

# **West Yorkshire Combined Authority Annual Governance Statement 2017/18**

## **1. Scope of Responsibility**

West Yorkshire Combined Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Combined Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Combined Authority is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk. The Combined Authority annually approves a Code of Corporate governance consistent with the principles of CIPFA Solace framework "Delivering good governance in Local Government". This framework was updated in 2016 and a revised Corporate Governance Code and Framework approved in 2017 that reflected the new format and content.

In accordance with the Accounts and Audit Regulations 2015 this Annual Governance Statement (AGS) considers compliance with the Corporate Governance Code and Framework, and sets out how the Combined Authority 'ensures that the financial management is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'

## **2. The purpose of the governance framework**

The governance framework comprises the systems and processes, and culture and values, by which the Combined Authority is directed and controlled and its activities through which it accounts to and engages with the community. It enables the Combined Authority to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services for its customers.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Combined Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and their impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Combined Authority throughout the year ended 31 March 2018 and up to the date of approval of the financial statements.

### 3. The governance framework

There are a number of key elements of the systems and processes that comprise the Combined Authority's governance arrangements. These are set out in the revised Corporate Governance Code and Framework which has been approved by the Combined Authority and which is available on its website. The Combined Authority took on accountable body status for funding awarded to the Leeds City Region Enterprise Partnership (LEP) from 1 April 2015 and governance arrangements reflect this responsibility and continue to develop to further enhance this. During 2017/18 a review of these arrangements has resulted in formalising the LEP advisory panels that provide policy direction and guidance to the LEP Board and ultimately financial approvals are provided by the Combined Authority.

- a) Corporate policies and objectives are set and communicated by the Combined Authority. The Combined Authority has clearly defined its ambitions to work with its partners across the region to effect economic growth in the Leeds City Region; these ambitions are set out in the Strategic Economic Plan (SEP), which was revised during 2015/16. The SEP presents investment priorities across the four pillars of supporting business, developing a skilled workforce, building a resource smart City Region and delivering the infrastructure for growth. The SEP has been endorsed by both the LEP and Combined Authority Boards and will be kept under review to ensure it continues to align with the region's needs and recognises relationships with new and emerging strategies such as the Industrial Strategy for example.
- b) Over the last year the LEP panels (with their public and private sector representation) have been integrated into the Combined Authority's decision making process as advisory committees, thus providing a consistent, accountable and transparent framework across both the LEP and the Combined Authority, so far as possible. This change in status to advisory committees brought the panels under the statutory provisions relating to local authority meetings and the Combined Authority's Members' Code of Conduct.
- c) A review of LEP governance and transparency was also carried out which considered local arrangements and recommendations from the DCLG Review of Local Enterprise Partnership Governance and Transparency (reported by Mary Ney in October 2017). This review led to the adoption of a LEP constitution and associated procedures. All governance documents comply with the best practice guidance published by Government. The outcome of the Annual Conversation carried out by the Cities and Local Growth Unit confirmed that the LEP's governance is generally considered to be good. This reflected the combined structures implemented during 2017 and the continuous improvement approach to assurance and governance as demonstrated by the review of LEP transparency.
- d) The statutory Local Transport Plan (LTP) was comprehensively revised, and, following public consultation in 2016, the West Yorkshire Transport Strategy was adopted by the Combined Authority on 3 August 2017. This replaces the current LTP adopted in 2011 and sets out a step change in the quality and performance of the transport system within West Yorkshire and its connections with the rest of the country. It sits within the emerging policy framework of the Combined Authority, with the development of a Leeds City Region Inclusive Industrial Strategy at its heart,

targeted at placing the City Region on the front-foot with an ambitious policy platform that improves competitiveness and drives inclusive growth outcomes.

