Public Document Pack

A meeting of the

WECA Audit Committee

will be held on

Date: **Thursday, 9 December 2021**

Time: **10.30 am**

Place: **Council Chamber, Bristol City Council Offices**

Notice of this meeting is given to members of the West of England Combined Authority Audit Committee as follows

Cllr Hal MacFie, Bath and North East Somerset Council
Cllr Heather Mack, Bristol City Council
Cllr Alex Hartley, Bristol City Council
Cllr Tim Kent, Bristol City Council
Cllr Geoff Gollop, Bristol City Council
Cllr Rob Appleyard, Bath & North East Somerset Council
Mark Hatcliffe, Independent Member of WECA Audit Committee
Cllr Mark Bradshaw, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr John Ashe, South Gloucestershire Council
Cllr John O'Neill, South Gloucestershire Council
Cllr Brenda Langley, South Gloucestershire Council

Enquiries to:

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West of England Combined Authority Committee Agenda

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- Inspect background papers used to prepare public reports for a period public reports for a period of up to four years from the date of the meeting. (A list of background papers to a report is given at the end of each report.) A background paper is a document on which the officer has relied in writing the report.
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1. EVACUATION PROCEDURE

In the event of a fire, please await direction from the West of England Combined Authority staff who will help assist with the evacuation. Please do not return to the building until instructed to do so by the fire warden(s).

2. APOLOGIES FOR ABSENCE

To receive any apologies for absence from Members.

3. DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011

Members who consider that they have an interest to declare are asked to: a) State the item number in which they have an interest, b) The nature of the interest, c) Whether the interest is a disclosable pecuniary interest, non-disclosable pecuniary interest or non-pecuniary interest. Any Member who is unsure about the above should seek advice from the Monitoring Officer prior to the meeting in order to expedite matters at the meeting itself.

4. MINUTES 5 - 10

To consider and approve the minutes from 22 September 2021 of the West of England Combined Authority Audit Committee.

5. ITEMS FROM THE PUBLIC

***WRITTEN PUBLIC QUESTIONS** (written procedure)*
1. Any member of the public can submit a maximum of two written questions in advance of this meeting.
2. The deadline for the submission of questions is 5.00 pm, at least 3 clear working days ahead of a meeting. For this meeting, the deadline for questions is 5.00 pm on Friday 3 December 2021.
3. Questions should be addressed to the Chair of the meeting and e-mailed to democratic.services@westofengland-ca.gov.uk
4. Under the direction of the Chair, wherever possible, written replies to questions will be sent to questioners by the end of the working day prior to the meeting.
5. Please note - under the Combined Authority's committee procedures, there is no opportunity for oral supplementary questions to be asked at committee meetings.
6. The written questions and replies will be circulated to committee members in advance of the meeting and published on the Combined Authority website.

PUBLIC STATEMENTS
1. Any member of the public may submit a written statement (or petition) to this meeting.
2. Please note that one statement per individual is permitted.
3. Statements must be submitted in writing and received by the deadline of 12 noon on the working day before the meeting. For this meeting, the deadline for statements is 12 noon on Wednesday 8 December 2021. Statements should be emailed to democratic.services@westofengland-ca.gov.uk
4. Statements will be listed for the meeting in the order of receipt. All statements will be sent to committee members in advance of the meeting and published on the Combined Authority website.
5. Please note: If any member of the public wishes to attend the meeting to orally present their statement, they are asked please to notify the Combined Authority's Democratic Services team of this at the point when their statement is submitted and by 12 noon on the working day before the meeting at the very latest. Statements to be presented physically at the meeting will be listed in the order of receipt of notification. The total time available for the public session at this meeting is 30 minutes.

All members of the public attending to present statements are requested please to *take a Covid-19 lateral flow test 24 hours before the day of the meeting. Due to ongoing Covid-19 restrictions, it may be necessary to limit the number of people who can physically attend the meeting.*

6. CHAIR'S ANNOUNCEMENTS

To receive any announcements from the Chair of the Committee.

7. AVON PENSION FUND COMMITTEE 11 - 12

The West of England Combined Authority Audit Committee, at its meeting on 22 September 2021, asked officers to investigate whether the West of England Combined Authority was represented on the Avon Pension Fund Committee.

8. APPOINTING AN EXTERNAL AUDITOR 13 - 16

The purpose of this report is to gain the views and recommendation of the Audit Committee to inform the decision to be made by the Combined Authority Committee, (on 28 January 2022), of whether to opt in, or out, of the PSAA Framework.

9. TREASURY MANAGEMENT STRATEGY 2022/23 AND TREASURY MANAGEMENT 2021/22 MONITORING UPDATE 17 - 40

The Chartered Institute of Public Finance and Accountancy's, (CIPFA), Treasury Management in the Public Services Code of Practice, requires the authority to approve a Treasury Management Strategy before the start of each financial year. The 2022/23 Strategy will be submitted to the January 2022 WECA Committee for approval alongside the 2022/23 budget papers.

10. FINANCIAL RESERVES POLICY 41 - 48

The purpose of this Report is to present to Members of the WECA Audit Committee an update on the holding and management of the Combined Authority and Local Enterprise Partnership, (LEP), financial reserves.

11. CYBERSECURITY 49 - 52

To provide an update to the Audit Committee on the IT security controls implemented in light of the recommendations from Grant Thornton UK LLP.

12. INTERNAL AUDIT UPDATE 53 - 66

To Update the Committee on Internal Audit work in 2021/22.

13. GRANT THORNTON FINAL AUDIT FINDINGS REPORT 67 - 248

The purpose of this Report is to present to Members of the WECA Audit Committee the West of England Combined Authority Annual Statement of Accounts for 2020-21 for their review and approval.

Next meeting: Wednesday, 23 February 2022

West of England Combined Authority
WECA Audit Committee

Wednesday, 22 September 2021, 10:30am
Brunswick Room, Guildhall, Bath

Present:

Cllr Rob Appleyard, Bath & North East Somerset Council
Cllr Mark Bradshaw, Bristol City Council
Cllr Geoff Gollop, Bristol City Council
Cllr Alex Hartley, Bristol City Council
Cllr Tim Kent, Bristol City Council
Cllr Brenda Langley, South Gloucestershire Council
Cllr Heather Mack, Bristol City Council
Cllr Brenda Massey, Bristol City Council
Cllr Winston Duguid, Bath & North East Somerset Council (as substitute for Cllr Hal McFie)

Officers In Attendance:

Selonge Russell, Head of Finance and Procurement
Steve Finnegan, Financial Accountant
Tim Milgate, Democratic Services Officer
Pete Charles, Internal Audit
David Bray, External Audit

Apologies:

Cllr John Ashe, South Gloucestershire Council
Mark Hatcliffe, Independent Member of WECA Audit Committee
Cllr Hal MacFie, Bath and North East Somerset Council
Cllr John O'Neill, South Gloucestershire Council

Minutes

The meeting was opened by the Democratic Services Officer who presided over the first three items.

1	**EVACUATION PROCEDURE** The evacuation procedure for the venue was noted.
2	**COMMITTEE MEMBERSHIP & APOLOGIES FOR ABSENCE** The membership of the WECA Audit Committee for municipal year 2021/22 was noted. Apologies for absence had been received from Cllr John Ashe, Cllr John O'Neill, Mark Hatcliffe and Cllr Hal McFie (Cllr Winston Duguid attended as substitute).
3	**ELECTION OF CHAIR FOR MUNICIPAL YEAR 2021/22** It was proposed by Cllr Appleyard and seconded by Cllr Langley and unanimously: **Agreed**: That Cllr Geoff Gollop be elected Chair of WECA Audit Committee for municipal year 2021/22.
4	**ELECTION OF VICE-CHAIR FOR MUNICIPAL YEAR 2021/22** Having indicated prior to the meeting that he would be willing to stand as Vice-Chair, it was proposed by Cllr Langley and seconded by Cllr Gollop and: **Agreed**: That Cllr Hal McFie be elected as Vice-Chair of WECA Audit Committee for municipal year 2021/22.

5	**DECLARATIONS OF INTEREST UNDER THE LOCALISM ACT 2011** There were no declarations of interest declared.
6	**TERMS OF REFERENCE** The Terms of Reference of the Committee were noted. At this point of the meeting the Chair raised the following urgent business: "I need to raise a matter that has been brought to my attention. Members may or may not be aware that David Carter, Head of infrastructure, left WECA at short notice on Friday. I have had a number of off the record conversations regarding this but feel that are a number of issues that need clarification. In particular I am concerned that appropriate Governance processes have not been followed and checks and balances have been applied. I would look to members to agree to 2 specific requests, both as a matter of urgency Firstly that we ask our internal and external auditors to review the processes that lead to this situation and whether WECA has dealt with this in accord with its own rules and in line with best practice. Secondly, I would ask Internal Audit in parallel to look at whether our rules and processes for the departure of senior officers and their permanent or interim replacement or reallocation of work, are fit for purpose and include the appropriate levels of accountability and transparency. I ask that Internal and External Auditors to split this work as appropriate and to define their work when the extent of the issue became apparent to them. I would ask that an update be provided to the Chair of Audit Committee and Chair of Scrutiny Committee within a month and reports are copied to the Chair and Vice Chair of Audit as soon as they are available and we can determine if any immediate action is needed and how they should be made available to committee". The above statement was unanimously endorsed by the Committee.
7	**MINUTES OF THE MEETING OF WECA AUDIT COMMITTEE HELD ON 25 FEBRUARY 2021** The minutes of the meeting held on 25 February 2021 were agreed as a correct record.
8	**ITEMS FROM THE PUBLIC** There were two questions received from a member of the public and the responses to these questions were provided to the questioner following the meeting. In addition one statement had been received the text of which had been circulated to the Committee prior to the meeting and published on the Authority's website.
9	**PETITIONS** No petitions were received.
10	**EXTERNAL AUDIT PLAN FOR YEAR ENDING 31 MARCH 2021**

	The Audit Committee received a report, referred from the previously cancelled meeting in July 2021, detailing the key industry and local risks that fed into the planned external audit work that would be undertaken by Grant Thornton for the year ended 31 March 2021. David Bray (External Auditors, Grant Thornton) attended the meeting. The West of England Combined Authority Audit Plan was attached at Appendix 1. Grant Thornton detailed their 'significant audit risks', 'reason for risk identification' and proposed work that they planned to undertake, within the Audit Plan for year ending 31 March 2021. **Agreed**: That the (Grant Thornton) External Audit Plan for year ended 31 March 2021 be approved.
11	**INFORMING THE AUDIT RISK ASSESSMENT FOR WECA 2020/21** The Committee considered a report the purpose of which was to contribute towards the effective two-way communication between the Combined Authority's external auditors and Audit Committee (as those charged with governance). The report covered some important areas of the auditor risk assessment where Grant Thornton, WECAs appointed auditors, were required to make inquiries of the Audit Committee under auditing standards. To help inform the external audit opinion of the accounts, the Authority's auditor, Grant Thornton, undertook an initial risk assessment, to obtain an understanding of management processes and the Audit Committee's oversight of a number of areas including accounting estimates. It was asked whether the accuracy of these estimates could be reported in future years. Grant Thornton stated that the auditing processes took longer remotely but no concerns had been raised. Agreed: That the WECA Audit Committee confirms that the WECA management response to the auditor risk assessment was a true reflection of the authority's management processes.
12	**STATUTORY ACCOUNTS 2020/21** A report was presented to Members of the WECA Audit Committee setting out the West of England Combined Authority Annual Statement of Accounts for 2020-21 for their review and approval including the following appendices: Appendix 1 – Grant Thornton (ISA 260) Audit Findings Report; Appendix 2 – WECA Statement of Accounts for 2020/21; Appendix 3 – Letter of Representation; Appendix 4 – VfM Extension letter; The deadline for the statutory approval of local authority accounts had been amended to 30 September 2021 as a result of the Covid situation. The Statutory Statement of Accounts had been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards. Grant Thornton had substantially completed their external audit of the WECA Accounts with their (ISA 260) audit Findings report detailed in Appendix 1. The full set of WECA Accounts were attached at Appendix 2. The following points were raised:

- A letter from the Auditor of the Avon Pension Fund was awaited. There were standardised rules across local authorities on pension funds with issues common to all the Authorities. The Committee requested that it be investigated whether WECA was represented on the Avon Pension Fund Committee due to the potential growing liability in this area and the rapid growth of staff within the organisation;

NB: Subsequent to the meeting the following response was received following an enquiry. The Chair requested that the Audit Committee discuss the issue at their next meeting:

"This is purely a Council decision as the administration authority and would be based on a recommendation of the Pensions Committee . The Committee reviews representation across sectors from time to time and local government is well represented. Certainly the four Constituent authorities which make up and Fund WECA are already represented so not clear what rationale would be to increase Committee membership further."

Therefore if WECA are still keen following the above advice, they could submit a more formal request to the Pensions Committee for them to consider"

- In respect to the Reserves it was noted that it was still early days in the life of WECA and as such reserves had not yet been built to a greater level. It was asked whether these were at a "satisfactory" level and whether due to the climate emergency any reserves should exist at all. The Committee therefore requested that a "Reserves Policy" be brought back to the next meeting;
- It was stated that much of WECA's income was reliant on short term grant funding and although the five-year gateway review had been successful, the work to try to secure more permanent funding was ongoing. This was a common problem amongst Combined Authorities;
- It was asked whether WECA was in a position to invest in the Government's National Savings Green Bonds scheme. It was also requested that Scrutiny Committee be kept informed on any work carried out by the Audit Committee on climate change (from a governance and management of risk perspective);
- Internal Audit stated that they had tried to embed the climate emergency within their work and there was potentially a reputational risk to the Authority (if it could not meet its targets) as well as a potential risk to delivery. The Audit Committee stated that it would like to monitor work in this area, maybe through the risk register, with a joint meeting of WECA Audit Committee and WECA overview & Scrutiny meeting being arranged to discuss how this area of work could best be monitored;

Agreed:

That the committee:

(a) note the content of the External Auditor ISA 260 Audit Findings report (as detailed in Appendix 1) and

(b) approve the West of England Combined Authority Annual Statement of Accounts for 2020-21 (as detailed in Appendix 2) subject to the agreement of any outstanding items with final amendments being agreed by the Director of Investment and Corporate Services in consultation with the Chair of the WECA Audit Committee and that the final accounts be published when the work of the External Auditors had been concluded;

(c) approve the Letter of Representation as detailed at Appendix 3;

(d) note the VfM extension letter in Appendix 4;

13	**INTERNAL AUDIT ANNUAL REPORT 2020/21** Pete Charles, Internal Audit, presented the Annual Report of the Internal Audit service detailing progress against the Plan, a summary of audit performance and key issues, as well as the formal opinion on the internal control framework. The report was original submitted to the cancelled meeting in July 2021. Appendix 1 recorded the status of each audit review within the 2020/21 Audit Plan at the end of the year. It was Internal Audit's opinion that at the current time the WECA's internal control framework and systems to manage risk were reasonable. **Agreed**: That the Audit Report 2020/21 and formal opinion on the internal control framework be noted.
14	**INTERNAL AUDIT PLAN 2021/22** Pete Charles presented the Internal Audit Plan for 2021/22 for the Committee's approval. The Plan had been subject to consultation with the Director of Investment and Corporate Services (S73 Officer) and WECA's Senior Management. The Committee would receive an update on the work undertaken later in the year. In response to a query it was noted that the Internal Audit team had 5-6 staff that could be called upon to carry out work at the Authority and they also undertook work for other Local Authorities in parallel. They followed the procedures set out in the Internal Audit Charter to prevent any conflict of interest. In relation to the point raised in the public questions, Internal Audit would speak to senior managers regarding any auditing of bus services. Agreed: That the report be noted and that the Internal Audit Plan attached at Appendix 1 be approved.
15	**DATES OF COMMITTEE** The dates of the WECA Audit Committee meetings in 2021/22 were noted.
	Thursday, 9 December 2021, 10.30 am

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WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

9 DECEMBER 2021

REPORT SUMMARY SHEET

AVON PENSION FUND UPDATE

Purpose

The West of England Combined Authority Audit Committee, at its meeting on 22 September 2021, asked officers to investigate whether the West of England Combined Authority was represented on the Avon Pension Fund Committee.

Summary

1. In its role as 'administering authority', Bath & North East Somerset Council has executive responsibility for the Avon Pension Fund. The Council is legally responsible for the Fund as set out in the Local Government Pension Scheme Regulations.

2. The Council delegates its responsibility for administering the Fund to the Avon Pension Fund Committee, this includes the setting up of a Local Pension Board and Investment Panel.

3. There is no representation on the Committee for the Combined Authority.

The Membership of the Committee is as follows:

Membership of the Committee
Voting members (14):

- 5 elected members from B&NES (subject to the rules of political proportionality of the Council)
- 3 independent members
- 1 elected member nominated from each of Bristol City Council, North Somerset Council and South Gloucestershire Council
- 1 nominated from the Higher and Further education bodies
- 1 nominated from the Academy bodies
- 1 nominated by the trades unions

Non-voting members (3):

1 nominated from the Parish Councils
Up to 2 nominated from different Trades Unions

Subsequent to the previous meeting the following response was received following an enquiry. The Chair, having had sight of this response, requested that the Audit Committee discuss the issue at their next meeting:

“This is purely a Council decision as the administration authority and would be based on a recommendation of the Pensions Committee . The Committee reviews representation across sectors from time to time and local government is well represented. Certainly the four Constituent authorities which make up and Fund WECA are already represented so not clear what rationale would be to increase Committee membership further.”

Therefore if WECA are still keen following the above advice, they could submit a more formal request to the Pensions Committee for them to consider”

Recommendations

Members of the Combined Authority Committee are asked to consider whether a formal request be made for representation of the West of England Combined Authority to join the Avon Pension Fund Committee taking into consideration that the Authority has one elected representative and its constituent councils are represented on the Board.

Contact officer: Tim Milgate

Position: Democratic Services Officer

Email: Tim.Milgate@westofengland-ca.gov.uk

ITEM: 08

REPORT TO: **AUDIT COMMITTEE**

DATE: **09 December 2021**

REPORT TITLE: APPOINTING AN EXTERNAL AUDITOR

DIRECTOR: **MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)**

AUTHOR: **MALCOLM COE & SELONGE RUSSELL**

Purpose of Report

1. Grant Thornton are the appointed External Auditors for the West of England Combined Authority. They were appointed under the Public Sector Audit Appointments, (PSAA), process for the Statements of Accounts period up to, and including, the 2022/23 financial year.
2. The PSAA are now inviting public sector bodies to 'opt in' for a further audit period from 2023/24 to 2027/28. Should the Combined Authority wish to take up this offer, we would require a formal decision through the Combined Authority Committee by the required deadline of 11 March 2022.
3. The purpose of this report is to gain the views and recommendation of the Audit Committee to inform the decision to be made by the Combined Authority Committee, (on 28 January 2022), of whether to opt in, or out, of the PSAA Framework.

Impact of Covid-19 pandemic

4. The Combined Authority has actively reviewed its key activities and work programme to reflect changing priorities as a result of the Covid-19 pandemic. Specific issues relating to the Covid-19 situation that impact on or are addressed through this report are:

   (a) Throughout the pandemic, external audit services have, in the main, been delivered remotely with the Combined Authority amending processes and information flows accordingly.

Recommendation:

(a) The Audit Committee is requested to provide a steer to the Combined Authority Committee as to whether to opt in, or out, of the Public Sector Audit Appointment Framework for the commissioning of external audit services.

Background / Issues for Consideration

5. The Local Audit & Accountability Act 2014 put in place the framework which allows local authorities to appoint their own external auditors. Prior to 2010, the Audit Commission was responsible for appointments with the work either being undertaken by their in-house auditors or by a limited number of private firms. The Audit Commission was also responsible for standard setting.

6. In August 2010, the then Secretary of State for Communities and Local Government announced that the Audit Commission would be abolished. His stated aims were to reduce costs and improve local democratic accountability by allowing local authorities to appoint their own external auditors from a more competitive market.

7. As part of the transitional arrangements, the Audit Commission undertook a competitive exercise which resulted in a series of regional contracts being awarded to Grant Thornton, KPMG, Ernst & Young and Mazars. The new contracts commenced in 2012 and saved over £25M nationally in audit fees each year.

8. The Audit Commission closed in March 2015 with responsibility for the existing appointments transferring to Public Sector Audit Appointments Limited (PSAA) an independent company established by the Local Government Association.

