West Yorkshire Combined Authority

Report to:	Governance and Audit Committee
Date:	30 July 2018
Subject:	**Annual Accounts 2017/18**
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1. Purpose

1.1 To present to the Committee for their approval the annual accounts for 2017/18 for the West Yorkshire Combined Authority.

2. Information

2.1 There is a statutory requirement for approval of the annual accounts to an earlier revised deadline of 31 July. Mazars and Combined Authority have worked together to complete this work to this deadline, reflecting the timing of the audit work and the fact that in the previous year work had been completed on the same timescale.

2.2 The accounts have been presented for audit and Mazars have completed their audit work. This report provides the information required to consider the accounts for approval. The following appendices are attached:

Appendix 1 Final accounts of the Combined Authority
Appendix 2 Treasury management statement
Appendix 3 Audit completion report

2.3 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.

2.4 There are a number of accounting matters in the accounts which are drawn to the Committee's attention below.

2.5 **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 Fund has undergone its triennial valuation, underlying assumptions were revisited and employer rates have been reset for the period up to 31 March 2020. The deficit has increased during the financial year 2017/18 from £72.4m to £74.8m as a result of the financial actuarial assumptions changing over the course of the year.

2.6 The **going concern principle** is always required to be considered as part of the year end process. The outcome of the accounting entries for pensions set out in the previous paragraph often results in a negative balance sheet which would ordinarily give rise to a question regarding going concern. For 31 March 2018 this is not the case, due to an increase in both cash and short term investments and the capital grants unapplied reserve which are increasing the total assets at the year end. In any event it is not thought likely that the pension deficit will crystallise and the Authority is making contributions to address this deficit as determined by the actuary. 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 Combined Authority's accounts have therefore been prepared on a going concern basis.

2.7 **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.

2.8 **Accounting policies –** although there are no significant changes to note from last year, an accounting policy relating to a useable capital receipt reserve has been added (page 29 in the accounts).

Final accounts of the Combined Authority (Appendix 1)

2.9 The Combined Authority's accounts comply fully with the required accounting standards.

2.10 The final position for 2017/18 is a use of reserves figure of £1.8m rather than the £3.5m budgeted at the start of the year. This 'saving' against budget is a net position and is attributable to the managed staff vacancy and recruitment position in the second half of the year and to the recovery of eligible costs against the capital projects.

2.11 In comparison to 2016/17 the Combined Authority's balance sheet shows a growth 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 a number of other upfront grant payments. This has resulted in increases in capital grants unapplied of £15m and in cash balances and short term investments of £35m. Whilst this is an improvement on the previous year and good progress is being made on accelerating the delivery of the capital programme, at 31 March 2018 this funding had still not all been approved. All projects are subject to the assurance framework and funding will only be released when the relevant information has been received and the appropriate approval is in place. The projected expenditure for 2018/19 shows, on Growth Deal alone, a minimum spend of £102m, some of which will be utilising funding already received. A number of projects that are currently spending relatively low levels of money on pre-development and feasibility are expected to get approval to move through to the delivery phase during 2018/19.

Treasury Management statement (Appendix 2)

2.12 The Treasury Management Statement for the year is set out in **Appendix 2**. The budget report to The Combined Authority in February 2018 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

2.13 Total capital expenditure in the year was £144m, 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 £41m which is then utilised by Combined Authority and the constituent District Councils. The Combined Authority also applied capital grants for the Cycle City Ambition scheme of £3.3m. Some funding was carried forward from 2016/17, reflecting the change by the Department for Transport in paying multi-year grants in advance and also reflecting some reprofiling of Local Transport Plan funded projects. Similarly funding will be carried forward to 2018/19 enabling committed schemes and projects to be delivered despite changes in the timing of delivery.

2.14 The Growth Deal funding of £72m received for 2017/18 plus the carried forward amount from 2016/17 of £48m have been applied to some £85m of projects originally identified within the programme submitted to government. Recognising the need to re-profile some of the projects within that programme the flexibility awarded with the Growth Deal has been applied resulting in Growth Deal funding being utilised for some projects in Combined Authority's capital portfolio with their original funding stream being carried forward to use in 2018/19. An underspend on the Growth Deal has been accounted for in

capital grants unapplied and will be utilised on projects that have been reprofiled to 2018/19 and beyond.

Audit Completion Report (Appendix 3)

2.15 Mazars have completed their audit work on the annual accounts and their conclusions are set out in their Audit Completion Report which is attached as **Appendix 3**. The Committee is required to consider this report before considering and approving the annual accounts. The Audit Senior Manager Mark Dalton will be in attendance at the meeting to present their report and answer any questions.

2.16 The key messages are set out in the Executive Summary on page 3 of the report which confirms that an unqualified audit opinion, without modification, is to be given on the financial statements and an unqualified value for money conclusion.

2.17 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 9 onwards. There are three ICT related deficiencies in internal control that have been identified, none of which are high priority. A management response is included for each one that sets out the agreed actions to be taken. The Committee may be aware that a programme of improvements and enhancements to ICT systems has recently been approved into the capital programme by the Combined Authority, recognising a legacy of underinvestment in the systems. Significant work will be undertaken over the next two years to move towards a 'digital first' organisation that can work flexibly with reliable and effective tools and systems enabling better productivity.

2.18 One low priority internal control remains outstanding from the previous year and requires continued work with a local authority counterparty that has treated a loan as a grant despite a signed loan agreement being in place.

2.19 Some minor changes from the draft accounts are set out on page 11 and these have been addressed in the final accounts at **Appendix 1** and are largely reclassifications and/or presentational and therefore have no impact on the results for the year.

2.20 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 wording of that representation letter is included on pages 18-20 of Mazars report and the Director, Resources 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.

2.21 Mazars are required to issue an audit completion notice by the statutory date of 31 July to confirm that they have completed their work in relation to the annual accounts. Unlike in previous years, there is not a requirement to audit the Whole of Government Accounts submission which will take place in August/September. This is due to threshold changes and the Combined Authority, for 2017/18, falls below the required level.

3. Financial implications

3.1 The audit fee is set nationally by Public Sector Audit Appointments Ltd (PSAA) and is included in the Combined Authority's annual budget. Future audit fees 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 in **Appendix 2** 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 2018.

7. Appendices

Appendix 1 – WY Combined Authority – 2017/18 Statement of Accounts
Appendix 2 – Treasury management statement
Appendix 3 – Audit Completion Report 2017/18 (Mazars)