- e) A suite of supporting plans and strategies set out further detail on a range of priority areas, including housing and regeneration, digital infrastructure, green infrastructure, skills and trade and investment. The work underway on the Local Inclusive Industrial Strategy will bring these together to enable a clearer focus on driving economic growth.
- f) The Leeds City Region Growth Deal Assurance Framework is reviewed and updated on an annual basis building on existing good practice and reflecting any changes in both government guidance and improvements to the Combined Authority's procedures. Changes were considered and endorsed by a working group of the Overview and Scrutiny Committee and further considered by the Investment Committee, LEP and Combined Authority
- g) Boards. It supports decision making on projects and guides investment decisions across the full portfolio of capital interventions. It sets out the appropriate safeguards and processes to be put in place to ensure the proper use of public funds and that value for money is secured and outcomes are clearly agreed when investing in schemes. This includes the prioritisation process for identifying the schemes that are included for funding with a three stage approval process now in place to enable the prioritisation of schemes. As a minimum all projects will formally need to pass decision points 2 and 5 as set out below, highlighted in green below, with the requirement to meet the intervening activities deemed on a project by project basis. The Investment Committee will consider all projects at these points with the Combined Authority making the decisions.



- h) The Combined Authority's scrutiny arrangements are fulfilled through an Overview and Scrutiny Committee. This meets regularly and consists of 18 members co-opted from the five West Yorkshire Councils and City of York Council and reflecting political balance. The Committee has continued to engage positively in the development and understanding of policy and projects across the region. Task and finish groups have been established and have met regularly to consider progress on devolution, achievement of organisational priorities and the lessons to be learnt from the loan to Oxford GB2.

In addition Scrutiny committees within the West Yorkshire Districts and City of York Council will also often challenge the work being undertaken by the Combined Authority in such areas as accessibility and local bus services. The District Consultation Sub-Committees in each District give a level of local involvement and allow the public the opportunity to scrutinise any new policy initiatives.

- i) The Combined Authority's Governance and Audit Committee is responsible for overseeing the effective operation of the systems of governance, risk management, internal control (including internal audit) and treasury management. It has responsibility for the approval of the annual accounts. In accordance with changes in legislation an independent member was appointed to the Committee by the Combined Authority at its meeting on 29 June 2017. An officer Audit and Risk Management Committee chaired by the Director, Resources, provides an operational level of management and review of internal control, risk and governance arrangements in place.
- j) Roles are defined and documented through role. These set out clear competencies and accountabilities for each role and are key to making successful recruitment decisions. Appointments have been made to all the posts required by statute, including Head of Paid Service (which forms part of the Managing Director's role), s73 Officer (Director, Resources), and the Monitoring Officer (Head of Legal and Governance Services).
- k) Staff behaviours are guided by Combined Authority 's values and its Code of Conduct and a similar Code exists for elected Members; both employees and Members are required to maintain a register of interests. A code of conduct for LEP Board members was approved in the year and all Board members completed registers of interest which are available for inspection on the Combined Authority website. The values and behaviours expected of all employees were redefined during 2016/17 with input from a wide range of internal and external stakeholders.
- l) The Combined Authority conforms to the requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2015)*. The Chief Financial Officer is the Director, Resources who is a key member of the leadership team and is responsible for the proper administration of the Combined Authority's financial arrangements through a suitably qualified and resourced finance function.
- m) An internal team provide the internal audit service to the Combined Authority. Public Sector Internal Audit Standards (PSIAS) require the purpose, authority and responsibility of the internal audit activity to be defined in an internal audit charter, consistent with the definition of Internal Auditing, the Code of Ethics and the Standards. The Internal Audit Charter establishes internal audit's position within the organisation, including the mandatory nature of the Chief Audit Executive's role; functional reporting relationship with the management team; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.
- n) Compliance with established procedures, laws and regulations is ensured by a system that requires all decisions to set out all legal and financial implications. Schemes of officer delegation ensure that decisions are made at the appropriate level within the Combined Authority. Procedures and policies are in place to ensure compliance with the Freedom of Information Act, Data Protection Act and Health and Safety requirements. A whistleblowing policy and guidance notes are available on the website.
- o) Risk management is embedded in the activities of the Combined Authority with regular reviews of the risk registers and exception reporting through the officer Audit and Risk Management Group and through the Member Governance and Audit

Committee. A Risk Manual, endorsed by the Governance and Audit Committee, sets out the risk management strategy in place and the way in which risks are identified, recorded and monitored. A review of the risk management arrangements in place commenced during 2017/18 with oversight provided by the Governance and Audit Committee. The risk appetite and a revised corporate/strategic risk register has been considered by the Governance and Audit Committee and the Combined Authority members. .