9. Only the full Combined Authority, (CA), Committee has the ability under the Local Audit & Accountability Act to approve the use of PSAA Ltd to carry out future external audit procurement processes on our behalf although the Audit Committee, being charged with governance, can provide their views to the CA Committee to help inform the decision.

10. The Combined Authority approved the use of the PSAA Ltd in March 2017 which has enabled the CA to come together with other authorities to procure audit services through a sector led organisation and secure the associated economies of scale. To date, Grant Thornton have been our appointed auditor through this process.

11. The current approval covers the external audit of the Statutory Accounts up to and including the 2022/23 financial accounting period. The PSAA are now formally inviting all eligible bodies to opt-in to the national scheme for local auditor appointments for the audits of 2023/24 through to 2027/28

12. Whilst the Act allows the CA to appoint their own auditors or to make a joint appointment directly with other authorities this approach would require the establishment of an auditor panel and the undertaking of a separately resourced procurement exercise.

13. Therefore, within the local authority sector, the vast majority of authorities have, to date, joined the sector led procurement exercise from PSAA. There are no direct charges from using PSAA Ltd and there are very clear financial and quality benefits by following this option which should also help the major firms to plan their resources and bids more effectively.

14. The PSAA process will enable the Combined Authority to influence, and input, to the final decision as to the external firm that will be allocated for the period up to 2027/28

Consultation

15. The Audit Committee is requested to give their views to the CA Committee to inform the decision as to whether to opt in or opt out to the PSAA external auditor appointments process.

Other Options Considered

16. The Combined Authority could appoint their own auditors or make a joint appointment directly with other authorities. However, this approach would require the establishment of an auditor panel and the undertaking of a separately resourced procurement exercise

Public Sector Equality Duties

17. The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

17.1. The Act explains that having due regard for advancing equality involves:

- Removing or minimising disadvantages suffered by people due to their protected characteristics.
- Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
- Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

17.2. The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

Finance Implications:

18. The PSAA process for commissioning external audit services is a free service which enables the CA to benefit from economies of scale as well as accessing national quality assurance of external audit services delivered.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Legal Implications:

19. The Local Audit & Accountability Act 2014 put in place the framework which allows local authorities to appoint their own external auditors. Public Sector Audit Appointments, (PSAA), commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by

s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of each financial year

Advice given by: Shahzia Daya, Director of Legal

Background papers:

Procurement of External Auditors report to the Combined Authority Committee – 1 March 2017.

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

ITEM: 09

REPORT TO: AUDIT COMMITTEE

DATE: 09 DECEMBER 2021

REPORT TITLE: TREASURY MANAGEMENT STRATEGY 2022/23 AND TREASURY MANAGEMENT 2021/22 MONITORING UPDATE

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)

AUTHOR: STEVE FINNEGAN

Purpose of Report

1. The Chartered Institute of Public Finance and Accountancy's, (CIPFA), Treasury Management in the Public Services Code of Practice, requires the authority to approve a Treasury Management Strategy before the start of each financial year. The 2022/23 Strategy will be submitted to the January 2022 WECA Committee for approval alongside the 2022/23 budget papers.

Impact of Covid-19 pandemic

2. The Combined Authority has actively reviewed its key activities and work programme to reflect changing priorities as a result of the Covid-19 pandemic. Specific issues relating to the Covid-19 situation that impact on or are addressed through this report are as follows:

   - The impact of Covid on the financial markets means that returns achievable on cash investments are at a historically low level;

   - WECA, through their Treasury Management advisors, ArlingClose, will regularly review the stability and security of all investments made.

Recommendations. That the committee:

(a) note the Treasury Management Strategy for 2022/23 and recommend any amendments prior to it being submitted to the January 2022 WECA Committee for approval;

(b) note the 2021/22 Treasury Management monitoring update as detailed at the end of Appendix 1.

Background / Issues for Consideration

3. The 2021/22 Treasury Management Strategy, as informed through our Treasury advisors, ArlingClose, was approved by the WECA Committee on 29 January 2021. The 2022/23 Strategy builds on the foundations of the previous year and has been updated to reflect Covid and economic factors, credit risk and cash flow forecasts.
4. WECA's Treasury Transactions are entirely investment based at present with the authority being debt free with no identified need for long term borrowing within the immediate future. Short term borrowing will be considered as part of normal cashflow operations where appropriate.
5. From April 2019, WECA took on responsibility for managing its own investment portfolio, a service that was previously managed on our behalf by Bath and North East Somerset, (BANES), Council.
6. In the early years of operation, WECA has continued to maintain significant cash balances as detailed business cases and feasibility studies are developed. The focus of Treasury Management is to protect the security of public funding whilst continuing to generate healthy financial returns from our cash holdings which has become increasingly challenging in the current economic climate.
7. The 2022/23 Treasury Management Strategy, and update on 2021/22 performance, is detailed as Appendix 1 to this report.

Consultation

8. Decisions on treasury management investments and borrowing are made daily as delegated to the Director of Investment and Corporate Services, (and designated staff), who must act in compliance with the Treasury Management Strategy. Reports on treasury management performance are presented to the WECA Committee, with the Audit Committee being responsible for scrutinising the governance framework that drives treasury management decisions.
9. Regular dialogue is maintained with our treasury advisor's, ArlingClose, particularly in relation to the consideration of longer-term investment opportunities.

Risk Management/Assessment

10. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code).
11. The primary objective of the strategy is to safeguard public funding whilst generating reasonable financial returns from cash balances held. Within the strategy, there is a list of approved investment options with financial values and durations firmly linked to the credit worthiness, and risk, of each investment option.
12. ArlingClose provide regular updates in terms of changes to individual credit ratings and/or economic outlooks which might impact on current or future investment holdings.

Public Sector Equality Duties

13. The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

    - Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
    - Advance equality of opportunity between people who share a protected characteristic and those who do not.
    - Foster good relations between people who share a protected characteristic and those who do not.

14. The Act explains that having due regard for advancing equality involves:

    - Removing or minimising disadvantages suffered by people due to their protected characteristics.
    - Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
    - Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

15. The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

16. There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

17. The base budget for the income generated from WECA investments is £670k per annum for 2022/23. As per 2021/22 we are predicting to exceed this base budget next financial year due to

    (a) the holding of high cash balances and

    (b) generating financial returns over and above the budgeted level through ‘forward deals’ and diversifying the authority’s investment portfolio.

18. Any surpluses generated in 2022/23 will be transferred to a specific Treasury Management earmarked reserves in order to address predicted shortfalls in investment income in future years.

Legal Implications:

19. Treasury management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy’s *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority’s legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code

Appendices:

Appendix 1 – WECA Treasury Management Strategy for 2022/23 and Monitoring update for 2021/22

Background papers:

WECA Treasury Management Strategy 2021/22 – approved by WECA Committee on 29 January 2021

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

West of England Combined Authority

Treasury Management Strategy Statement 2022/23

1. Introduction

1.1 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has substantial sums of money invested and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.2 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

2. External Context

2.1 **Economic background:** The impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the Authority's treasury management strategy for 2022/23.

2.2 The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 7-2 to keep rates on hold and 6-3 to maintain the asset purchase programme. Within the announcement the MPC suggested interest rates would be increased soon, but not to the 1% level expected by financial markets. Within the November 2021 Monetary Policy

Report, the Bank expected consumer price index (CPI) inflation to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fade and demand slows.

2.3 UK Consumer Price Inflation (CPI) for September 2021 registered 3.1% year on year, slightly down from 3.2% in the previous month. Core inflation, which excludes the more volatile components, fell to 2.9% y/y from 3.1%. The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.

2.4 GDP growth grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% q/q in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.

2.5 **Credit outlook:** Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

2.6 The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

2.7 **Interest rate forecast:** The Authority's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will rise in calendar Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates. Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the Authority's counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the Authority's lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

2.8 Gilt yields had increased sharply on the back of higher inflation and anticipated central bank action, however in its November MPC meeting, the committee noted that market expectations for rates were excessive, and yields have since fallen back. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0%, and 1.35% respectively. The risks around the gilt yield forecast are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon. As ever, there will almost certainly be short-term volatility due to economic and political uncertainty and events.

2.9 For the purpose of setting the budget, it has been assumed that new investments will be made at an average rate of 0.4% for WECA balances, and 0.1% for GBF and RIF balances. These rates can only be achieved through retaining a proportion of our portfolio as long terms investments such as property, equities and mixed asset funds.

3. Local Context

3.1 On 31st October 2021, the Authority held £294m of investments and no borrowing. This is set out in further detail at **Appendix A**.

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.3 The Authority is currently debt free and its capital expenditure plans do not currently imply any need to borrow over the forecast period. Investments are forecast to fall to £250m by the end of 2022/23 as capital grants are used to finance capital expenditure and earmarked reserves are spent on their intended purpose.

4. Investment Strategy

4.1 The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Since 1 April 2021, the Authority's investment balance has ranged between £260m and £338m, and similar levels are expected to be maintained in the forthcoming year.

4.2 As well as holding investments in its own right, the Authority also acts as Accountable Body for the West of England Revolving Investment Fund (RIF) and Getting Building Fund (GBF), holding Government Grants until they are ready to be distributed to Local Authorities and other organisations for approved project spend over the coming years.

4.3 The funds are invested primarily to protect the capital and, to achieve a high level of capital security, investments are made predominantly with Central Government, Local Authorities and Banks with high credit ratings. See **Appendix B** for Treasury Monitoring.

4.4 Interest earned on RIF investments is re-invested into the Fund. GBF investment returns are earmarked to fund the corporate support and governance costs that come with performing the Accountable Body function for the Local Enterprise Partnership (LEP). Government requires GBF to be fully spent by the end of March 2022.

4.5 **Objectives:** The CIPFA Code requires the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. Given the current level of CPI at 3.1% this will be difficult to achieve with fixed term deposits alone. However, we will continue to consider further longer-term investments within our overall investment portfolio, such as pooled funds, which will achieve a higher rate of return. Any temporary liquidity issues that may arise throughout the year will be dealt with by short term borrowing.

4.6 **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

4.7 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to further diversify into more secure and/or higher yielding asset classes during 2022/23. A reduced proportion of the Authority's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2021/22 with outer limits set for treasury management operations.

4.8 **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

4.9 **Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types as detailed in *Figure 1*, subject to the cash limits (per counterparty), and the time limits shown.

Figure 1: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£15m	Unlimited
Banks (unsecured) *	13 months	£10m	Unlimited
Building societies (unsecured) *	13 months	£10m	£20m
Registered providers (unsecured) *	5 years	£10m	£50m
Money market funds *	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£50m
Other investments *	5 years	£10m	£20m

This table must be read in conjunction with the following notes

a) **Minimum Credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is **no lower than A-.** Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

   For entities without published credit ratings, investments may be made either:

   (i) where external advice indicates the entity to be of similar credit quality; or

   (ii) to a maximum of £10m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

b) **Banks and building societies unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

c) **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

d) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

e) **Corporates:** Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made either following an external credit assessment or to a maximum of £50,000 per company as part of a diversified pool in order to spread the risk widely.

f) **Registered providers (unsecured):** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

g) **Money Market Funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

h) **Strategic Pooled funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

The Authority may consider further investment in Pooled Funds during 2022/23 with a view to providing further diversification and the potential for earning a higher investment yield on long-term investment balances. Cash that is not required to meet any short or medium-term liquidity can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local WECA services.

Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

i) **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

j) **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

k) **Operational bank accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £250,000 per bank. This is a relatively low risk as deposits tend to be only held overnight and can be moved without notice. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

l) **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Authority's treasury advisers, ArlingClose, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

m) **Other information on the security of investments**: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will either be deposited with the UK Government, (via the Debt Management Office), invested in government treasury bills or with other local authorities. This will cause a reduction in the level of investment income earned, but will protect the principal sum invested.

n) **Environmental, Social & Governance (ESG) Investments:** With many LA's declaring a climate emergency to tackle the impacts of climate change, the Authority recognises it can further enhance its efforts through its investment decisions and activity. The Authority will continue to use the Arlingclose ESG and Responsible Investment Service, designed to guide and advise authorities on incorporating and monitoring ESG in its treasury investment decisions.

o) **UA Short Term Loan Facility:** In order to assist the West of England Unitary Authorities who may continue to face cashflow challenges as a result of Covid, the Authority has implemented a short-term loan facility and this will be operated within the parameters of the approved Treasury Management Strategy.

p) **Investment limits**: The maximum that will be lent to any one organisation, (other than the UK Government), will be £10 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. The Authority's revenue reserves, which could be made available to cover any investment losses, are forecast to be £1.2 million on 31st March 2022. There is also a £400k Treasury Management Earmarked Reserve available.

Figure 2: Investment Limits

	Cash limit
Any single organisation, except the UK Central Government	£10m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£15m per country (AAA sovereign rating)
	£10m per country (AA+ sovereign rating)
Registered providers and registered social landlords	£50m in total
Unsecured investments with building societies	£20m in total
Loans to unrated corporates	£20m in total
Money market funds	unlimited
Real estate investment trusts	£50m in total

q) **Liquidity management**: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

5. Borrowing Strategy

5.1 The Authority currently holds no borrowing. The balance sheet forecast shows that the Authority does not expect to need to borrow in 2022/23.

5.2 **Objectives:** The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

5.3 **Strategy:** The Authority does not currently have any underlying need to borrow long-term to fund capital expenditure. WECA holds no long-term loans and no long-term borrowing is anticipated during 2022/23. Therefore, a debt-free strategy will be maintained until such time as the Authority determines that its capital strategy and prioritised programme of investment requires consideration of any borrowing decision.

5.4 As part of its approach to liquidity management, the Authority may borrow short-term loans to cover any unplanned cash flow shortages as they arise. Rather than always keeping cash on instant access for unplanned cash flows, (where security and liquidity will mean yields will be low), the Authority will retain the option of short-term borrowing at current low rates to enable it to explore increasing investments in longer-term and more diversified assets. The Authority will test access to borrowing occasionally even where this is not required to ensure liquidity is available.

5.5 **Sources of borrowing:** The approved sources of short-term borrowing are:

- Public Works Loan Board (PWLB) and any successor body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Avon Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5.6 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

5.7 **Short-term and variable rate loans**: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits as detailed in the treasury management indicators.

6. Treasury Management Indicators

6.1 The Authority measures and manages its exposures to treasury management risks using the following indicators.

6.2 **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

Credit risk indicator	Target
Minimum portfolio average credit rating	A-

6.3 **Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

Liquidity risk indicator	Target
Total sum borrowed in past 3 months without prior notice	£30m

6.4 **Interest rate exposures**: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% fall in interest rates	£1m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

6.5 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25	+3 years
Limit on principal invested beyond 364 days as % of total cash balance	50%	30%	20%	20%

7. Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

7.1 **Financial Derivatives:** Authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 113A of the Local Democracy, Economic Development and Construction Act 2009 removes much of the uncertainty over authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.2 **Markets in Financial Instruments Directive (MiFID II)**: As a result of the directive, Local Authorities will be treated as retail clients, but can opt up to professional client status, providing that they meet certain criteria which includes having an investment balance of at least £10m and the persons authorised to make investment decisions on behalf of WECA having at least a year's relevant professional experience. In addition, the regulated financial services firms to whom this directive applies must assess that these persons have the expertise, experience and knowledge to make investment decisions and understand the risks involved.

The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

8. Financial Implications

The budget for WECA investment income in 2022/23 is £1.2 million, based on an average investment portfolio of £290 million at an interest rate of 0.4% and making an allowance for impairment as required.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, then 50% of the revenue savings will be transferred to a treasury management reserve to cover the risk of capital losses or lower interest rates payable in future years.

9. Other Options Considered

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the West of England Mayor and Chief Executive, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller

Appendix A – Investment & Debt Portfolio Position

	31-Oct-21 Actual Portfolio £m	31-Oct-21 Average Rate %
External borrowing:	**0**	**0**
Other long-term liabilities:	**0**	**0**
Total gross external debt	**0**	**0**
Treasury investments:		
Banks & building societies (unsecured)	6.5	0.02
Covered bonds & repo (secured)	0	0
Government (incl. local authorities)	229.0	0.43
Registered Providers	5.0	1.00
Money Market Funds	16.5	0.03
Other pooled funds:		
CCLA Property Fund	10.0	4.46
Investec	10.0	4.03
Kames	10.0	4.06
Threadneedle	3.5	1.41
M & G	3.5	3.43
Total treasury investments	294	0.86
Net debt	0	0

Appendix B – Treasury Management Monitoring

The Authority's investment position as at 31st October 2021 is detailed below. This shows a balance held of £294m which is an increase from £279m at 31st March 2021.

As shown in the charts, the investment portfolio has been diversified across UK banks, Building Societies and Local Authorities. The Authority also uses AA rated Money Market Funds to maintain short term liquidity with £16.5m invested as at 31st October 2021. The Authority also retains units in pooled funds with £10m invested with the CCLA Property Fund, £10m with Investec, £10m with Kames, £3.5m with Threadneedle and £3.5m with M&G.

The forecast investment income to 31st March 2022 is £2m with an average rate of interest earned of circa 0.9%.

Investments are forecast to fall to £260m by the end of the 2021/22 financial year as capital grants are used to finance capital expenditure and project spend. Investments have been staggered, in terms of maturity dates, to ensure that there is a reasonable balance of available liquidity to finance required spend.

The Authority's term of investments are as follows:	**Balance as at 31st Oct 2021 £000s**
Instant Access Funds	22,950
Pooled	36,957
Up to 1 month	6,000
1 month to 3 months	28,185
4 months to 6 months	50,000
6 months to 12 months	125,000
More than 12 months	25,000
	294,092

Summary of Investments				31/10/2021	
Type / Lendee	**Credit Rating**	**Amount**	**Rate**	**Start**	**End**
Banks					
Natwest Business Reward	A+	6,400,000			
Lloyds - 95 Day	A+	185,462			
		6,585,462	0.02%		
Money Market Funds					
Aberdeen Liquidity	A+	2,050,000			
Federated	A+	10,000,000			
Blackrock	A+	1,800,000			
Insight	A+	2,700,000			
		16,550,000	0.03%		
Pooled Funds					
CCLA		9,956,738			
Investec		10,000,000			
Kames		10,000,000			
Columbia Threadneedle		3,500,000			
M & G		3,500,000			
		36,956,738	4.46%		
DMO, Local Authorities & Housing Associations					
Ashford Borough Council	LA	6,000,000		17/05/2021	17/11/2021
Surrey CC	LA	10,000,000		14/06/2021	14/12/2021
Thurrock Council	LA	8,000,000		17/12/2020	16/12/2021
West Dumbartonshire Council	LA	10,000,000		25/01/2021	24/01/2022
South Ayreshire Council	LA	5,000,000		17/02/2021	16/02/2022
Blackburn Borough Council	LA	5,000,000		19/02/2021	18/02/2022
Aberdeen City Council	LA	10,000,000		28/05/2021	28/02/2022
Blackburn Borough Council	LA	5,000,000		19/03/2021	18/03/2022
South Ayrshire Council	LA	5,000,000		22/04/2021	21/04/2022
Somerset & West Taunton Council	LA	10,000,000		22/04/2021	21/04/2022
Walsall Met Borough Council	LA	10,000,000		27/04/2020	27/04/2022
Derbyshire County Council	LA	10,000,000		25/05/2021	24/05/2022
North Lanarkshire Council	LA	5,000,000		26/05/2020	26/05/2022
North East Lincolnshire	LA	5,000,000		02/06/2021	01/06/2022
Slough BC	LA	5,000,000		07/06/2021	06/06/2022
Tewkesbury Borough Council	LA	5,000,000		07/09/2021	07/06/2022
Guildford BC	LA	10,000,000		08/06/2021	07/06/2022
Doncaster MBC	LA	10,000,000		18/06/2020	20/06/2022
Cambridge CC	LA	10,000,000		30/06/2021	29/06/2022
Mid Suffolk District Council	LA	5,000,000		30/06/2020	30/06/2022
Liverpool City Council	LA	5,000,000		05/07/2021	04/07/2022
Rotherham MBC	LA	10,000,000		30/07/2021	29/07/2022
Liverpool City Council	LA	5,000,000		02/08/2021	01/08/2022
Slough BC	LA	5,000,000		20/08/2021	19/08/2022
Uttlesford DC	LA	10,000,000		09/09/2021	08/09/2022
Aberdeenshire Council	LA	10,000,000		29/09/2021	28/09/2022
Broxbourne Borough Council	LA	5,000,000		05/10/2021	04/10/2022
South Cambridgeshire District Council	LA	5,000,000		07/10/2021	06/10/2022
Birmingham City Council	LA	5,000,000		28/10/2021	27/10/2022
London Borough Of Croydon	LA	5,000,000		26/01/2021	26/01/2023
Yorkshire Housing	HA	5,000,000		29/04/2021	28/04/2023
Swindon Council	LA	10,000,000		29/05/2020	30/05/2023
London Borough Of Croydon	LA	5,000,000		27/07/2020	27/07/2023
		234,000,000	0.43%		
		294,092,200	0.86%		

