An audit progress report from Mazars with a more detailed audit plan will be presented and discussed at the upcoming Governance and Audit Committee meeting, with that Committee overseeing the external audit process.

### **3. Tackling the Climate Emergency Implications**

- 3.1 There are no climate emergency implications directly arising from this report.

### **4. Inclusive Growth Implications**

- 4.1 There are no inclusive growth implications directly arising from this report.

### **5. Equality and Diversity Implications**

- 5.1 There are no equality and diversity implications directly arising from this report.

### **6. Financial Implications**

- 6.1 These are contained in the main body of the report.

## **7 Legal Implications**

7.1 There are no legal implications directly arising from this report.

## **8. Staffing Implications**

8.1 There are no staffing implications directly arising from this report.

## **9. External Consultees**

9.1 No external consultations have been undertaken.

## **10. Recommendations**

10.1 That the Committee notes the financial risks covered in section 3 and to consider further increasing the contingent reserves to protect against the impact of these in upcoming financial year.

## **11. Background Documents**

11.1 There are no background documents referenced in this report.

## **12. Appendices**

None.