- p) Communication on transport operational matters has taken place with stakeholders through the District Consultation Sub-Committees and Operator Groups. Consultation events have taken place during the year on the Strategic Economic Plan, the Single Transport Plan, major schemes and the bus area network reviews which have successfully sought to contain costs but retain accessibility for bus users.
- q) A system of Procedure and Contracts Standing Orders and Financial Regulations protect the organisation. These are reviewed annually. In February 2017 the Combined Authority approved a revised procurement strategy that seeks to ensure increased transparency in decision making and a focus on encouraging inclusive growth. A new set of contract standing orders was approved alongside the strategy. Procedural manuals and notes underpin these and ensure the reporting of financial transactions is properly managed. Officer schemes of delegation are also considered on an annual basis.
- r) External reviews carried out by auditors and other agencies to achieve Customer Service Excellence and other accreditations with any recommendations identified creating a workplan for future improvements.
- s) With regard to the transport ticketing systems the Combined Authority has in place arrangements whereby an enhanced assurance statement is sought from Northern stating that their systems have operated adequately with no material errors or weaknesses. Sales through the Payzone network are reconciled to the back office system ensuring that the proceeds from such card sales are fully reimbursed to the Combined Authority.

#### **4. Review of Effectiveness**

The Combined Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of the Internal Audit section and that of management within the Combined Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by external auditors.

The Combined Authority has in place a system based on a framework of standing orders, financial regulations and administrative controls including codes of conduct and administrative policies and procedures. All key administrative controls and financial instructions are reviewed on a regular basis by the Combined Authority's management with internal audit undertaking reviews based on risk. Standing orders and financial regulations are updated as required and re-approved annually by the Combined Authority at its Annual Meeting. In terms of financial accounting the Combined Authority utilises a core financial system which is tested and evaluated annually by internal and external Audit. During the last year the Chief Financial Officer has provided to the Governance and

Audit Committee a regular confirmation that key controls have been operating in the period. Regular reports are also provided to the Audit and Risk Management Group that key controls have been operating in the period.

One of the key responsibilities within the Combined Authority is to determine, agree and monitor the annual budget. This responsibility involves setting an appropriate budget to fulfil the resource requirements of the Combined Authority in undertaking its transport, economic development and regeneration activities. This budget is an integrated one for the full breadth of the activities of the Combined Authority, including the bringing together of transport and economic policy funding. The organisational redesign and restructuring work largely completed during 2017/18, ensures that the most effective arrangements are in place to enable delivery of the Combined Authority's objectives and the budget has been redefined to follow these new arrangements.

The budget setting process requires a comprehensive budget report to be presented to the full Combined Authority which gives a detailed forecast outturn for the current financial year and the proposed budget for the forthcoming financial year. The budget process is overseen and scrutinised by Members through Overview and Scrutiny Committee, Governance and Audit Committee and the Combined Authority and shared with the LEP Board.

Regular review of revenue and capital budgets is undertaken through Organisational Management Team and Leadership Team with regular updates to the Combined Authority presented through the year.

Within the Combined Authority budgetary responsibility is devolved to Budget Holders and Controllers who are responsible for monitoring and controlling their assigned budget. Regular budget performance reports are prepared by Finance for those charged with governance to ensure ongoing budgetary control is achieved.

The Treasury Management function for the Combined Authority is undertaken in conjunction with Leeds City Council. Their internal audit section provide an annual certification confirming the work they have undertaken during the year and their conclusions reached.