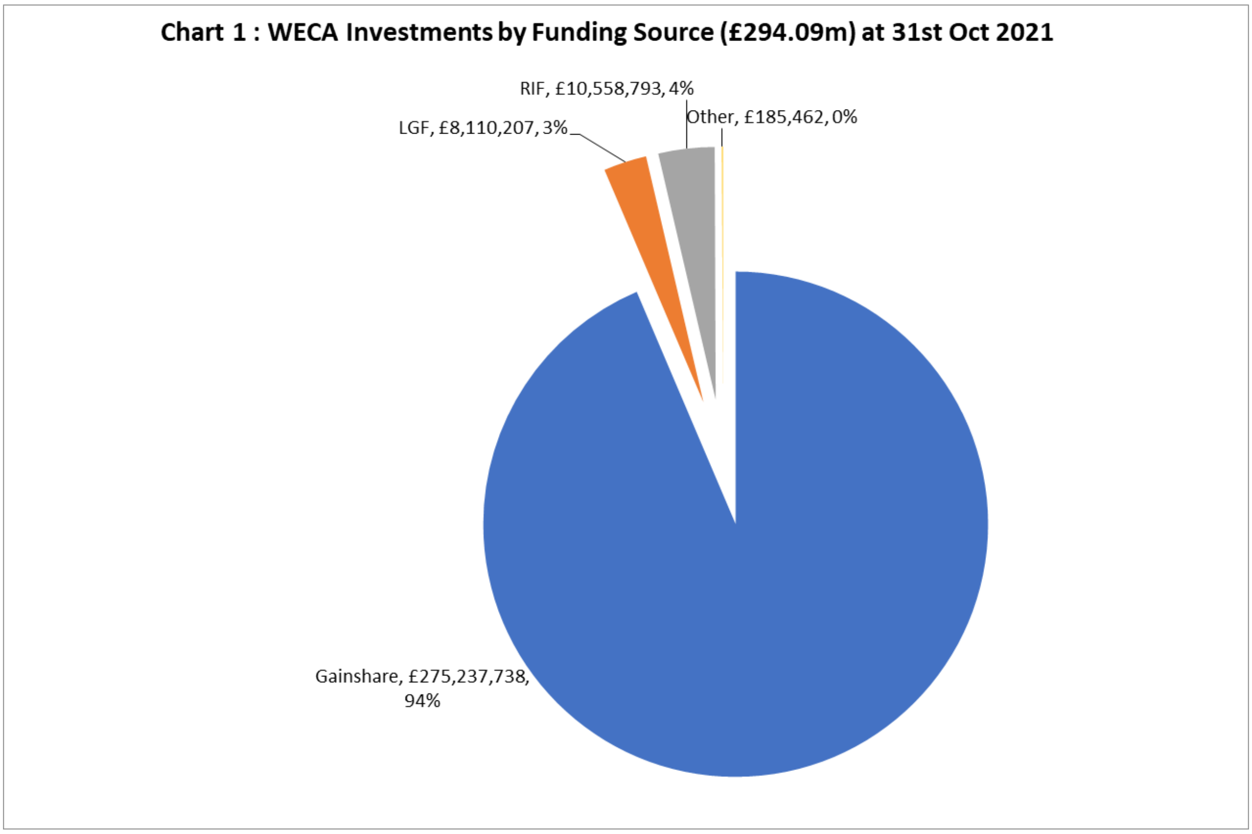
Chart 1 : WECA Investments by Funding Source (£294.09m) at 31st Oct 2021
RIF, £10,558,793, 4%
Other, £185,462, 0%
LGF, £8,110,207, 3%
Gainshare, £275,237,738, 94%

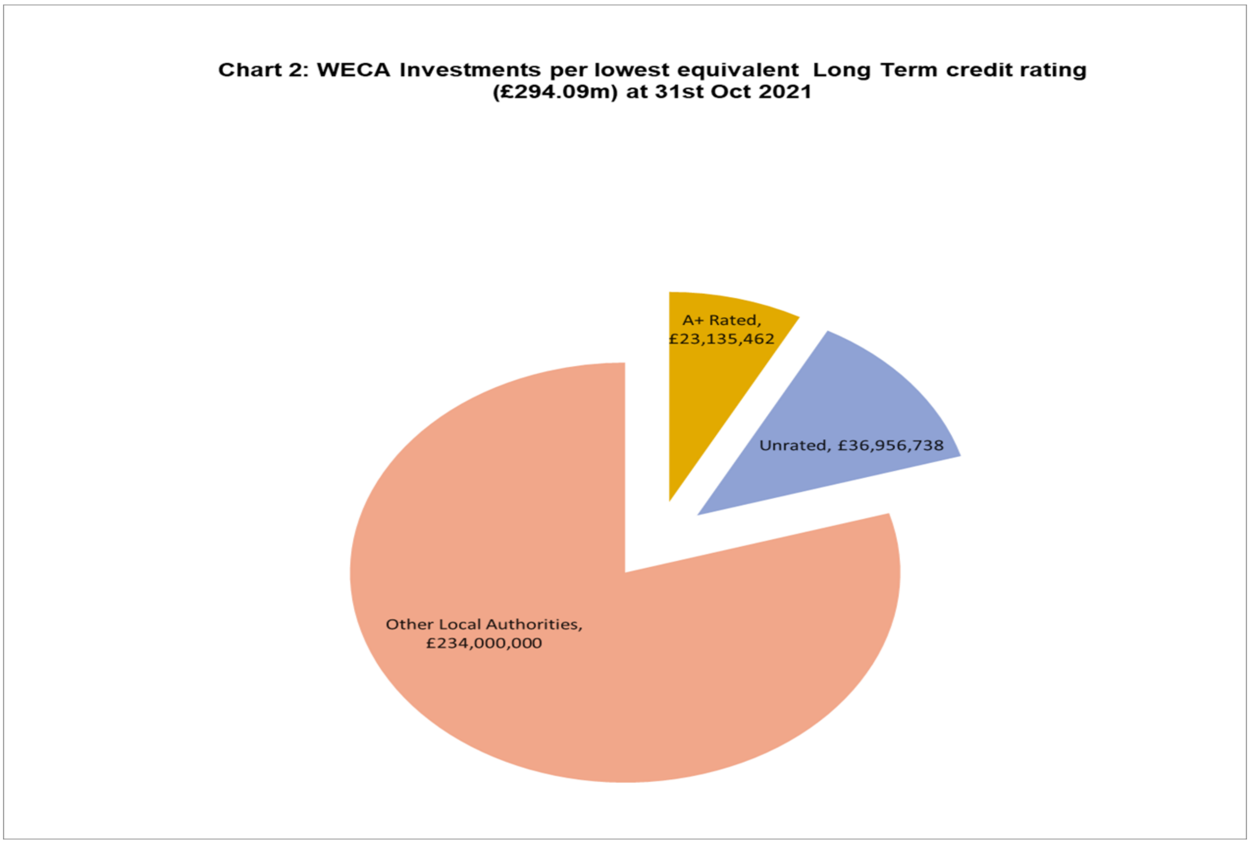
Chart 2: WECA Investments per lowest equivalent Long Term credit rating (£294.09m) at 31st Oct 2021
A+ Rated, £23,135,462
Unrated, £36,956,738
Other Local Authorities, £234,000,000

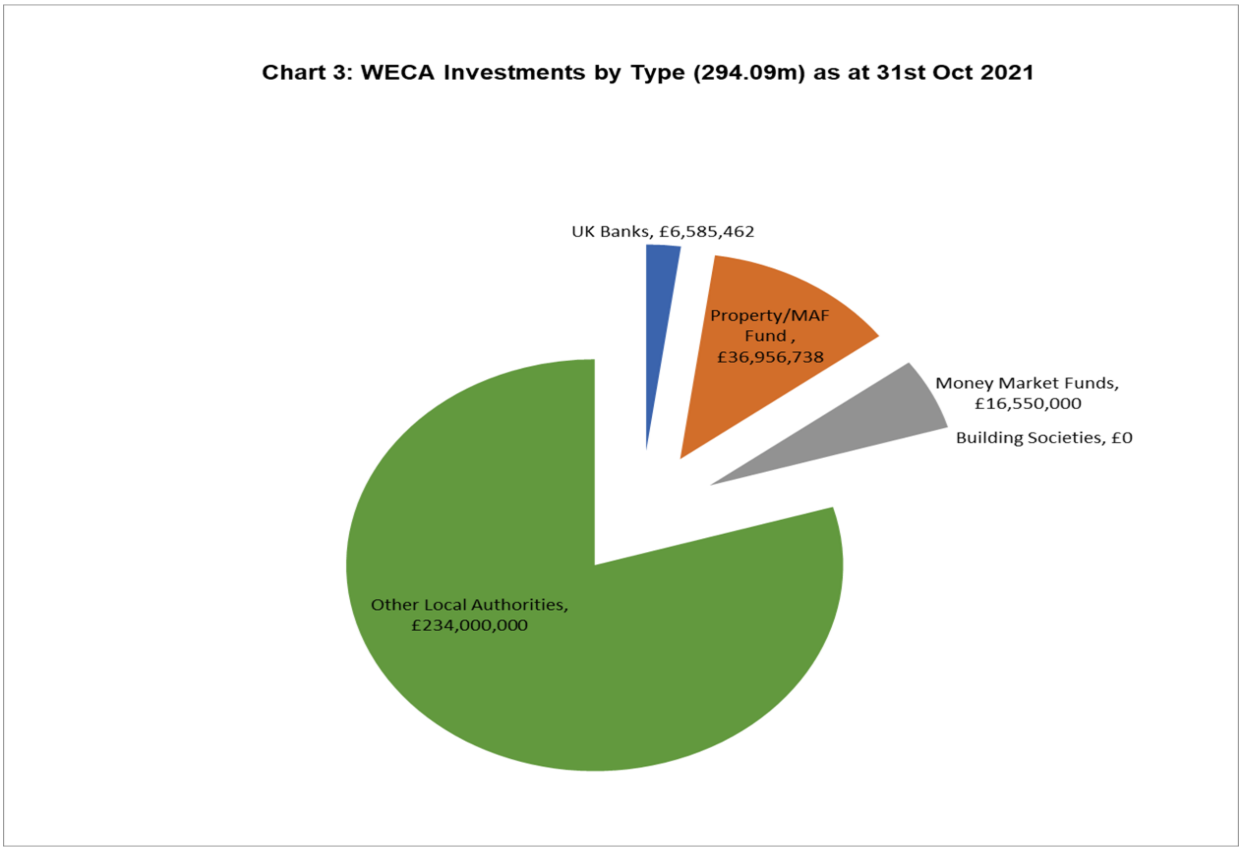
Chart 3: WECA Investments by Type (294.09m) as at 31st Oct 2021
UK Banks, £6,585,462
Property/MAF Fund , £36,956,738
Money Market Funds, £16,550,000
Building Societies, £0
Other Local Authorities, £234,000,000

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WEST OF ENGLAND
Combined Authority

ITEM: 10

REPORT TO: AUDIT COMMITTEE

DATE: 09 December 2021

REPORT TITLE: FINANCIAL RESERVES POLICY

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)

AUTHOR: MALCOLM COE & SELONGE RUSSELL

Purpose of Report

1. The purpose of this Report is to present to Members of the WECA Audit Committee an update on the holding and management of the Combined Authority and Local Enterprise Partnership, (LEP), financial reserves.

Impact of Covid-19 pandemic

2. The Combined Authority has actively reviewed its key activities and work programme to reflect changing priorities as a result of the Covid-19 pandemic. Specific issues relating to the Covid-19 situation that impact on or are addressed through this report are as follows:

   (a) There is a potential impact on future year revenue budgets which correlates directly to available reserve balances as activity is re-prioritised and focused on supporting economic recovery. Activity, corresponding budgets and reserves, will be kept under regular review over the coming months.

Recommendation:

(a) It is recommended that the committee review, and endorse, the draft Combined Authority and Local Enterprise Partnership Financial Reserves Policy as detailed in Appendix 1.

Background / Issues for Consideration

3. Funding for the core operations of the West of England Combined Authority comes from the following main sources:
    - 5% share of business rates under the 100% Business Rates Retention Pilot;
    - Mayoral Capacity Fund;
    - Housing Capacity Fund:
    - Local Enterprise Partnership (LEP) Capacity Fund;
    - LEP match funding;
    - Income achieved from investing cash balances

4. Risk Management, and the holding of reserves, is detailed in the 'Combined Authority (CA) Budget 2021/22 and Medium-Term Financial Forecast' report which was approved by the CA Committee on 29 January 2021.

5. As the authority continues to grow, and whilst the volatility of revenue funding streams remains a significant issue, a Financial Reserves Policy has been drafted for consideration, (detailed in Appendix 1), as part of the 2022/23 budget setting process.

Consultation

6. The contents of this report have been shared, and discussed with, the Finance Directors / Section 151 Officers of BANES, South Gloucestershire and Bristol City Councils.

Other Options Considered

7. Appropriate use of local authority resources is constantly considered when allocating, monitoring and managing financial reserves.

Public Sector Equality Duties

8. The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

    - Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
    - Advance equality of opportunity between people who share a protected characteristic and those who do not.
    - Foster good relations between people who share a protected characteristic and those who do not.

8.1. The Act explains that having due regard for advancing equality involves:

- Removing or minimising disadvantages suffered by people due to their protected characteristics.
- Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
- Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

8.2. The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

Finance Implications:

9. All financial implications are contained within the body of the report. We will continue to review all reserves on an ongoing basis to ensure that there is sufficient financial capacity to cope with the challenges ahead.

Advice given by: Malcolm Coe, Director of Investment & Corporate Services

Legal Implications:

10. The proposals have been developed in accordance with appropriate Local Government Regulations, including the specific funding and related governance requirements set out in the West of England Combined Authority Order 2017 and The Combined Authorities (Finance) Order 2017.

Advice given by: Shahzia Daya, Director of Legal

Background papers:

Combined authority budget 2021/22 and medium-term financial forecast – 29th January 2021.

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

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WEST OF ENGLAND COMBINED AUTHORITY

FINANCIAL RESERVES STRATEGY – DECEMBER 2021

High Level Objectives:

(a) Strive to achieve, and maintain, a Combined Authority, unearmarked, General Fund Reserve of at least 5% of net annual revenue spend;

(b) Strive to achieve, and maintain, a Treasury Management Reserve of at least £2m to account for financial provisions that might have to be made in relation to any notional loss in value of our pooled fund holdings;

(c) Maintain a West of England 'Transport Smoothing Reserve' to manage the peaks and troughs of operational transport demand and/or costs against the annual levy. This reserve should aim to be in excess of 5% of annual spend;

(d) Maintain a Local Enterprise Partnership (LEP) Reserve at the equivalent sum of the annual government LEP Capacity Grant (£500k);

(e) The appropriateness and adequacy of earmarked reserves, (to cover known and estimated future costs and liabilities), will be reviewed annually by the Combined Authority's Section 73 Officer.

General Fund Reserve:

1. Unlike a single-tier or District Council, the Combined Authority, (CA), delivers very few front-line services and hence, with the exception of operational transport, does not maintain earmarked service risk reserves required to manage demand and/or cost volatility.

2. The main focus for managing financial risk, through a 'General Combined Authority Reserve' is with regard to the volatility of revenue which is used to fund the core staff and operating costs of the CA. The following funding streams are within the CA base budget, but only approved on a rolling annual basis:

• Mayoral Capacity Fund	£1.0m;
• 100% Business Rates Retention Pilot	£1.2m;
• Housing Capacity Fund	£1.0m

3. These funding streams, along with income achieved through the investment of cash balances, (Treasury Management), fund the vast majority of operating activities and costs of running the CA.

4. There is an approved Committee decision to fund the running of the Mayoral office, alongside the costs of facilitating four yearly Mayoral Elections, from the Investment Fund at circa £660k per annum. But there are no other approvals in place from the Investment Fund should any of the above funding items discontinue.

5. The Housing Capacity Fund was a time limited deal of £3m over three years which expires in 2021/22 leaving unfunded revenue staff costs for 2022/23 and beyond.

6. The holding of General, unearmarked, reserves is forecast to be £1.9m at the end of the 2021/22 financial year which represents 3.3% of the Combined Authority net annual revenue budget of £56.7m. There are no 'hard and fast' rules to determine the exact level of reserves that should be retained by public sector bodies, but accepted practice indicates that this should be upwards of 5% (which is a reserves figure exceeded by the West of England Unitary Authorities)

7. Given the uncertainty of future revenue funding for Combined Authorities we are setting a high-level objective of ***striving to achieve and maintain a unearmarked General Fund Reserve of at least 5% of net annual revenue spend***.

Treasury Management Reserve:

8. Revenue returns through cash balances invested, in compliance with our Treasury Management Strategy, has been a much-needed regular source of revenue income since the Combined Authority formed in 2017.

9. For 2021/22 an income budget of £800k was set in relation to financial returns achievable. Despite maintaining reasonably high cash balances, it has become increasingly difficult to achieve rates of return in the current climate with interest rates for 12-month fixed investments being as low as 0.1%.

10. The CA Treasury Management Strategy enables the authority to place a proportion of its investments in long term 'pooled' funds such as property, equity and multi asset funds. We have utilised this flexibility and, as at November 2021, have circa £37m of our overall investment portfolio secured in pooled funds. Such funds are providing consistent revenue returns of between 3.5% and 4% per annum which clearly helps the CA achieve its overall revenue income targets.

11. Pooled funds are deemed as being long terms investments. The price of the funds at the point of acquisition is variable and, as such, could go down in value as well as up over time (often depending on economic factors and the condition of financial markets). To date, Local Authorities do not have to formally account for any

fluctuation in prices of pooled funds held and would only have to do so in the event of selling a particular fund. However, there is a risk that legislation could change at the end of March 2023 which might require public sector bodies to make annual provision in their accounts for any notional losses incurred, through price fluctuation of funds held, over the 12-month accounting period.

12. The Combined Authority, like other public bodies who hold pooled funds, need to start planning for the eventuality of this legislative change now. The largest 'swing' in financial markets in recent years occurred at the beginning of the Covid pandemic in March / April 2020. Throughout these early months, the notional loss in value of the CA pooled fund holdings was circa £2m (which has subsequently recovered in line with corresponding market increases)

13. It is therefore recommended that ***we strive to achieve, and maintain, a Treasury Management Reserve of at least £2m to account for financial provisions that might have to be made in relation to any notional loss in value of our pooled fund holdings***.

Transport Smoothing Reserve:

14. The cost of running the region's operational transport activities is circa £21m per annum which is funded through a transport levy provided by the region's three constituent authorities along with a recharge from North Somerset Council.

15. A Transport Smoothing Reserve was created in 2020/21 to account for any regional variances in cost and / or service demand. Such variances are particularly volatile in areas such as commissioned bus services, concessionary fares and support for Community Transport. Previous practice would have required an end of year adjustment to the levy for each specific authority with the reserve now enabling a more holistic and pragmatic approach to budget management.

16. Throughout 2021/22 we have continued payments to bus operators at pre-Covid levels, to maintain stability of the provider base, with the support of 'bus operating services grant' from government. This grant was withdrawn in October 2021 and the future impact of the viability of existing bus routes needs to be kept under regular review accounting for reduced patronage, and associated lost income, since the pandemic outbreak. Bus operator costs have also risen over recent years which will put added pressure on budgets when retendering existing networks and routes across the region.

17. With volatility on future operational transports costs and demand, it would be prudent to maintain a 'Transport Smoothing Reserve' of at least 5% of the net annual cost of service delivery with the income to be generated through the levy system being reviewed on an annual basis through the budget setting process.

Local Enterprise Partnership (LEP) Reserve:

18. The operating costs of Local Enterprise Partnership, (LEP), activities are circa £1.1m per annum funded through:

- LEP Capacity Fund £0.5m;
- Unitary Authority match funding for LEP Capacity £0.6m

19. It is a requirement of the LEP Capacity Grant to attract relevant match funding from the four regional Unitary Councils (including North Somerset). Similar to the Mayoral Capacity Fund, the future of the LEP Capacity Fund beyond 2021/22 is very uncertain. The £1.1m operating costs primarily relate to the staffing establishment that support LEP activity hence withdrawal of the fund would result in significant cuts and potential redundancy costs.

20. It is therefore recommended that, at any time, a LEP General Reserve of at least £500k is maintained to smooth over, and manage, any potential transitional period in the event of the LEP Capacity Fund being withdrawn.

Earmarked Reserves:

21. At any point in time, the CA will retain a number of specific earmarked reserves to cover known or estimated future costs and liabilities. In several cases such reserves relate to the receipt of grant funding in advance of profiled spend over a defined period. The appropriateness, and adequacy, of such reserves will be reviewed annually by the CA Section 73 (Statutory Finance) Officer as part of the annual budget setting process.

22. Such reserves include an 'Elections Reserve', with annual contributions of circa £400k made to fund the estimated £1.6m costs of the four yearly Combined Authority Elections and a Business Rates Retention Reserve to manage the fluctuation of funding received and liabilities due through the region's 100% Business Rates (Growth) retention pilot.

23. An earmarked reserve will also be maintained for the Adult Education Budget service which will manage the timing between receipt of government grant and commissioning and spend of subsequent service delivery.

ITEM 11

REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE

DATE: 09/12/2021

REPORT TITLE: CYBERSECURITY

DIRECTOR: MALCOLM COE – DIRECTOR OF INVESTMENT AND CORPORATE SERVICES

AUTHOR: CAROLINE PEGDEN – SERVICE LEAD, DIGITAL AND TECHNOLOGY

Purpose of Report

1 To provide an update to the Audit Committee on the IT security controls implemented in light of the recommendations from Grant Thornton UK LLP.

Impact of Covid-19 pandemic

As a result of the Covid-19 pandemic, the majority of the Combined Authority's staff have been working from home for the past 20 months. The IT hardware, software and policies have been adapted to support remote working.

Recommendation

2 Members are asked to note the changes undertaken to enhance the Combined Authority's cyber-security and IT resilience.

Background / Issues for Consideration

3 **Context:** Following the change in outsourced IT supplier to Agilisys, the Combined Authority needed to update its IT security strategy and associated action plan. As detailed below, real progress has been made since the Grant Thornton Audit.

4 **IT Security strategy:** The Combined Authority has developed a new IT Security strategy following the National Cyber Security Centre's (NCSC) best practices, adapted to the Combined Authority's specific context, and validated at the Digital Board in July 2021.

5 **Turning the IT Security strategy into action:** The Combined Authority's Digital and Technology Service has then focused on turning this strategy into action, as illustrated below:

a. **Risk management:** Following the NCSC's best practices, the Combined Authority is following a risk-based approach to securing its data and systems.
    - **Cyber-security framework:**
        - Undertook our first IT Health Check, independently to North Somerset Council, in October 2020, in partnership with Agilisys and SureCloud, a CREST-approved provider.
        - Addressed all critical vulnerabilities which led to a number of security enhancements (e.g., WiFi monthly password changes, DKIM enhancements, ban of un-encrypted mass storage devices, introduction of multi-factor authentication for both internal colleagues and external guests).
        - Applied for our own Public Services Network connection compliance certificate in September 2021 *(waiting for feedback)*.
    - **IT risk register:** Created an IT risk register, to be reviewed quarterly.

b. **Engagement and training:** Flagged in the Grant Thornton report as an important area of focus, the Digital and Technology Service have worked on supporting our colleagues to obtain the skills and knowledge required to work securely. The team has focused on the following actions:

    - **Intranet:** Created a new ICT Security section on our Intranet with frequently asked questions, refreshed on a monthly basis.
    - **Awareness through our all staff communications updates:** Provided on-going ICT security updates on topical security issues, such as:
        - Phishing
        - Mass storage devices
        - Multi-factor authentication (MFA)
        - Benefits of using the Virtual Private Network (VPN)
        - Software upgrades.
    - **Training:** Focused on supporting our existing and new members of staff:
        - Delivered an ICT surgery on IT security.
        - Created a "New Starter Pack" including elements of cyber-security delivered to all new joiners.
        - Requested all new starters to complete the NCSC's e-learning course on essential cyber-security "Top Tips for Staff".
        - Upskilled the Service Lead, Digital and Technology and Workplace Support Manager when it comes to cyber-security.
    - **Policy updates:** Created a new "Digital Communications Policy" and "Information Technology Acceptable Use Policy", in partnership with HR, Legal and Communications:
        - to be signed off by all new colleagues as part of their induction checklist from December 2021 onwards,
        - to be signed off by all existing colleagues as part of the PDR process in January 2022.

c. **Supply chain / Asset Management and Data Security:** Defined new ICT security procurement criteria based on the NCSC's best practices and a risk-based approach, now available on our Intranet and shared with colleagues when they undertake procurement with a digital or technology component.

d. **Architecture & Configuration / Vulnerability management:** Working in partnership with Agilisys and other third-party suppliers to keep our systems and data protected throughout their lifecycle, and as new vulnerabilities emerge:

- Promoted the use of the VPN and encouraged our colleagues to keep their devices updated *(on-going).*
- Currently in discussion with Agilisys to introduce Azure Platform-as-a Service (PaaS) for our geo-spatial infrastructure, paving the way for future database projects, ensuring that our systems are built and maintained with good cyber-security baked in.
- Beyond the routine patches and maintenance upgrades undertaken by Agilisys, undertaking a yearly cycle of penetration tests / ICT health checks *(the next ICT health check should be initiated in January 2022)*.

e. **Identity management:** Working with Agilisys to identify continuous improvements to control who and what can access our systems and data:

- Completed the deployment of Multi-Factor Authentication (MFA) for all our internal colleagues and external Teams guests.
- As much as possible, requiring the use of Microsoft Single Sign-On on all our WECA systems (e.g., Office 365, as well as Azure PaaS and Dynamics 365) and other third-party systems.
- In partnership with Agilisys, enhanced our management of leavers.
- In partnership with Agilisys, validated new principles of engagement of third-party suppliers when they require to access / connect to our core infrastructure and data.

f. **Logging & Monitoring / Incident management:** Working in partnership with Agilisys and third parties to ensure that the systems we use are able to detect incidents and security events, and that we have planned our response to cyber incidents in advance.

Consultation

6 Cybersecurity is an on-going process. A monthly security forum has been established with Agilisys to ensure that systems and processes are adapted as new vulnerabilities emerge, and the organisation continues to grow.

7 Expert advice from North Somerset Council has been sought, and the new IT Security strategy and progress update is currently being reviewed by OneWest, the Combined Authority's internal auditors, to look for continuous improvements. Initial recommendations should be provided on 23 November 2021.

Other Options Considered

8 Having already entered into a commercial agreement with Agilisys for the provision of ICT services, WECA could not consider any alternative options when it comes to cyber-security.

Risk Management/Assessment

9 ICT security risks are being addressed as a result of this report, and as part of the Combined Authority's on-going work in partnership with Agilisys and third-party suppliers to implement continuous improvements as new vulnerabilities emerge.

Public Sector Equality Duties

10 There are no equality implications arising as a result of this report.

Finance Implications, including economic impact assessment where appropriate:

11 There are no financial implications arising as a result of this report.

Legal Implications:

12 There are no legal implications arising as a result of this report.

Climate Change Implications:

13 There are no climate change implications arising as a result of this report.

Human Resources Implications:

14 There are no HR implications arising as a result of this report.

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Quay, Bristol BS1 6EW; email: democratic.services@westofengland-ca.gov.uk

ITEM 12

REPORT TO:	**WEST OF ENGLAND COMBINED AUTHORITY AUDIT COMMITTEE**
DATE:	**9 DECEMBER 2021**
REPORT TITLE:	**INTERNAL AUDIT UPDATE**
AUTHOR:	**JEFF WRING – AUDIT WEST (INTERNAL AUDIT)**

Purpose of Report

1 To Update the Committee on Internal Audit work in 2021/22.

Impact of Covid-19 pandemic

- Internal Audit have continued to conduct work virtually throughout the pandemic. The systems and processes used to conduct audit reviews have continued to be reviewed and improved to optimise quality of audit work in absence of face-to-face testing. However, the remote working arrangements may continue to cause limitations in the level of assurance provided in each audit review.
- The plan has been reviewed at the 6-month stage in order to take account of any impacts of the pandemic and no changes are proposed to the audit plan at this point in time. We will continue to liaise closely with officers in case any adaptions to the plan or to individual reviews are required, in light of the pandemic.

Recommendation

- The Committee are invited to note the areas under review and progress against the plan as at 15th November 2021.

Background / Issues for Consideration

2.1 The Committee approved the Annual Audit Plan at its meeting on 22nd September 2021 (Appendix 1). The approach involved a mixture of formal audit work along with an assessment of the internal control framework to inform the plan for future years using our Reasonable Assurance Model.

2.2 The delay in signing off the plan was due to the cancellation of the July Audit Committee, along with no Audit Committee being held in Quarter 1, due to the elections. Nonetheless, audit work has progressed well, with fieldwork complete on seven reviews, including two additional mandatory grant certification reviews which did not form part of the original audit plan.

2.3 The table in section 2.5 summarises the status of work as either complete, work in progress, or scheduled. There are currently no significant areas or issues of concern to raise with the Committee.

2.3 We utilise a flexible approach to the Annual Audit Plan to react to resourcing and external impacts. In consultation with the Head of Strategy and Director of Investment & Corporate Services, discussions are underway for moving the audit of Climate Emergency Action Plan to the 2022/23 Annual Audit Plan, to allow the team to complete an update of the Action Plan.

2.4 Finally, at the last Audit Committee a request was made to work with External Audit on an investigative piece of work and a verbal update will be given at the meeting.

2.5 **Summary of Audit Work and Status – 2021/22**

Ref	Area Under Review	Status
21-001W	Core Financial Systems – Data Analytics	In Progress
21-002W	Counter Fraud and Corruption	Scheduled for Q4
21-003W	Core Grant Audit Certification – EU Transition Funding	Complete – Satisfactory
21-003W	Core Grant Audit Certification – Growth Hub Core Funding	Complete – Satisfactory
21-003W	Core Grant Audit Certification – Growth Hub Supplementary Funding	Complete – Satisfactory
21-003W	Core Grant Audit Certification – Future Transport Zone	Complete – Satisfactory
21-003W	Core Grant Audit Certification – Peer Networks Grant	Complete - Satisfactory
21-004W	Corporate Governance of the LEP	Complete – Substantial Assurance
21-005W	IT Audit – Cyber Security	In Progress
21-006W	Reasonable Assurance Model – Corporate Governance	In Progress
21-006W	Reasonable Assurance Model – Financial Management	In Progress
21-006W	Reasonable Assurance Model – Risk Management	In Progress
21-006W	Reasonable Assurance Model – Performance Management	In Progress
21-006W	Reasonable Assurance Model – Programme & Project Management	In Progress
21-006W	Reasonable Assurance Model – Procurement & Commissioning	In Progress
21-006W	Reasonable Assurance Model – Information Management	In Progress
21-006W	Reasonable Assurance Model – Asset Management	In Progress
21-008W	Follow-up – Workforce for the Future	In Progress
21-008W	Follow-up – Core Financial Systems – Ledgers / Control Accounts	In Progress
21-008W	Follow-up – Core Financial Systems - VAT	In Progress
21-008W	Follow-up – Core Financial Systems – Accounts Payable / Accounts Receivable	In Progress
21-008W	Follow-up – Whistleblowing	Complete – All implemented

21-009W	Project/Programme Management	In Progress – Draft report
21-010W	Climate Emergency Action Plan	Scheduled for Q4
21-011W	Concessionary Travel	Scheduled for Q4
	Investigation Review	In Progress

Consultation

3 Report and work undertaken is consulted with the Director of Investment & Corporate Services

Other Options Considered

4 Not applicable

Risk Management/Assessment

5 The internal audit plan is drawn up on a risk basis, using the Reasonable Assurance Model.

Public Sector Equality Duties

6 Embedded within the audit process is consideration of compliance with statutory guidance and regulations which includes those relating to equality and diversity.

Finance Implications, including economic impact assessment where appropriate:

7 Three unplanned reviews have been added to the plan, which will be charged at the day rate included within the Internal Audit service contract.

Legal Implications:

8 No direct implications

Climate Change Implications

9 Climate Change has been considered as a key point during the Reasonable Assurance Model was subsequently included in the 2021-22 Annual Internal Audit Plan. As outlined in section 2.3, this review is under discussion for moving to the 2022/23 plan to enable the Strategy Team to complete the updating of the plan with more ambitious targets.

Land/property Implications

10 No direct implications.

Human Resources Implications:

11 No direct implications.

Appendices:

Appendix 1 – Internal Audit Plan 2021/22

Background papers:

None

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Quay, Bristol BS1 6EW; email: democratic.services@westofengland-ca.gov.uk

Internal Audit Plan 2021/22

Audit West

Delivering Independent Assurance to the Public Sector

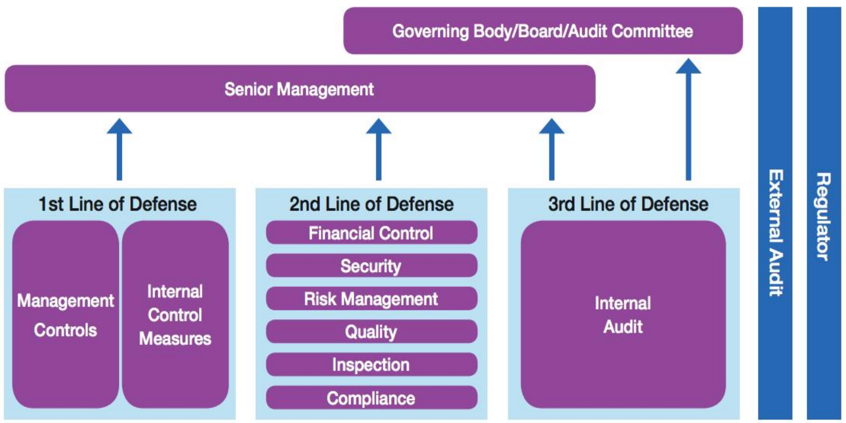
1. Our Role

Introduction

The West of England Combined Authority is striving to be a driving force for clean and inclusive economic growth in the West of England with the aim to ensure that people benefit from more job opportunities, a stronger economy and a higher quality of life. To achieve this the Authority has recognised the importance of excellence in resource management and sound governance as fundamental to achieving these priorities.

Audit West fully recognizes its need to be flexible and agile in the face of the significant changes affecting the whole of the public sector and meet the needs of its stakeholders. Independent assurance which is strong but supportive can provide a helpful and positive role not just to services but to elected Members and the Community at large by demonstrating that the Authority is operating effectively and protecting its assets and resources for the benefit of all its stakeholders.

Three Lines of Defence Model



By being independent of management Audit West maintain the third line of defence and we continue to do this effectively by working with all our stakeholders - especially the Audit Committee, Statutory Officers and Senior Management – to improve the service we offer but also to provide an independent voice in supporting service change and transformation.

We also aim to offer continued value to all our clients based on the following key priorities –

- Use of our Reasonable Assurance Model

- Maximising Use of Technology

- Investment in Skills

- Offering complimentary assurance services

- Providing Value for Money

The remainder of this document outlines our approach and also the indicative areas for our audit and assurance plan for 2021/22.

2. Your Priorities & Plans

OPERATING FRAMEWORK

Our operating framework sets out our priorities for clean and inclusive economic growth in the West of England.

OUR AMBITIONS

The West of England is a place of growth and innovation, where economic, cultural and environmental diversity is celebrated and forms the foundation of prosperity for all.

We are investing in people and places – including jobs, skills, transport, homes, and digital connections – to ensure we are creating healthy communities where people want to live, work and visit.

Central to everything we do is our ambition to address climate change, secure good jobs and ensure decent homes for all our people.

We will achieve our ambitions by working with our communities to deliver our priorities for infrastructure, skills and business.

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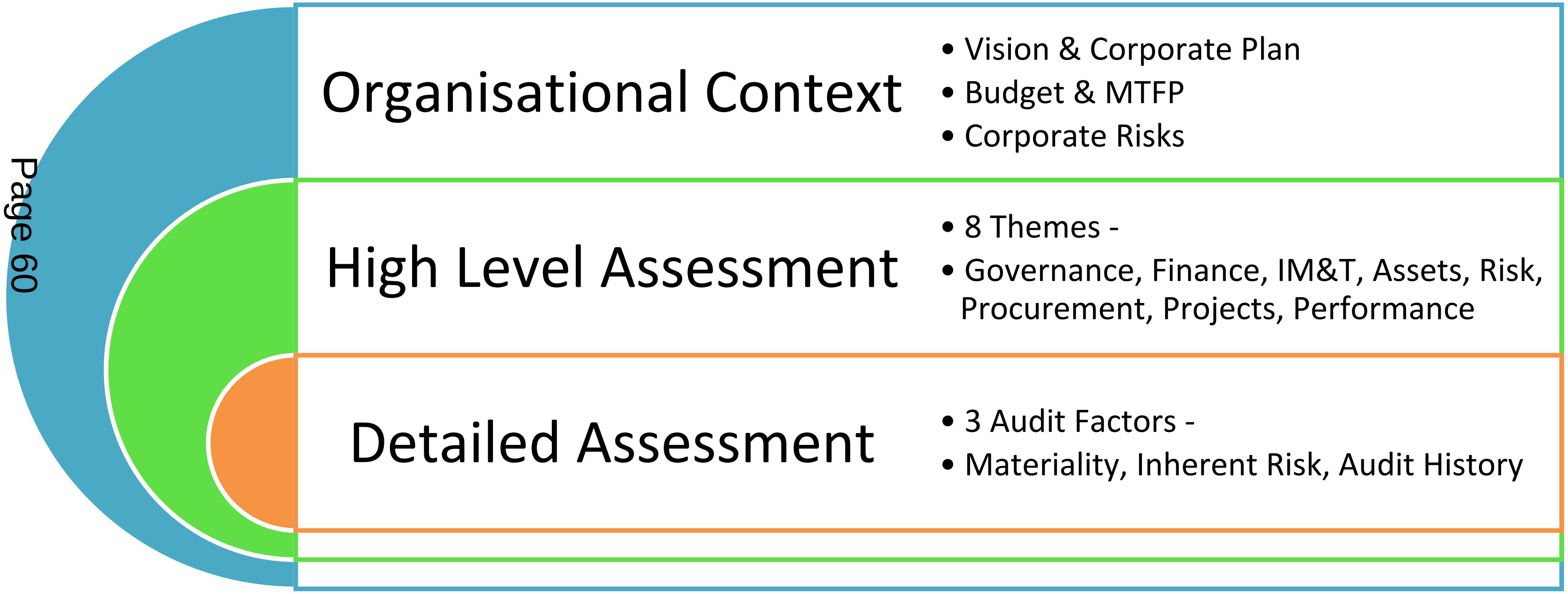
3. Reasonable Assurance Model – Producing the Audit Plan

The model is based on the fundamental requirement that the audit plan proposed will deliver sufficient work to enable the Head of Audit to independently assess the internal control framework and give a reasonable assurance opinion at the end of each year.