An internal team provides the internal audit resource for the Combined Authority. The work of Internal Audit is informed by an assessment of risk and a strategic audit plan is devised based on these assessments. This plan and the audit reviews are submitted to the Combined Authority's Governance and Audit Committee for consideration and approval. Regular update reports are provided to the Governance and Audit Committee by the Internal Audit Manager, including progress made on the implementation of audit recommendations. Within the Combined Authority the Pentana system is used to monitor progress in implementing audit recommendations and is regularly reviewed by the directorate management teams and the Audit and Risk Management Group.

The Combined Authority continues to develop and refine its project management framework to ensure that there is greater accountability and improved governance with regard to the management and delivery of projects. As part of the Delivery Directorate, a Portfolio Management Office is established along with a three stage pipeline approval process, designed to support the Leeds City Region Assurance Framework. All partner authorities delivering schemes funded by the Combined Authority follow this assurance

and approval framework and closer working with partner authorities will be key to successful delivery of the portfolio.

Regular reports are provided to the Investment Committee and the Combined Authority on progress with Local Growth Deal schemes, including the projects within the West Yorkshire plus Transport Fund.

The Combined Authority has in place risk management arrangements that are continually reviewed and improved. Reviews of risk take place at directorate management team level, supported by the Risk Manual which provides guidance on the identification, assessment and reporting of risk. The risk appetite statement has been reviewed during the year and changes approved. An officer Audit and Risk Management Group meets on a periodic basis to ensure consistency in the assessment and management of risk and to provide an overview of the process. The Combined Authority's strategic risk register has been updated during the year is considered regularly by the Governance and Audit Committee and reported to the Combined Authority meeting as part of the corporate performance management report. These arrangements will evolve and be further developed to meet the changing needs of the Combined Authority.

Internal Audit's Quality Assurance and Improvement Program ensures that activity is assessed against the requirements of professional standards, the definition of Internal Audit and the Code of Ethics as specified by the Institute of Internal Auditors. The Combined Authority has reviewed its systems of internal control, including the internal audit function and concluded that it complies with the requirements of PSIAS and the Local Government Application Note.

## **5. Programme of Improvement**

During 2017/18 the Combined Authority continued to progress its 'One Organisation' Programme aimed at ensuring the Combined Authority has the right structures, processes and people to enable the successful delivery of its objectives and priorities. Over the last twelve months significant progress was made with regard to recruiting to new structures and subsequent alignment of budgets, corporate plans and the embedding of the new set of values and behaviours. This has been accompanied by an increased focus on transparency in decision making across both the Combined Authority and the LEP Board. .

Significant work has been undertaken to ensure compliance with the requirements of the General Data Protection Regulation which comes into force on 25 May. Work will continue throughout 2018/19 to ensure information security arrangements remain up to date and are regularly monitored and reported.

Work is underway to review the internal governance arrangements to ensure they align to best effect with the revised committee and advisory panel arrangements and that delegations are exercised to best effect to enable transparent, accountable and effective decision making.

Recruitment is underway to a dedicated Scrutiny Officer post to support the Overview and Scrutiny Committee. Further improvements with regard to the transparency of project delivery are planned for the summer as part of upgrades to the website. Further development of the risk management arrangements are taking place and reporting on risk and wider corporate performance is to be reported to each meeting of the Combined Authority during 2018/19.

## 6. Significant Governance Issues

This section considers any significant issues that have arisen during the year. This is by exception only.

No such significant issues have arisen in the year.

We are satisfied that an effective system of internal control has been in place throughout the financial year and is ongoing.

Throughout 2017/18 the Combined Authority has demonstrated an ongoing commitment to best practice and good corporate governance consistent with the principles of the CIPFA/SOLACE Framework in Local Government and this is clearly demonstrated by the adoption of an updated Corporate Governance Code and Framework which captures and summarises these updated principles. We are also satisfied with the improvements that are continuing under the guidance of the Governance and Audit Committee.

Councillor S Hinchcliffe

B Still

Chair

Managing Director

July 2018