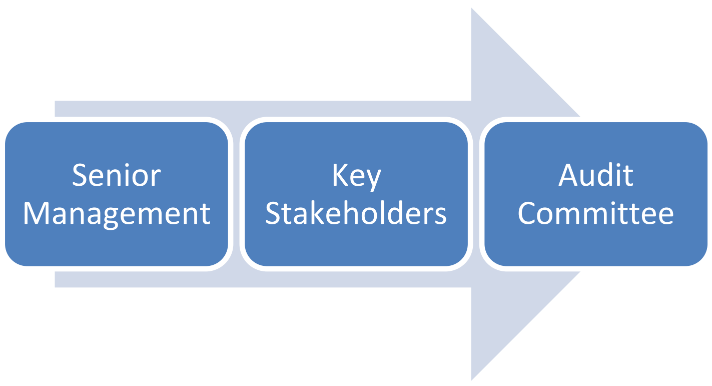
This involves considering current context of the Authority, what a ‘healthy organisation’ requires to operate effectively and then assessing independently against this in a staged process as follows –



HIGH LEVEL ASSESSMENT AREAS – REASONABLE ASSURANCE

DETAILED CRITERIA – AUDIT PLAN LISTING

CONSULTATION & APPROVAL



Results of our Reasonable Assurance Model Risk Assessment –

HIGH		PROGRAMME & PROJECT MANAGEMENT			
	CORPORATE GOVERNANCE	FINANCIAL MANAGEMENT		PROCUREMENT	
		RISK MANAGEMENT	PERFORMANCE MANAGEMENT		
		INFORMATION MANAGEMENT			
			ASSET MANAGEMENT		
	HIGH	LEVEL OF ASSURANCE			LOW

4 Areas for Review – 2021/22

ANNEX A

Internal Audit Areas	Reasonable Assurance Theme
Organisational & Corporate Functions (62 Days)	
Core Financial Systems – Data Analytics	Financial Management / Corporate Governance
Climate Emergency Action Plan	Corporate Governance / Programme & Project Management / Risk Management
Project / Programme Management	Financial Management / Corporate Governance / Programme and Project Management / Performance Management
IT Audit – Cyber Security	Financial Management / Information Management / Risk Management
Counter Fraud and Corruption	Financial Management / Risk Management
Local Enterprise Partnership (LEP) – Corporate Governance	Financial Management / Corporate Governance
Concessionary Travel	Programme and Project Management / Information Management
Corporate Governance (20 Days)	
Annual Governance Review (AGS)	Corporate Governance
Reasonable Assurance Model – Corporate Governance	Corporate Governance
Reasonable Assurance Model – Financial Management	Financial Management
Reasonable Assurance Model – Performance Management	Performance Management
Reasonable Assurance Model – Risk Management	Risk Management
Reasonable Assurance Model – Programme & Project Management	Programme & Project Management
Reasonable Assurance Model – Procurement	Procurement
Reasonable Assurance Model – Information Management	Information Management & Technology
Reasonable Assurance Model – Asset Management	Asset Management

Follow-Up Reviews (6 Days)	
Core Financial Systems – Control Accounts	Financial Management / Corporate Governance
Core Financial Systems – VAT	Financial Management
Core Financial Systems – Accounts Payable / Accounts Receivable	Financial Management / Corporate Governance
Procurement	Financial Management / Procurement / Programme and project Management
Workforce for the Future	Financial Management/Programme & Project Management/Corporate Governance
Whistleblowing	Financial Management / Corporate Governance / Risk Management
Grant Audit Certification – Various (12 Days)	Financial Management / Corporate Governance

CONTACT DETAILS

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Address	One West Bath & North East Somerset Council The Guildhall High Street BATH, BA1 5AW

ITEM: 13

REPORT TO: AUDIT COMMITTEE

DATE: 09 December 2021

REPORT TITLE: STATUTORY ACCOUNTS 2020/21

DIRECTOR: MALCOLM COE, DIRECTOR OF INVESTMENT & CORPORATE SERVICES (s73 OFFICER)

AUTHOR: MALCOLM COE

Purpose of Report

1. The purpose of this Report is to present to Members of the WECA Audit Committee the West of England Combined Authority Annual Statement of Accounts for 2020-21 for their review and approval.

Impact of Covid-19 pandemic

2. The Combined Authority has actively reviewed its key activities and work programme to reflect changing priorities as a result of the Covid-19 pandemic. Specific issues relating to the Covid-19 situation that impact on or are addressed through this report are as follows:

- The deadline for the statutory approval of local authority accounts has been amended to 30 September 2021 as a result of the Covid situation;
- WECA has reviewed it's 'going concern' status in relation to Covid. We have assessed that Covid has not had any material impact on the authority's accounts for 2020/21.

Recommendations

That the committee:

(a) note the content of the final External Auditor ISA 260 Audit Findings report (as detailed in Appendix 1) and

(b) approve the West of England Combined Authority Annual Statement of Accounts for 2020-21 (as detailed in Appendix 2).

(c) approve the Letter of Representation as detailed at Appendix 3.

Background / Issues for Consideration

3. The Accounts and Audit Regulations (England) 2015 require the Annual Statement of Accounts to be certified by the Chief Financial Officer no later than 31 May each year. Due to the Covid pandemic, this deadline was extended to 31 July 2021 for the 2020/21 Accounts. WECA complied with the statutory deadline with the accounts placed on the website as per the link below:

   https://www.westofengland-ca.gov.uk/wp-content/uploads/2021/07/DRAFT-WECA-Statement-of-Accounts-2020-21.pdf

4. The Statutory Statement of Accounts have been produced in accordance with the CIPFA Code of Practice on Local Authority Accounting based on International Financial Reporting Standards.

5. 2020/21 has been the second year that the WECA Finance team have fully led on, and 'owned', the Statement of Accounts process having terminated the contract previously held with PriceWaterhouseCoopers (PWC). To retain an element of support on specialist technical areas, we commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) on a 'light touch', advisory basis.

6. The Accounts and Audit Regulations 2015 require the Statement of Accounts to be approved by a resolution of a Committee of the relevant body and that following approval, the Statement of Accounts be signed and dated by the person presiding at the Committee. The revised Covid timescale requires this to be completed by 30 September 2021.

7. In advance of the full accounts, we presented the 'Narrative Statement' and 'Annual Governance Statement' sections as separate reports to the audit committee informal briefing on 6 August 2021 and the Draft Statement of Accounts at the Committee on 22nd September 2021.

8. Grant Thornton have completed their external audit of the WECA Accounts with their (ISA 260) audit Findings report detailed in Appendix 1.

9. The full set of WECA Accounts for the 2020/21 financial year are contained within Appendix 2 of this report.

Consultation

10. The draft accounts for 2020-21 were published on the West of England Combined Authority website by the required deadline of 31 July 2021 and made available for public inspection as required under the Accounts and Audit Regulations (England) 2015.

Risk Management/Assessment

11. The publication of the Authority's Financial Statements forms a core part of WECA's governance and risk management processes. As required by statue, an Annual Governance Statement has been published and is integrated within the core Statement of Accounts document.

12. The Authority has been assessed as a viable ‘going concern’ although future uncertainty on volatile funding streams, such as 100% Business Rate Retention and Mayoral Capacity funding, remains a risk that is kept under regular review.

Public Sector Equality Duties

13. The public sector equality duty created under the Equality Act 2010 means that public authorities must have due regard to the need to:

    - Eliminate unlawful discrimination, harassment and victimization and other conduct prohibited by the Act.
    - Advance equality of opportunity between people who share a protected characteristic and those who do not.
    - Foster good relations between people who share a protected characteristic and those who do not.

14. The Act explains that having due regard for advancing equality involves:

    - Removing or minimising disadvantages suffered by people due to their protected characteristics.
    - Taking steps to meet the needs of people from protected groups where these are different from the needs of other people.
    - Encouraging people from protected groups to participate in public life or in other activities where their participation is disproportionately low.

15. The general equality duty therefore requires organisations to consider how they could positively contribute to the advancement of equality and good relations. It requires equality considerations to be reflected in the design of policies and the delivery of services, including policies, and for these issues to be kept under review.

16. There are no direct implications arising from this report.

Finance Implications, including economic impact assessment where appropriate:

17. The Statement of Accounts reflect the financial accounting position of the Combined Authority as at 31 March 2021 (as required by legislation). Management Accounting reports are published throughout the year evidencing progress and spend against the authority’s set budget.

Legal Implications:

18. The publication and audit of the Authority’s Financial Statements is in accordance with the Accounts and Audit Regulations (England) 2015.

Appendices:

Appendix 1 – Grant Thornton (ISA 260) Audit Findings Report

Appendix 2 – WECA Statement of Accounts for 2020/21

Appendix 3 – Letter of Representation

Background papers:

WECA Draft Statement of Accounts 2020-21:

https://www.westofengland-ca.gov.uk/wp-content/uploads/2021/07/DRAFT-WECA-Statement-of-Accounts-2020-21.pdf

WECA 2020/21 Statement of Accounts Draft Narrative Report published as part of the Audit Committee 1 July 2021 papers.

WECA Annual Governance Statement 2020/21 published as part of the Audit Committee 1 July 2021 papers.

West of England Combined Authority Contact:
Any person seeking background information relating to this item should seek the assistance of the contact officer for the meeting who is Ian Hird / Tim Milgate on 0117 332 1486; or by writing to West of England Combined Authority, 3 Rivergate, Temple Way, Bristol BS1 6ER; email: democratic.services@westofengland-ca.gov.uk

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings for The West of England Combined Authority

Year ended 31 March 2021

2 December 2021

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

1. Introduction

This Audit Findings Report sets out the results of our financial statements audit of The West of England Combined Authority for the year ended 31 March 2021.

We will report our assessment of the Authority's Value for Money arrangements in early 2022 in line with the timetable set by the NAO.

The Authority was formed in 2017 and whilst it has been operating for four financial years, this is only the second set of financial statements that have been produced in-house, as prior to 2019/20 this has been undertaken with assistance from a third party.

We have noted that, overall, there has been a continued improvement in the quality of the Authority's financial statements and supporting working papers. This is particularly creditable this year as the Authority also moved to a new financial system at relatively short notice.

2. Headlines

This table summarises the key findings and other matters arising from the statutory audit of The West of England Combined Authority ('the Authority') and the preparation of the Authority's financial statements for the year ended 31 March 2021 for those charged with governance.

We previously reported our interim findings to the Authority's Audit Committee on 22 September 2021. We have now completed our financial statements audit and this report supplements that earlier version.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Authority's financial statements give a true and fair view of the financial position of the Authority and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed on remotely during July to September. Our findings are summarised on pages 6 to 17. We have identified 9 adjustments to the financial statements that have resulted in a £4.6m adjustment to the Authority's Comprehensive Income and Expenditure Statement.

This mainly arose because:

- There were a number of new starters that were not originally reflected in the actuarial report, and as this had an estimated material impact on the defined benefit net liability the Authority therefore needed to request an updated report from its actuary and to produce a revised set of financial statements. Officers have informed us that the Pension Fund was advised of the staff additions, although the impact on the liability was not appreciated when the initial figures were produced. This was because far more of the new starters were generally long-standing members of the Local Government Pension Scheme than would normally be the case.
- A number of required material adjustments were identified in relation to the creditors balance, which also affected the agency liability. We extended our sample of creditors items to reflect these initial errors.

Audit adjustments are detailed in Appendix C.

We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and we anticipate issuing an unqualified audit opinion after the Audit Committee meeting on 9 December 2021.

The only matters outstanding are:

- receipt of management representation letter; and
- review of the final set of financial statements.

2. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was included within the papers for the Audit Committee on 22 September 2021.

We expect to present our Auditor's Annual Report to the Audit Committee in early 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

During our audit planning we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on.

As noted in our audit plan, we did not identify any risks of significant weaknesses during this initial planning work. Since issuing our audit plan, matters have been reported in the public domain regarding the current strained relationships within the West of England. We will therefore now designate the governance arrangements impacting these relationships as a risk of significant VFM weakness and plan appropriate work to follow up this risk during our VFM audit.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- Report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- Certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Authority's VFM arrangements, which will be reported in our Annual Auditor's Report in early 2022.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit. However, as noted on page 4 the Authority did need to request an updated report from its Actuary and then provide us with a revised set of financial statements, which resulted in additional work for both us and the Authority. We also encountered difficulties in testing creditors balances and needed to extend our sample based on the level of errors that were identified.

3. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Authority's business and is risk based, and in particular included:

- An evaluation of the Authority's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter our audit plan, as communicated to you on 6 August 2021.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding work being satisfactorily completed, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 9 December 2021, as detailed in [Appendix E]. The small number of outstanding items are detailed on page 4 of this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remotely accessing financial systems, video calling, verifying the completeness and accuracy of information produced by the Authority.

This resulted in us having to carry out additional audit procedures to gain sufficient audit assurance in respect of our auditor's opinion on the financial statements.

3. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the materiality due to the actual gross expenditure changing significantly from that at the planning stage.

We detail in the table opposite our determination of materiality for the Authority.

	Amount (£)	Comments
Materiality for the financial statements	£1.775m	This is 1.8% of your gross expenditure (£1.375m at planning stage)
Performance materiality	£1.24m	This is 70% of the headline materiality (£960k at planning stage)
Trivial matters	£90k	This is 5% of the headline materiality (£70k at planning stage)
Materiality for senior officer remuneration	£20k	A lower level has been selected due to the interest in this disclosure. No change since planning.

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3. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Valuation of net defined benefit liability The Authority's net defined benefit liability, as reflected in its balance sheet, represents a significant estimate in the financial statements. The pension fund liability is considered a significant estimate due to its size (£6.6m in the Authority's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the IAS19 liability. In particular the discount and inflation rates. We have therefore concluded that there is a significant risk of material misstatement in the IAS19 estimate due to the assumptions used in their calculation.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's net defined benefit liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (the actuary) for this estimate and the scope and the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; it was this work which identified the need for a revised actuarial report • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed the additional procedures suggested within the report; and • received assurances from the auditor of Avon Pension Fund regarding the controls surrounding the validity and accuracy of membership data, contributions data, and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. As noted on page 4 of this Audit Findings Report, the Authority needed to request an updated report from its actuary and to produce a revised set of financial statements. Our progress in this area was therefore delayed as a number of elements of our work needed to be re-performed or otherwise updated. Officers have advised us that the Pension Fund was advised of the staff additions, although the impact of this on the liability was not appreciated when the initial figures were produced. Our work in this area is now complete and there are no other matters we wish to report to the Audit Committee.

3. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management override is one of the two presumed risks that under auditing standards have to be reflected in all audits, whether in the public or private sector. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • gained an understanding of the accounting estimates and critical judgments applied/made by management and considered their reasonableness with regard to corroborative evidence; • evaluated the rationale for any changes in accounting policies, estimates, or significant unusual transactions; and • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, upon receipt of the remaining supporting evidence. Our work in this area is complete and there are no other matters we wish to report to the Audit Committee.

3. Financial Statements - key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Overall Assessment
Net pension liability – £13.8m	The Authority's net pension liability at 31 March 2021 is £13.8m (PY £6.6m) comprising the Avon Local Government Pension Fund defined benefit pension scheme obligation. The Authority uses Mercer to provide actuarial valuations of the Authority's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £757k net actuarial loss during 2020/21.	See audit comments below	Light purple

Audit Comments

- We formed an assessment of management's expert (Mercer). We considered that they are an appropriate expert to undertake the valuation of the pension liability;
- We undertook detailed work to assess the movement of the pension liability in the year and identified the need for a revised actuarial report to be produced;
- We utilised PwC as an auditor's expert to assess the actuary and their assumptions which were considered to be appropriate. See table below.

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.2%	2.1 to 2.2%	
Pension increase rate	2.8%	2.8%	
Salary growth	4.2%	4.2%	
Life expectancy – Males currently aged 45 / 65	24.8 and 23.3	22.5 to 24.7 and 20.9 to 23.2	
Life expectancy – Females currently aged 45 / 65	27.4 and 25.4	25.9 to 27.7 and 24.0 to 25.8	

- The underlying information used to calculate the final estimate was considered to be complete and appropriate;
- The increase in liability was considered to be appropriate, given the increase in staff numbers; and
- The estimate was properly disclosed in the financial statements.

Overall Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

3. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
● (Deficiency)	The Authority has recently changed IT provider and its financial system and were aware that the underlying policies and procedures needed to be updated. During the audit these were agreed as: • there was no formal cybersecurity framework in place and employees did not receive regular cybersecurity training; • the Authority's ICT team required additional training in relation to cybersecurity risks; and • ICT security policies had not been updated since July 2018 and refer to the previous IT environment hosted by BANES Council.	• Policies and frameworks should be updated to reflect the current ICT environment and specifically address cybersecurity. • Regular training in relation to cybersecurity risks should be provided to employees, with specific focus on training for the ICT team. **Management response** • We were aware of the need to update our policies and have developed a 10 step plan to enhance the Authority's ICT security. The majority of the actions had a completion date of on or before 31 August 2021.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

3. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Pension Fund Liability	During the year a number of staff joined the Authority from a number of other Local Authorities. These were not originally reflected in the actuarial report and as this had an estimated material impact on the defined benefit net liability, the Authority needed to request an updated report from its actuary and to produce a revised set of financial statements. Officers have informed us that the Pension Fund was advised of the staff additions, although the impact on the liability was not appreciated when the initial figures were produced. This was because far more of the new starters were generally long-standing members of the Local Government Pension Scheme than would normally be the case.	The Pension Fund liability and associated disclosures are materially correct. Management response We have amended the financial statements to reflect the issues identified.
Trade and other creditors	The liabilities on the Authority's balance sheet include 'trade and other creditors' of £28.6m. We identified a number of material adjustments in this balance as noted in Appendix C. We therefore needed to extend our testing in this area. We also noted that the Authority did not use reversing journals for in-year accruals and this makes quality assurance over the management accounts difficult and hindered the audit process.	Our testing is complete and all necessary amendments have been made to the Authority's financial statements. Management response We have amended the financial statements to reflect the issues identified and have noted the recommendation made on page 22 of the report. Subsequent to this audit we have improved our controls going forward.

3. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have been discussing on ongoing Internal Audit investigation but have not been made aware of any other incidents in the period and no further issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed. However, the Authority did update its financial statements to remove the transactions with North Somerset Council as this is not considered to be a related party.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations in 2020/21 and we have not identified any incidences from our audit work. We are currently considering an issue that occurred in 2021/22 and will advise the Committee when our enquires are complete.
Written representations	A letter of representation has been requested from the Authority, which is included in the Audit Committee papers.

3. Financial Statements - other communication requirements

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Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to it bankers and those organisations with whom the Authority has funds invested. This permission was granted and the requests were sent. Of these requests all that were returned contained positive confirmation, however one request was not received so we undertook alternative procedures, including verifying subsequent transactions.
Accounting practices	We have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

3. Financial Statements - other communication requirements

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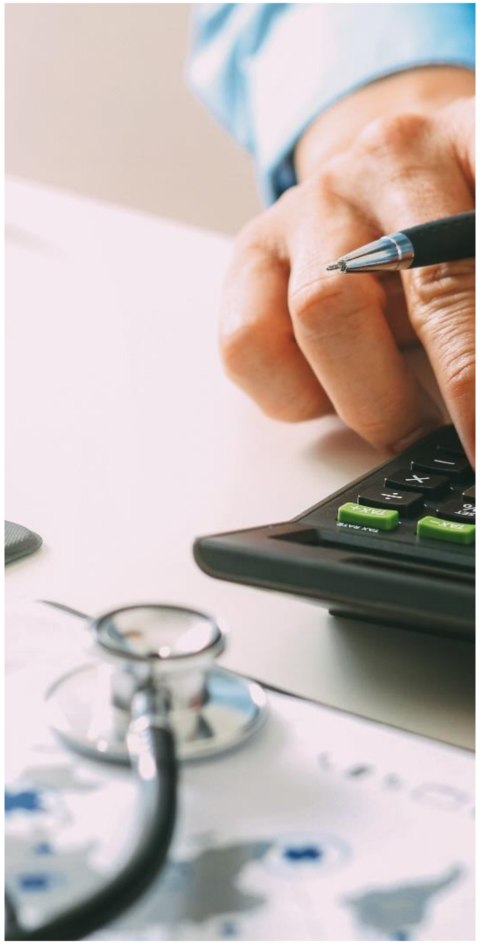
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Authority's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Authority meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Authority and the environment in which it operates • the Authority's financial reporting framework • the Authority's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the Authority's financial statements is appropriate.

3. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We asked for the Annual Governance Statement to be updated to reflect that relationships within the West of England are currently publicly reported to be strained. This amendment was made and we therefore expect to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; or • if we have applied any of our statutory powers or duties; or • where we are not satisfied in respect of arrangements to secure value for money and have reported one or more significant weaknesses. We have nothing to report on these matters.



3. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. At the time of writing, the NAO had not issued the group audit instructions for 2020/21 and this will be reflected in our audit certificate – see Appendix E. Note that no additional work is expected as the Authority does not exceed the threshold previously set by the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of the Authority in the audit report, as detailed in Appendix E, due to the fact we have yet to complete and report our Value for Money (VFM) work for 2020/21. This work will be finalised in line with the deadline specified by the NAO. As noted above, our certificate will also be delayed due to the fact we are not in a position to make the required WGA submission.

4. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

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- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness.
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Authority's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

4. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report.

We expect to issue our Auditor's Annual Report in early 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weaknesses from our initial planning work but have subsequently identified a risk impacting on the Authority's governance arrangements for closer attention. As noted on page 16 of this report, the Authority's Annual Governance Statement was updated to reflect that relationships within the West of England are currently strained. We will consider whether there are any implications for our Auditor's Annual Report.

5. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams and no non-audit services were identified which were charged from the beginning of the financial year to 2 December 2021.

Appendices

A. Action plan – Audit of Financial Statements

We have identified one recommendation for the Authority as a result of issues identified during the course of our audit. We have agreed this recommendation with management and we will report on progress on it during the course of the 2021/22 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our financial statements audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Purple	There were a number of issues identified regarding the accuracy of the Authority's creditors as noted on page 12 and in Appendix C.	The Authority should improve the working papers and internal quality assurance over its working papers for creditors and the associated figures such as grants received in advance and the agency creditor. Consideration should be given to using auto-reversing journals for in-year accruals in order to improve the audit trail for the year-end figures. **Management response** We have implemented a newly developed reversing journal import template which the entire Finance Team have been instructed to use going forward. We are in the process of creating a detailed monthly balance sheet reconciliation review process for the accrued income and expenses and prepayments in order to improve the process throughout the year.

Controls

- High – Significant effect on financial statements (purple)
- Medium – Limited Effect on financial statements (blue)
- Low – Best practice (grey)

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Authority's 2019/20 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings report.

We have followed up on the implementation of our recommendations and a summary is attached below. Two of the recommendations will be followed up in more detail as part of our Value for Money assessment.

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Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Partially completed	**Preparation of financial statements** We reported that good progress had been made in the arrangements for preparing the Authority's financial statements. We recommended that the Authority should continue the progress in enhancing the capacity and experience of its finance team.	The Authority has had a stable finance team throughout 2020/21 and its financial reporting has improved compared to earlier years. However, a number of material audit adjustments have been made as per Appendix C, and consequently we have raised a recommendation in Appendix A regarding this.
TBC	**Medium Term Financial Forecast (MTFF)** Although a robust MTFF had been developed, we recommended that this was updated to reflect the impact of the Covid-19 pandemic. We also recommended that management consider producing a single-page MTFP in order to provide a summary of the expected financial outturn.	A combined Authority Budget for 2021/22 and a Medium Term Financial Forecast covering the 2021/22 and 2022/23 were approved in January 2021. We will review this as part of our Value for Money work.
TBC	**Measuring and monitoring performance** We reported that good progress had bene made in developing and embedding a performance framework. We recommended that the Authority should consider: • the use of RAG ratings to highlight changes in performance compared the previous year; and • the impact of Covid-19 on the plans for achieving inclusive economic growth, addressing the climate emergency as well as a potential re-focus on its priorities.	The overarching objectives of the 2021/22 business plan include 'climate emergency' and 'recovery from Covid-19'. We will review the performance management arrangements as part of our Value for Money work.

Assessment

✓ Action completed

X Not yet addressed

TBC To be followed up in more detail during our Value for Money assessment

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the overall impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
As reported on pages 4 and 8, the Authority requested a new IAS19 report from its actuary. This materially changed the CIES and Statement of Financial Position figures relating to pensions, as the liability had increased by £4,491k.	£4,491	£4,491	£4,491
£4,624k relating to the opening balances of the agency liability was misposted to general creditors, overstating the creditors balance and understating the agency liability. A further balance of £1,580k of in-year LEP reversals had been posted to creditors but were attributable to the agency liability and therefore there was net change in the agency liability of £3,044k. There was no net impact on the Statement of Financial Position.	No net effect	No net effect	No net effect
£4.432m of items originally treated as creditors were actually capital grants received in advance (£2.787m) and revenue grants received in advance (£1.644m).	No net effect	No net effect	No net effect
Items which were grants received in advance were misclassified as general creditors, overstating the general creditors balance and understating the GRIA balance. There was no net impact on the Statement of Financial Position.	No net effect	No net effect	No net effect
£1,283k of creditors had not been accrued at the year end and additional expenditure needed to be included which was offset by recognition of grant income from grants received in advance.	No net effect	No net effect	No net effect
£1,811k of in-year accruals were intended to be reversed but the reversal was misposted, materially reducing both the debtors asset and the creditors liability. There was no net impact on the Statement of Financial Position.	No net effect	No net effect	No net effect
Capital expenditure during the year had been coded to operating expenditure. At year end this was correctly reclassified as capital but this was done by increasing income instead of reducing expenditure. Both income and expenditure were incorrectly stated by £683k.	No net effect	No net effect	No net effect
£205k of LEP creditors were incorrectly classified as general WECA creditors.	No net effect	No net effect	No net effect
During the audit, South Gloucestershire Council provided an updated business rates form with new balances attributable to WECA – the statements were updated accordingly to incorporate this	£141	£141	£141
Total	**£4,632**	**£4,632**	**£4,632**

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Comments	Adjusted?
REFCUS and Capital Grants	REFCUS was understated in the Capital Adjustment Account (CAA) and Capital Financing Reserve (CFR) by £62k. Capital grants were understated in note 10 by £165k.	✓
Cash flow statement	Due to the above issues, the cash flow statement did not originally balance.	✓
Borrowings Investments	Borrowings and investments notes showed net movements rather than gross, obscuring material additions/disposals in the year.	✓
Pooled investment fund adjustment account	No disclosure made for the pooled investment fund adjustment account.	✓
Related parties	Transactions with North Somerset Council included in the related party transactions note, but NSC is not a related party.	✓
Financial Instruments	The financial instruments note sensitivity analysis which excluded sensitivities in relation to 2 property funds.	✓
Financial Instruments	The financial instruments note did not include a table presenting the change in the fair value hierarchy even though assets held at fair value transferred from level 2 to level 1 in year. There was no accounting policy to support this.	✓
Grant balances for agency bodies	Green Homes grant awarded in year (£54.5m) was classified as a LEP creditor but this actually relates to 'grant balances' within Note 22.	✓
Agency opening balances	There were material accruals (£1.7m) missed from the previous year, although these had no impact on the outturn for 2019/20 or on the primary financial statements. This resulted in a disclosure adjusted in Note 22.	✓
Going concern	The going concern assessment was revised to reflect the updated guidance from the NAO where the focus in the Public Sector is now purely on the continuity of service provision.	✓
Critical Judgments	The NDR appeals was originally included as a critical judgment, but this was since removed.	✓
Other reserves	The financial statements originally included a material balance as 'other reserves' and the disclosure was expanded.	✓
Business combinations	The financial statements were updated to include the material transfer of staff and associated pension liabilities from the constituent authorities.	✓

C. Audit Adjustments

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Impact of unadjusted misstatements

The table below sets out what the potential impact the unadjusted errors and uncertainties identified during our audit could have when extrapolated across the entire population. This is not material and we would not expect the Authority to adjust for an extrapolated amount.

Detail
We identified a number of trivial errors within our creditors testing which, if extrapolated across the whole population would equate to £101k. We would not expect the Authority to adjust for this extrapolation.

Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements.

D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non-audit or audited related services.

Audit fees	Proposed fee	Final fee
Authority Audit (per audit plan)	£39,384	£39,384
Additional work on revised actuarial report and updated financial statements*		TBC
Additional work required on creditors and agency liability*		TBC
Additional work as a result of Covid-19*		TBC
Total audit fees (excluding VAT)	£39,384	£TBC

The proposed fees per the audit plan agree to Note 13 of the Authority's financial statements.

* Note that any fee variations are subject to approval by Public Sector Audit Appointments Ltd (PSAA)

PSAA is currently in the process for arranging fee rebates which are expected to be in the region of £5m nationally. MHCLG have stated their intention to provide financial support in respect of External Audit fees to all Local Authorities totalling £15m.

E. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Authority with an unmodified audit report

Independent auditor's report to the members of The West of England Combined Authority

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of The West of England Combined Authority (the 'Authority') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

E. Audit opinion

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Investment and Corporate Services and Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Director of Investment and Corporate Services and Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Investment and Corporate Services and Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Investment and Corporate Services and Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, Director of Investment and Corporate Services and the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Investment and Corporate Services and Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements, and our auditor's report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

E. Audit opinion

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Investment and Corporate Services and Chief Finance Officer and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities set out on pages 22 and 23, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Investment and Corporate Services and Chief Finance Officer. The Director of Investment and Corporate Services and Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Investment and Corporate Services and Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion

In preparing the financial statements, the Director of Investment and Corporate Services and Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003 and The Local Government Act 1972.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

E. Audit opinion

- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - Journals posted by senior officers

Our audit procedures involved:

  - evaluation of the design effectiveness of controls that the Director of Investment and Corporate Services and Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals and those posted by senior officers;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimate related to the defined benefit pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

E. Audit opinion

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

E. Audit opinion

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for The West of England Combined Authority for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Jon Roberts, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

Date:

Grant Thornton

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West of England Combined Authority

Statement of Accounts
For the year ended 31st March 2021

Contents

Introduction

Overview

This is a report looking at activity for the financial year 20/21. As a retrospective account, it reflects priorities for previous Mayor and administration. A new Metro Mayor was elected in May 2021 and the West of England Combined Authority is now refreshing its strategies and priorities in line with his manifesto commitments.

During 2020/21, the West of England Combined Authority responded to the unprecedented challenge of COVID-19 for businesses, residents and public services across the region. The Combined Authority and the Local Enterprise Partnership, (LEP), worked to support businesses and residents through this crisis period and sought to ensure that the support and infrastructure is in place to prepare for recovery.

As the pandemic hit in March 2020, we swiftly adapted our work to help the West of England recover focusing on three key areas:

- **Transport** – making sure public transport was in place to support key workers and others who need to travel; supporting transport companies to expand services safely.
- **Business Support** - helping businesses of all sizes get the support they need as well as capturing their concerns and ensuring their voices are heard by government.
- **Skills and Employment** - bringing local partners together to protect jobs and incomes and ensuring the right support is in place for people affected.

We set up a new West of England Recovery Taskforce in May 2020, a partnership between the West of England Combined Authority, the Local Enterprise Partnership, business, universities and the region's councils. The taskforce put together a Regional Recovery Plan which included measures to help businesses adapt to the new economic landscape and improve resilience, as well as support for residents to develop new skills, training and employment opportunities. This built on support offered to businesses throughout the pandemic via the Growth Hub and successful schemes such as Future Bright helping residents to gain new skills and find employment.

The West of England Combined Authority Committee, committed £9.395m for recovery activity during the financial year across business support, skills and employment initiatives. At that time, this took the total investment in our region's businesses and skills to over £100m over the next four years.

Our Regional Recovery Plan prioritises a green recovery, using changes in behaviour brought about by COVID-19 to accelerate the transition to net zero carbon.

Climate Emergency Action Plan

We declared a Climate Emergency in July 2019 and published our first Climate Emergency Action Plan in October 2020.

We are delivering carbon reduction programmes and initiatives. For example, through the Local Energy Scheme, Low Carbon Challenge Fund and South West Energy Hub we are increasing regional renewable energy, supporting residents and businesses to be more energy efficient and creating new green jobs.

This action plan identified five high level challenge areas:

- **Low Carbon Transport System**
  Work to decarbonise the transport system, increase cycling, walking and the use of public transport
- **Low Carbon Business**
  Help businesses and local people benefit from growth in the green economy; maximising government investment in the region & supporting our businesses to build back better
- **Renewable Energy**
  Work to decarbonise our energy system and increase local renewable energy
- **Low Carbon Buildings and Places**
  Increase the energy performance of buildings and develop low carbon standards in new developments
- **The Green Environment**
  Protect and enhance the environment through a proactive approach to green infrastructure

Infrastructure

COVID-19 had a huge impact on the way we travel. As the regional transport authority, WECA worked with bus and rail operators to ensure that the transport network continued to operate safely with social distancing measures in place. We also worked with businesses to share government travel advice and help them access sustainable travel support.

We want to capture the positive changes to travel habits during the pandemic and significantly increase walking and cycling to help reduce congestion and improve air quality. We committed £13m to measures to help more people to cycle and walk in the region and launched a regional campaign to encourage residents to walk or cycle. The West of England Combined Authority continues to invest millions in bus and train travel, and walking and cycling routes, to tackle congestion and improve air quality.

Other key activities during 2020/21 included:

- Supporting public transport operators through COVID-19
- Investing £13m in walking and cycling

- Leading e-scooter trials, as one of the Government's first Future Transport Zones £30m of national and local funding committed to Future Mobility Zone proposals. This includes an e-scooter trial that started in October 2020- one of the first projects that will offer a new way to travel around our region.
- Publishing the region's first 10-year rail plan
- Consulting on and agreeing a regional Bus Strategy and Cycling and Walking Plan
- Our Transport Delivery Plan sets out the currently funded transport projects (2021 – 2026) that are progressing to delivery over the next 5 years in the West of England region.
- We have consulted on a new station at Ashley Down - part of improving the Severn Beach line to provide direct more frequent services to Bath and Westbury, Plans are in place to re-open the Portishead line and provide more frequent services to Yate and Gloucester.
- Joy in the Journey - a behaviour change campaign to encourage walking and cycling in the region.

Through the Local Growth and Economic Development Funds, we're investing in our Enterprise Zones to create jobs and support opportunities for businesses to start, grow and collaborate. To date, this has included £55m at Temple Quarter, £32 million at Bath Quays, £64m at Avonmouth and £12m at Somer Valley.

Business support

During 2020/21, we led work to help kick-start the region's economy - helping businesses build their financial resilience, innovate and adopt best practice, and boost their productivity.

We expanded our West of England Growth Hub which helps SMEs find the right support, acting as a 'shop window' for business support services and initiatives in the West of England, such as Green Business Grants. This helped more businesses access the funding, loans and support they need to adapt and survive.

We adapted a number of different business support programmes to reflect the changing needs of businesses. This includes Creative Scale Up, Mentoring for Growth and Workforce for the Future.

We launched new initiatives in response to business feedback - eg Trading Better Online; Accountancy Support; Business Growth Grants; Creative Freelancer Grants and Thrive West, to support mental health for employees.

We're working with our partners to provide entrepreneurship & business support to non-EU migrants as well as supporting residents looking to start a business and existing businesses looking to grow.

We put together and promoted a business support guide setting out all the support available. Following excellent feedback from our business community this is being regularly updated.

Skills and employment

In response to the pandemic, we expanded our career coaching and support service, Future Bright, to help people whose jobs and income were affected.

We also expanded the Careers Hub which helps young people get better careers advice. This now includes engaging young people in low carbon and green careers, to ensure the West of England has access to the skilled workforce it needs to tackle the climate emergency.

We supported adult education providers to ensure that thousands of people continued to have access to training and re-training opportunities during lockdown. We reformed our adult education funding rules to enable adults aged 19-24 and 50+ to undertake a first full and second full Level 3 qualification for free (equivalent to A-levels). We're also supporting adults aged 24 and over who don't have A-levels, an advanced technical diploma or equivalent, to take their first full Level 3 qualification for free.

We launched a £2m Digital Skills Investment programme to improve digital skills to benefit residents and businesses, and Workforce for the Future – supporting businesses to identify ongoing skills needs and invest in their workforce.

Through our Employability and Skills portal, we worked with partners to ensure that all our residents have the opportunity to get the skills and training they need to succeed, and to secure the jobs that are being created here.

Further detail about the West of England Combined Authority's programme of work and delivery against targets is detailed in the following Narrative Report.

Narrative Report

These financial statements provide the reader with a view of West of England Combined Authority's financial performance and its effectiveness in its use of resources during 2020/21. They are a key element in demonstrating how the Authority has delivered economy, efficiency and effectiveness in its use of resources, as well as ensuring that key stakeholders understand the financial position of the Authority.

The Narrative Report provides an outline of the activities for the year, providing both a guide to WECA's financial statements and to its achievements in delivering inclusive economic growth through investing in transport, skills and economic development.

Organisational overview and external environment

The West of England Combined Authority is working to drive clean economic growth to benefit all residents. We're making decisions about transport, homes, jobs and skills at regional level, decisions previously made in central Government.

Since we were established, we have secured over £180 million in extra funding from government to invest in our region; this is in addition to the £1 billion over 30 years agreed in the devolution deal.

The Combined Authority is led by the Metro Mayor, with the membership of the Combined Authority committee also including the leaders of three councils – Bath & North East Somerset, Bristol and South Gloucestershire. The Combined Authority also supports the Local Enterprise Partnership, which is business-led, and covers the four West of England councils, including North Somerset Council.

Prior to COVID-19 the West of England economy was worth over £33 billion a year, with a population of over 1.1 million people, one of the highest rates of employment in the country (79%), and over 45,000 businesses.

Aims, objectives and achievements

During 2020/21 the West of England Combined Authority focussed on responding to COVID-19, whilst continuing to align with the aims of our region's Local Industrial Strategy - to be a driving force for clean, inclusive growth.
The Regional Recovery Plan published in October 2020, set out five key ambitions:

- Rebuilding business, helping new and existing businesses to survive and thrive; to safeguard existing, and create new jobs;
- Getting residents back into jobs that pay above the living wage and offer employment security, through training and work to match skills to opportunities;
- Strengthen inclusion, preventing further widening of inequalities and building an inclusive economy where everyone has the opportunity to achieve their potential;
- A green recovery, using changes in behaviour brought about by the pandemic to accelerate transition to net zero carbon;
- Renewing places, creating greener, healthier, more vibrant places to live and work.

Business Plan 2021/22

Our Business Plan was published in January 2021, and builds on our Local Industrial Strategy, Climate Emergency Action Plan and Regional Recovery Plan.

It sets out how we will achieve our ambitions by investing in three priorities areas – infrastructure, skills and business.

Infrastructure

Our ambition is to enable residents to move seamlessly around the West of England region between work, home and leisure activities, and to provide high quality, affordable homes. We are working towards that ambition in a way that addresses our commitment to achieving zero net carbon by 2030. The right infrastructure is central to that commitment, both physical and digital. Infrastructure is also key to maximising productivity across the region, connecting rural and urban communities, and driving clean and inclusive growth.

Business growth

Our focus is on rebuilding a strong regional economy, to enable long-term recovery for the West of England, following the impact of COVID-19. We will help business build their financial resilience, innovate and adopt best practice, and boost their productivity. In line with our Regional Recovery Plan, we will help our businesses to achieve their potential through recovery as well as attracting more businesses to start, grow and thrive in the region.

Skills

By 2036, the West of England will be internationally recognised for its sustainable, inclusive and diverse economy, providing a high quality of life, prosperity and opportunities for all its residents. Our people will be skilled, healthy and able to achieve their potential. Our businesses will play an active role in shaping employment and skills provision across the region and they will be able to find the skills and talent they need to innovate, add greater value and thrive. Our Employment and Skills Plan sets out how we will support residents to achieve their potential, and businesses to find the skills and talent they need to innovate, add greater value and thrive.

Performance

The Combined Authority's monitoring & evaluation framework sets out our overall approach to the monitoring and evaluation of activities across WECA and the Local Enterprise Partnership. The approach is structured around three levels as set below:

- Annual business plan. Delivery of the annual business plan which includes in-year activity to support WECA and the Local Enterprise Partnership. Our business plan for 2020/21 was approved by WECA and Joint Committee on 31st January 2020;
- Project and Programme delivery. This is focused on schemes funded through the WECA Investment Fund, Transforming Cities Fund, West of England One Front Door Programme and other significant grant funding streams. WECA have implemented a comprehensive Local Growth Assurance Framework which clearly sets out the process, and governance, for accessing and approving funding allocations and awards.

WECA's overall aim of achieving clean and inclusive economic growth will require longer term measurement which take into account the impact of key schemes that are yet to be delivered. We are working closely with the national suppliers who are leading the Gateway review work across the Combined

Authorities on the evaluation of the West of England Investment Fund. The Final Report from the independent evaluation of the Investment Fund was submitted to Government in November, and it is expected that the outcome will be known shortly. In parallel WECA submitted a Complementary Report which sets out the wider context surrounding the use of the Investment Fund.

The Monitoring & Evaluation Framework is reviewed annually and shared with Government. The latest version, approved in March 2021, is available on the WECA website and includes links to detailed project monitoring & evaluation plans.

Financial Performance

The following paragraphs provide a brief overview of the financial position in terms of WECA's management accounting framework rather than the statutory accounting framework, to aid in understanding the statutory financial statements.

Under the Order establishing the Combined Authority, WECA must maintain a separate fund to record the expenditure of the Mayor's Office, including the annual running costs of his immediate support staff, the costs of the Mayoral elections and grant expenditure which is incurred under the Mayor's powers of determination.

- **Mayoral Fund**

  The Mayoral Fund's outturn revenue position for the 2020/21 financial year is as detailed in the table below.

Mayoral Fund April to March 2021			
	2020/21 Budget £'000s	2020/21 Outturn £'000s	Variance £'000s
Staff	206	181	(25)
Premises Services	13	12	(1)
Support Services	15	0	(15)
Supplies & Services	10	10	0
Project Spend	0	0	0
	244	**203**	**(41)**
Mayoral Election Costs	396	396	0
Payment to Reserve	0	41	41
Contribution to Highway Grants			
Integrated Highway	5,183	5,183	0
Highway Maintenance Grants	10,254	10,254	0
Highway Incentive Grants	2,135	2,135	0
	17,572	**17,572**	**0**
Total Expenditure	**18,212**	**18,212**	**0**
Income			
Business Rates Retention Pilot	17,572	17,572	0
Government Grant	0	0	0
Funding Contribution from WECA	640	640	0
Total Income	**18,212**	**18,212**	**0**
NET TOTAL - Under / (Over) Spent	**0**	**0**	**0**

WECA Fund Revenue Budget

A net outturn of £1.127m (2019/20: £551k) surplus was achieved in 2020/21 which reflects a higher return from investments on cash balances. This position has been reported consistently throughout the financial year as we maintained relatively high balances and achieved above average returns through diversifying our investment portfolio.

In year spend on specific projects was £2.1m lower than originally budgeted with the main variations being due to delays in spend linked to the COVID-19 pandemic. These include ‘We Work for Everyone’ (conditionally approved subject to confirmation of external grant), Workforce for the Future, and Future Bright.

The Revenue Transport levy returned an overall end of year surplus on spend of £719k. The main reason for the Levy underspend is due to the receipt and application of COVID-19 grants. Concessionary Fares and Community Transport reduced as some providers, and routes, stopped operating. In addition, North Somerset Council reduced their reimbursement to operators to reflect the historic trend of decline (8%). There was also some underspending in the Integrated Transport Team costs which were lower than planned due to staff vacancies.

A summary of the WECA out-turn position is detailed in the following table:

WECA Fund April to March 2020/21			
EXPENDITURE	**Budget £'000s**	**Outturn £'000s**	**Variance £'000s**
Staff			
Core Staff	4,896	5,184	288
Integrated Transport Authority Team	892	765	(127)
Project Staff	1,300	1,094	(206)
Total Staff	7,088	7,043	(45)
Supplies & Services			
Premises Services	464	334	(130)
Support Services	44	8	(36)
Supplies & Services	761	817	56
Total Supplies & Services	1,269	1,159	(110)
Project Spend	25,808	23,707	(2,101)
ICT Implementation	297	586	289
Transport Functions			
Community Transport	1,621	1,355	(266)
Concessionary Fares	14,325	14,286	(39)
Bus Real Time Information	453	419	(34)
Supported Bus Services	2,743	8,686	5,943
Metrobus	226	125	(101)
Bus Information	149	145	(4)
Travel West	61	4	(57)
Integrated Ticketing	247	206	(41)
Total Transport Functions	19,825	25,226	5,401
Contribution to Mayoral Fund	640	640	0
Overheads	(451)	(909)	(458)
Departmental Recharges	(1,644)	(1,391)	253
Payment to Reserves	204	2,207	2,003
Total Expenditure	**53,036**	**58,268**	**5,232**
INCOME			
Transport Levy	20,716	20,961	245
Supported Bus Services Government Grant	0	5,749	5,749
Business Rates Retention Pilot	1,200	792	(408)
Government Grants	17,055	17,553	498
Investment Fund Grant	13,045	10,018	(3,027)
Interest on Balances	1,020	2,238	1,218
Transfer from Reserves	0	2,084	2,084
Total Income	**53,036**	**59,395**	**6,359**
NET TOTAL – Under / (Over) Spent	**0**	**1,127**	**1,127**

Financial Reserves

Upon formation, there were no general or earmarked reserves or balances allocated to WECA from the constituent councils. Therefore, in April 2018, WECA Committee agreed to establish appropriate risk assessed levels of reserves.

The level of Business Rates growth has slowed down in the region, even prior to the COVID-19 situation. WECA's share of the business rates retention pilot is 5% budgeted at £1.2m for 2021/22 which is unlikely to be achieved. £408k was drawn down from the Business Rates Reserve in 2020/21 to meet with the estimated in-year shortfall; With £500k transferred from the 2020/21 WECA revenue surplus to the business rates retention reserves to address future expected shortfalls.

The future revenue position for WECA remains volatile whilst core operating costs are funded through temporary sources such as Mayoral Capacity Fund and Business Rates Retention pilot share. The remaining balance of **£627k** (from the overall **£1.127m** end of year surplus) will transfer into the WECA General Reserve bringing the balance of this reserve up to £1.765m. Whereas we have worked hard to increase the General reserve over recent years, this level is still relatively low representing only **3%** of the £56.7m WECA revenue budget for 2021/22. We will continue to keep the holding of reserves under constant review.

WECA Fund April to March 2020/21

Capital

In July 2019, the Committee approved a £350m investment programme to March 2023 spanning the Investment Fund and Transforming Cities Fund. This sits within the framework of the Capital Strategy report, approved in February 2019, which set out the planned approach for establishing a thematic 20-year programme aligned with regional priority outcomes and objectives as detailed within the published WECA Operating Framework.

The funding available through the Investment Fund and Transforming Cities Fund over the period to 2022/23 includes a level of structured over programming. For each allocation and award, an allowance needs to be accounted for in terms of the subsequent costs for final delivery of the full scheme, referred to as the 'tail' which is based upon the current opinion of the most likely level of spend that will be incurred over the next four years.

A high-level summary of the approved programme, as at January 2021, is detailed in the following table:

	Funding Awards and Allocations £000s	
	Dec 2020	Jan 2021
Transport Infrastructure		
Approved Awards and Allocations	67,485	71,482
Associated ‘tail’ required to deliver all projects up to March 2023	47,445	43,448
Total Investment in Transport Infrastructure	**114,930**	**114,930**
Housing, High Streets and Green Infrastructure		
Approved Awards and Allocations	87,513	92,773
Associated ‘tail’ required to deliver all projects up to March 2023	26,494	26,494
Total Investment in Housing Infrastructure	**114,007**	**119,267**
Business and Skills		
Approved Awards and Allocations	80,070	80,070
Associated ‘tail’ required to deliver all projects up to March 2023	18,854	18,854
Total Investment in Business and Skills Infrastructure	**98,924**	**98,924**
Opportunities and Challenges / Other		
Funding put aside to respond to opportunities and challenges	**14,321**	**9,061**
Approved WECA set up, operating costs and elections up to 2023	**7,818**	**7,818**

Total Investment Programme up to March 2023	350,000	350,000

Total Investment Programme post March 2023	31,189	32,841

It is recognised that the Investment Fund programme will need to be kept under review and that some fundamental reallocations may be required in response to COVID-19 as the impacts and actions required to support economic recovery, including gaps in national programmes, continue to emerge.

The Investment Fund proportion of the WECA Investment Programme is flexible in terms of being 50% revenue and 50% capital. This allows swift progress for developing feasibility studies and early business case development prior to the need for capitalisation. In terms of capital spend, the 2020/21 outturn position is spend of £34.3m against a revised budget of £51.6m as detailed in the table below:

WECA and Mayoral Capital Programme 2020/21

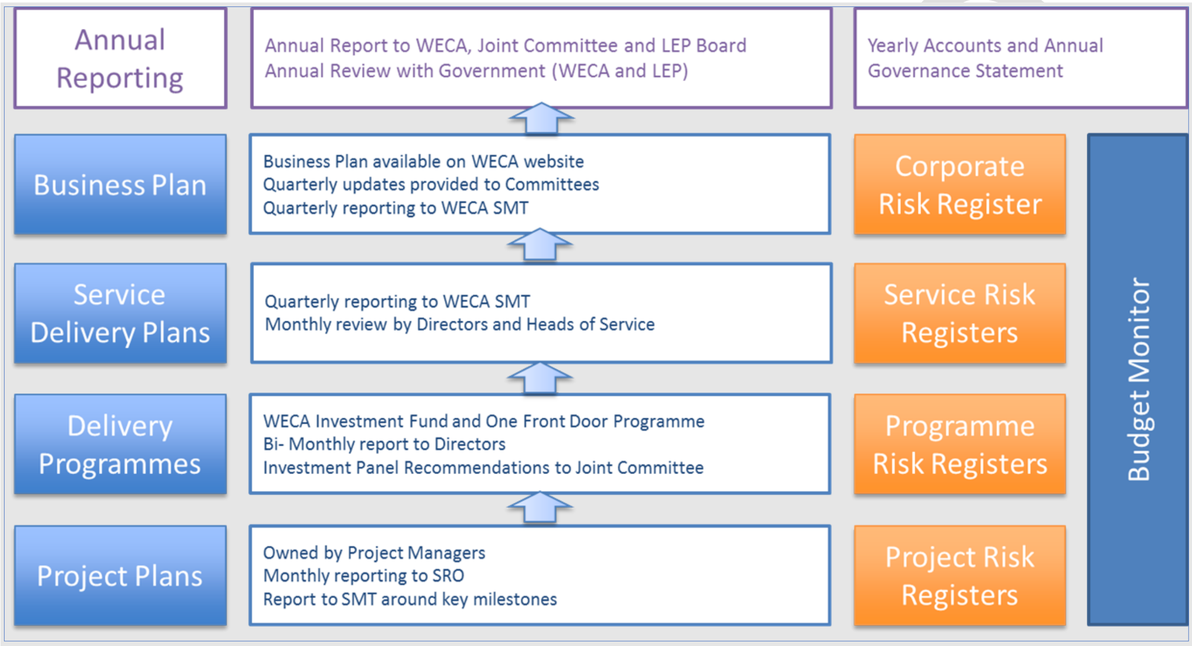
	Revised Budget £'000	Outturn £'000	Variance £'000
WECA Capital			
Transport Scheme Business Case Development	3,790	1,956	1,834
Real Time Information	94	93	1
Cribbs Patchway Metrobus Extension	9,443	1,863	7,580
CPNN Cycle Links	1,656	992	664
On Bus Contactless Payment	6	2	4
Great Stoke Roundabout Improvements	1,956	1,342	614
Wraxall Rd	1,131	1,046	85
Whitfield Tabernacle Kingswood (Love our High St)	80	-	80
South Bristol Industrial Light Workspace	131	-	131
Metrowest phase 2	305	372	-67
Unlocking Lockleaze	3,006	-	3,006
Yate A432 Park & Ride	1,300	-	1,300
	22,898	**7,666**	**15,232**
WECA Capital – other			
FTZ DfT funding to the capital programme	905	517	388
DfT Active Travel Fund to the capital programme	1,745	45	1,700
	2,650	**562**	**2,088**
Mayoral Capital			
Highways and Transport Grants	17,572	17,572	-
Pothole Action Fund Grant	8,519	8,519	-
	26,091	**26,091**	**-**
Grand Total	**51,639**	**34,319**	**17,320**

The reduced capital spend primarily reflects the re-phasing of activities in relation to the various schemes which are taking place slightly later than originally planned. The main variances at the end of March were contained within the Cribbs Patchway MetroBus extension capital scheme due to the switch in funding for the programme to the Local Growth Funding. Unlocking Lockleaze also had a £3m allocation which is awaiting funding conditions requirements.

Risks and Opportunities

The West of England Combined Authority is committed to deliver its strategic objectives of clean and inclusive economic growth whilst retaining a clear focus on the potential risks and opportunities associated with the activities set out in the annual business plan.

The corporate risk framework ensures that key risks are identified, managed and monitored and that risk management is an integral part of WECA's reporting process as set out in the diagram below.



The Corporate Risk Register is reviewed each month by the Management Team (Senior Management Team (SMT) plus Heads of Service) alongside the Directorate Risk Registers. A quarterly update on the Corporate Risk Register is provided to WECA SMT as part of our wider reporting processes and a summary of key risks is provided in our quarterly progress reviews to WECA and Joint Committees.

The Risk Management Framework is reviewed annually by the Audit Committee. The latest version, approved in March 2021, is available on the WECA website

WECA has in place an effective system of internal control designed to identify and manage risks to a reasonable level. A risk based Internal Audit Plan is considered by Senior Officers and approved through the audit committee. Grant Thornton UK LLP are the external auditors for WECA who maintain an independent view on the strength of our financial governance and delivery of value for money.

Medium Term Financial Outlook

WECA published a Medium-Term Financial Forecast, in January 2021, as part of the 2021/22 Revenue Budget setting. Anticipated spend of revenue budgets has been profiled across financial years up to 2024/25. Overall grants and committee approvals amount to **£261.9m** for the period, with **£56.7m** relating to 2021/22 as detailed in the following table:

	2020/21 £000s	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s	**Total £000s**
Core Revenue Funding	3,860	4,222	3,552	3,531	3,540	18,705
Specific Grant Funding	17,246	17,372	16,632	15,528	14,902	81,680
Investment Fund (managed by WECA)	12,154	9,028	5,600	2,582	0	29,364
Transport Levy (and NSC Recharge)	20,990	21,455	21,884	22,322	22,768	109,419
WECA Managed Revenue Budgets	**54,250**	**52,077**	**47,668**	**43,963**	**41,210**	**239,168**
Investment Fund (UA and third parties)	7,906	4,635	5,875	4,302	36	22,754
Total WECA Revenue Budget	**62,156**	**56,712**	**53,543**	**48,265**	**41,246**	**261,922**

Volatility of core revenue funding for WECA remains an issue, with annual income from the Business Rates Retention pilot, (£1.2m), and Mayoral Capacity Fund, (£1m), remaining uncertain beyond the 2021/22 financial year.

Statement of Accounts 2020/21

The Statement of Accounts which follows set out the Authority’s income and expenditure for the year and its financial position as at 31 March 2021. It is prepared on a single entity basis in accordance with the requirements of the Accounts and Audit Regulations 2015. The format and content of the statements is prescribed by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code). This is based on International Financial Reporting Standards (IFRSs) adapted for use in a local government sector context.

The Statement of Accounts comprises:

- **Comprehensive Income and Expenditure Statement:**

  This statement shows the accounting cost of providing services in the year, according to the Code. An adjustment is required to be made between the accounting basis and the funding basis due to the different accounting treatments for capital grants and pension costs, further details of which are shown in the Movement in Reserves Statement.

- **Movement in Reserves Statement:**

  This statement shows the movement of the different reserves in the year. These are analysed between ‘usable reserves’ (those that can be applied to fund expenditure) and ‘unusable reserves’ (those allocated for specific statutory responsibilities).

- **Balance Sheet:**

  The Balance Sheet shows the value of the assets and liabilities of WECA. The net assets (assets less liabilities) are matched by the reserves held.

- **Cash Flow Statement:**

  The Cash Flow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

- **Statement of Accounting Policies:**

  Sets out the accounting policies that have been followed in preparing the financial statements and how Code requirements have been met in practice.

- **Disclosure Notes:**

  These provide more detail about individual transactions and balances.

Governance

Governance arrangements continue be strengthened under the political leadership of the West of England Mayor ably supported by an experienced Senior Management Team of Officers. WECA have an established constitution, clear financial regulations and delegations and established policies and procedures for managing risks, fraud and freedom of information requests

Further details of our governance arrangements are set out in the Annual Governance Statement that can be found on pages 23 to 32; a formal statement that covers all significant corporate systems, processes and controls, spanning the whole range of its activities. It is approved by the Audit and Accounts Committee and signed by the Authority's Chief Executive and the Mayor.

Auditors

Grant Thornton UK LLP are the auditors of the WECA for 2019/20. Their appointment was made under the Local Audit and Accountability Act 2014 through Public Sector Audit Appointments.

On behalf of the Combined Authority

Malcolm Coe
Director of Investment & Corporate Services

Date: 30th July 2021

Statement of Responsibilities

1. The Authority's Responsibilities

The Authority is required to:

(i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. These responsibilities are discharged through the role of the Chief Finance Officer (CFO) Malcolm Coe in the role of Director of Investment and Corporate Services

(ii) Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

(iii) Approve the Statement of Accounts.

2. The CFO's Responsibilities

The CFO is responsible for the preparation of the Combined Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this Statement of Accounts, the CFO has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Local Authority Code.

The CFO has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the financial statements

I certify that this Statement of Accounts gives a true and fair view of the financial position of the West of England Combined Authority at the reporting date and of its income and expenditure for the period ended 31 March 2021.

Malcolm Coe
Director of Investment and Corporate Services and Chief Finance Officer
Date: 30th July 2021

4. Approval of the financial statements

I certify that this Statement of Accounts for the period ended 31 March 2021 was approved by a resolution of WECA Audit Committee at its meeting on

Chair, West of England Combined Authority Audit Committee

Date:

Annual Governance Statement 2020/21

1. Scope of Responsibility – Context for Statement

1.1 West of England Combined Authority (WECA) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

1.2 In discharging this overall responsibility, WECA is responsible for putting in place proper arrangements for the governance of its affairs, which includes ensuring a sound system of internal control and effective arrangements for the management of risk.

1.3 WECA has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of our code is available from our website.

1.4 WECA's Local Code of Corporate Governance aims to ensure that in conducting its business it will:

- operate in a lawful, open, inclusive and honest manner
- make sure public money is safeguarded, properly accounted for and spent wisely
- has effective arrangements in place to manage and control risk
- secure continuous improvements in the way it operates.

1.5 This Annual Governance Statement explains how WECA has complied with our Local Code of Corporate Governance and also meets the requirements of:

- The Accounts and Audit (England) Regulations 2015, specifically Regulation 6 (1) in respect of the annual review of the effectiveness of its system of internal control and preparation and publication of an Annual Governance Statement.

2. Governance Framework – Background & Overview for 2020/21

2.1 In preparing the Annual Governance Statement WECA has:

- Reviewed the Authority's existing governance arrangements against the revised CIPFA / SOLACE framework - 2016 Edition' good practice guidance;

- Assessed the effectiveness of WECA's Local Code of Corporate Governance;
- Taken into consideration the findings of external inspection agencies, CIPFA guidance notes and the auditor's formal opinion on the internal control framework.

2.2 During the last year the governance framework was tested by the COVID-19 pandemic and as a result of the emergency legislation introduced by government the Authority responded promptly to ensure it could continue to function and make key decisions.

2.3 This led in the initial phase of the pandemic - in March 2020 - to enact emergency decision making through the Chief Executive Officer in consultation with the Mayor. Each of these decisions were then published on the Authority's website. This phase only lasted for a short period whilst the Authority adjusted to the national lockdown requirements and implemented the detail of the coronavirus regulations so that its governance framework could move to online delivery. This entailed all formal (& informal) governance boards and committees meeting virtually through the use of Zoom. This was accomplished quickly and meant that no further significant changes were required to the processes underpinning key decision making, policy development and the Corporate Governance of the Authority.

2.4 WECA's Constitution, which sets out how the Authority operates, is kept under constant review and updated as necessary through the year. It clearly defines the roles of councillors and officers and this clarity contributes to effective working relationships.

2.5 As part of this ongoing review the WECA Committee, at its June 2020 meeting, approved further changes to its Constitution and governance framework including –

a) Updates to Terms of Reference of the WECA Committee, Scrutiny Committee and Advisory Boards primarily in relation to tackling the Climate Emergency;
b) Widening delegations around transport to the Head of Transport as a result of the transfer of various responsibilities to WECA;
c) Referencing the move to online meetings to make key decisions;
d) Increasing the level of delegations for key officers in managing their respective functions;

2.6 There are two main decision-making committees being the WECA Committee, which oversees the operations of the Combined Authority, and the Joint Committee which governs decisions across the wider West of England region, including North Somerset Council. From January 2020 this became the West of England Combined Authority Committee and the West of England Joint Committee (for ease of reference through this document this is referred as the WECA Committee).

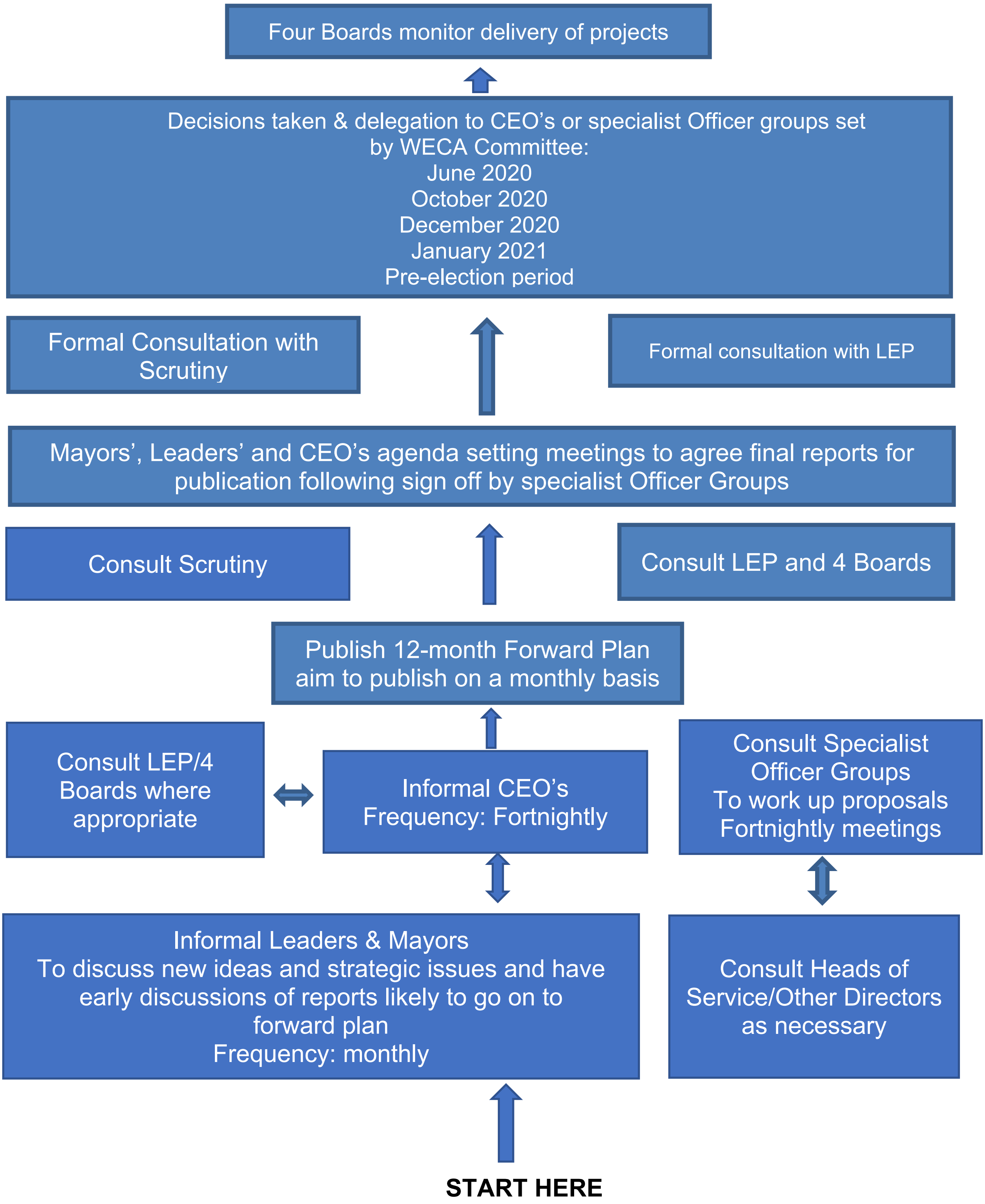
2.7 Prior to January 2020, the WECA Committee and the Joint Committee met separately on the same day. To streamline arrangements and to enable more efficient meetings, Mayors and Leaders agreed in January 2020 that the WECA Committee and the Joint Committee should meet together at a joint meeting. This enables, for example, all reports to be published as one, unified agenda and means that a combined public forum session can take place at the start of the meeting thus avoiding duplication. The two committees are separate bodies in legal terms but now meet as a joint meeting.

2.8 To supplement formal committees there are a number of established senior officer and member forums which facilitate full engagement and consultation on all significant issues and decisions for committee consideration. *Figure 1* details the governance structure for both formal member meetings and key internal officer groups.

2.9 Alongside the preparation of this statement we also rely on independent assurance provided by Internal Audit in reviewing the effectiveness of our governance arrangements. They do this through assessing the level of assurance provided against the eight themes of their 'Reasonable Assurance Framework' as detailed. This forms part of the core work of Internal Audit and is reported on through the WECA Audit Committee.

2.10 Elections were held during May 2021 for a new Metro Mayor for the West of England, with Dan Norris duly elected to represent WECA for the next four years. The process for elections was overseen by the Monitoring Officer acting as Returning Officer for the election taking into account the restrictions of the pandemic.

Figure 1: West of England Combined Authority Structure and Arrangements



3. WECA assessment against the 7 ‘good practice’ Governance Framework Principles

The following section provides an update on the current status of WECA’s governance and operations against the seven good practice governance framework principles as laid out within the CIPFA / SOLACE framework:

i. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law

WECA has both a Members Code of Conduct and an Employees Code of Conduct which the respective Individuals are required to adhere to in their respective roles. The Members Code is recorded within the Constitution.

All members appointed to WECA roles have a full induction and training programme, including the Members Code of Conduct. Dependent on the roles allocated to members additional tailored training is provided. The Monitoring Officer has overall responsibility for member induction and support services for elected members.

Officers sign contracts of employment and are required to complete a probationary period of employment as standard. All relevant HR policies are in place and include a formal disciplinary procedure, a Whistleblowing Policy, Information Governance Policies, Counter Fraud Strategy bringing together the Authority’s Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Money Laundering Policy under one umbrella. We maintain electronic registers of interests and gifts & hospitality for staff.

Members are required to declare interests, as a standing item at each committee, with declarations at meetings being recorded. There is also a member complaint policy which is overseen and administered by the Monitoring Officer.

WECA’s Constitution sets out the legal requirements around its business including decision making. Guidance is available through the website to ensure that decisions are taken by the appropriate committee or nominated officer under the approved Scheme of Delegation.

All reports requiring decision must be cleared by the S151 and Monitoring Officers. The adopted report template requires the author to record consultation undertaken, a risk management assessment, public sector equalities duties and finance, legal, property, human resources and climate change implications.

All WECA contracts must comply with the Authority’s Contract Standing Orders and guidance from specialist procurement officers and legal advice is available in order to comply with legal requirements e.g. EU Procurement regulations.

ii. Ensuring openness and comprehensive stakeholder engagement

The Constitution outlines citizen’s rights to access information including rights to attend meetings; notice of meetings being held; access to agendas and reports; access to meeting minutes; and rules around the exclusion of access by the public to meetings.

Key decisions are all recorded and the templates for decisions require officers to provide all necessary and pertinent information to make an informed decision. The forward plan of business is published in advance in accordance with access to information requirements.

To help ensure decision making rules are followed an intranet page provides officers with information about the stages to be followed for formal decision making and urgent decisions.

WECA's website contains information about services and provides key links such as 'Committee Meetings and Decisions'.

WECA also comply with the Local Government Transparency Code and the Transparency page on the internet provides the links to access business operations and outcomes (such as payments to suppliers / expenditure over £500) as required by the Code.

We have developed an effective and efficient system for managing Freedom of Information (FoI) and data protection requests and have an excellent record in terms of providing responses within required timescales.

iii. Defining outcomes in terms of sustainable, economic, social and environmental benefits

WECA has had a published Operating Framework in place since 2018, as detailed under the Narrative report – Operating Framework section, which states the high-level objectives and priority areas that drives and determines the authority's decision making.

Building on this, working in partnership with the Local Enterprise Partnership and other key regional stakeholders, WECA published a, strongly evidenced based, Local Industrial Strategy in the summer of 2019 which is the core strategic document that will direct and influence our future investment priorities.

Annual Business Plans are published and reviewed regularly at public committees. Business Plans translate longer term strategy into specific targets, measures and actions for the forthcoming financial year. Performance metrics are detailed within the 2020 WECA Business Plan which detail the anticipated outcomes that will be achieved through WECA investment by March 2023.

iv. Determining the interventions necessary to optimize the achievement of the intended outcomes

WECA published a £350m regional investment programme in July 2019 which details all priority interventions that will be made over the next three years. A Capital Investment Strategy is published in December each year which details the different funding streams available to the region explicitly detailing the purpose and uses of WECA funding. This is then regularly reviewed and updated through the WECA Committee.

Each individual project has to comply with published criteria prior to entry into the WECA investment programme which includes a transparent value for money assessment in terms of the outcomes achievable through investment.

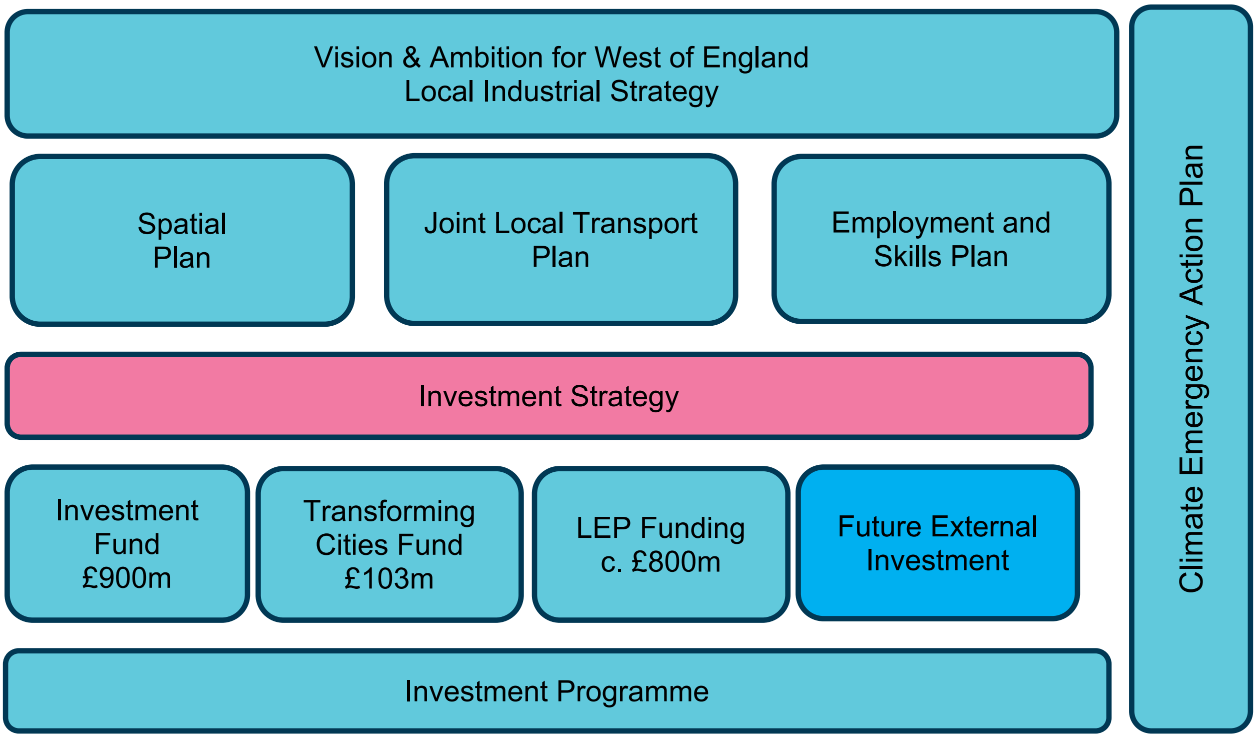
WECA Director of Infrastructure holds regular meetings with his counterparts within the neighbouring Unitary Councils to determine the priority interventions required for transportation and housing enabling - working jointly to develop a coherent regional investment programme. A similar process is facilitated through WECA Director of Business and Skills ensuring that investment is prioritised to deliver the core strands of the region's Local Industrial Strategy.

Additionally, the Chief Executives meet on a regular basis to discuss strategic matters and current major cross-authority issues. This is chaired by the WECA Chief Executive Officer with the other constituent council Chief Executive Officers in attendance (B&NES, South Gloucestershire and Bristol) and is also attended by the North Somerset Chief Executive Officer.

There is also a separate (Local Growth) Assurance Framework which WECA operates and updates are provided each year to the Audit Committee.

Figure 2 details how WECA investment is aligned to the delivery of regional strategies and priorities. This graphic is detailed within our Capital Investment Strategy and Business Plan.

Figure 2: Linkage between WECA Strategic Direction and Funding decisions.



WECA's decision making processes are set by its Constitution and citizens and service users are consulted where appropriate prior to decisions being taken.

The decision-making process requires objective and rigorous analysis of options and associated risks. A Risk Management Strategy and Toolkit has been adopted and this provides guidance on the assessment of risks related to recommended actions / decisions.

v. Developing the entity's capacity, including the capability of its leadership and the individuals within it

WECA has an established senior management structure and has recruited suitably experienced officers into its leadership team. A structured organisational development programme was introduced from September 2019 which supplements and complements the authority's appraisal process.

A comprehensive induction programme has been rolled out to all employees which incorporates a presentation from the Chief Executive on the vision, mission and objectives of the Combined Authority. A formal training budget has been established to fund bespoke training needs which supplements the organisational development programme.

WECA undertook its first formal staff survey in July/August 2019 with the overall results being extremely positive. Action plans have been developed by the Senior Management Team and Directorate Management teams to respond to identified areas requiring further development and this is repeated on an annual basis.

In terms of financial capacity, WECA has set about growing the expertise, knowledge and capabilities of in-house staff resource. Further investment has been made in the Finance service utilising funding that was previously allocated to third party support. Treasury Management was brought back in-house, (previously provided through Bath and North East Somerset), in April 2019 and reliance on contractor support for developing the authority's Statement of Accounts has been reduced with WECA firmly leading the process for 2019/20. Bespoke support is still contracted on an identified needs basis for example, for specific tax advice, (through Public Sector (PS) Tax), and technical aspects of the accountancy requirements (through CIPFA).

WECA published a three-year Medium-Term Financial Plan on 31 January 2020 as an integral part of the 2020/21 budget setting process and this was updated in 2021. This plan details the revenue resources available to the Combined Authority through Investment Fund approvals along with various confirmed, and anticipated, grant allocations. Contributions have been made to WECA General Fund Reserve throughout 2019/20 and 2020/21, with non-earmarked reserves increased.

WECA maintains strong relationships and networks both regionally, and nationally. Finance Directors and Monitoring Officers across the West of England meet regularly, developing regional solutions to issues and sharing best practice, and the authority is a key member and co-ordinator for the M9 Combined Authority (national) network, and the Monitoring Officer chairs the Urban Transport Group Legal arm.

vi. Managing risks and performance through robust internal control and strong public financial management

WECA adopted a Risk Management Strategy and Toolkit during 2019/20 which has been endorsed by the Audit Committee. The Strategy records key activities and frequency with the toolkit providing detailed guidance on risk management processes.

WECA continues to raise awareness of the importance of good risk management and embed the adopted processes. Directors give on-going assurance to the Chief Executive regarding the management of risks within their area of service delivery. Risk management objectives are monitored through the Audit Committee in line with its terms of reference to evaluate the effectiveness of the risk management strategy and framework.

Performance Management arrangements continue to be strengthened with an adopted Monitoring and Evaluation Framework, (as endorsed by the Audit Committee), key performance metrics incorporated within WECA Business Plan and transparent published criteria in relation to outcomes being delivered through approved investments.

The Combined Authority Local Growth Assurance Framework was revised and approved by WECA Committee in January 2020. This embeds a 'single pot' approach to governing all core LEP and WECA funding streams including the:

- Investment Fund;
- Transforming Cities Fund;
- Local Growth Fund;
- Getting Building Fund;
- Revolving Infrastructure Fund;
- Economic Development Fund; and;
- Adult Education Budget

WECA maintains a robust system of internal control with a, (risk assessed), review and monitoring of internal controls undertaken by Internal Audit and other 'independent' inspectors. The Audit Committee's 'Terms of Reference' includes approving the Internal Audit Plan alongside monitoring its delivery and effectiveness (including the implementation of audit recommendations).

WECA's Financial Regulations require Members and staff to inform the Chief Finance Officer and / or the 'Chief Audit Executive' immediately of any suspected financial irregularity. This enables the Internal Audit function to investigate all reported cases promptly to ensure the integrity of the system of internal control.

Financial updates are regularly reported to WECA Committee and this includes budget monitoring and outturn reports. All decision papers for Committees, or officer delegated decisions, require S73 financial sign-off before the decision can be taken. The Director of Investment and Corporate Services acts as the S73 Chief Financial Officer for the Combined Authority.

As part of good governance WECA has also carried out an initial assessment against the CIPFA Financial Management code 2019. A key goal of the Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management which is especially important considering the last 12 months. Whilst 2020/21 is a shadow year in terms of compliance, preparations have commenced including a full self-assessment by the Finance function to understand if any key actions are necessary. The outcome of this process has been positive with 32 out of 36 areas assessed as high compliance with the remaining 4 at medium compliance. This is an ongoing process and during 2021/22 any necessary actions or updates will be monitored through the Audit Committee.

The Director of Investment and Corporate Services has confirmed that the principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer, (s151/s73 Officer), in Local Government have been compiled with in performing his duties.

vii. Implementing good practices in transparency, reporting and audit, to deliver accountability

Transparency is a key condition and driver for the delivery of WECA services. As a publicly funded organisation, we have a duty to our residents to be transparent about our business operations and outcomes.

Committee meetings and reports are easily accessible through WECA's website and the public are encouraged to engage with the operations of the authority and contribute to public committee meetings. Public Scrutiny Committees are held in advance of all WECA and Joint Committee meetings in order to scrutinise papers in advance of formal consideration. The respective Chairs of Scrutiny and the Local Enterprise Partnership have a standard slot on WECA committee agendas to feed in their comments in advance of the formal debate. Strong governance arrangements have remained fully effective, in a virtual environment, throughout the lockdown period.

WECA constitution requires decisions to be taken by an appropriate committee, or officer delegation, and requires formal 'sign-off' by the S73 and Monitoring Officers in advance. All decisions taken are published in a Decision Notice template.

The annual governance review, which has been carried out to produce this statement, requires a robust methodology to be followed to enable a statement to be published within the statutory Statement of Accounts.

4. Independent Assessment & Opinion – Internal Audit

Internal Audit works independently of the management of the organisation and reports through to the Audit Committee. During 2020/21 whilst work was naturally affected by the pandemic, no significant changes were necessary to planned work and the opinion of the Head of Internal Audit is that he is satisfied that the risk, governance and control environment of the Authority is adequate to ensure delivery of WECA's priorities. Through the work of Internal Audit and delivery of the Annual Audit Plan, some control issues have been identified, however none are deemed significant when assessed against the key criteria. Internal Audit is content that management have accepted responsibility to address the control weaknesses.

The Plan focused on core financial and other systems and areas presenting the greatest risk to the authority and was designed to ensure sufficient depth and breadth of audit coverage to meet the requirements of those charged with governance. In forming an opinion on the governance, risk and control environment Internal Audit also considered other sources of assurance including reports from external regulators, external audit and commissioned reviews.

5a. Conclusion - Certification

As laid out in the statement WECA's governance arrangements have been reviewed and considered in line with the CIPFA/SOLACE code of practice. To the best of our knowledge the governance arrangements as defined have been effectively operating during the year 2020/21. Significant governance issues identified through the Annual Governance Statement Review process are recorded in Section 5.

We propose to take actions to address the issues raised with the objective of enhancing the WECA's governance arrangements. The issues and related actions will be monitored as part of the annual governance review process.

SIGNED BY:

DAN NORRIS	**PATRICIA GREER**
WEST OF ENGLAND METRO MAYOR	**CHIEF EXECUTIVE**

DATE:

5b. Conclusion – Significant Governance Issues

SIGNIFICANT GOVERNANCE ISSUES 2020/21

Having considered all of the evidence, data and input from regulators, the following significant governance issues have been identified within the 2020/21 financial year:

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	Issues identified in 2020/21	Commentary & Mitigating actions for 2020/21
1	**Coronavirus/COVID-19 Impacts:** The impacts of COVID-19 both internationally, nationally and regionally have been unprecedented in both Health and Economic terms. The country has been under emergency legislation which has led to a wider range of measures to manage the wide-ranging impacts. On a regional level this has significantly impacted on the Public Sector and the Constituent Authorities of WECA. Whilst WECA is less exposed economically due to its role as a Combined Authority it still has an important role to work with its constituent Authorities to support its local communities, specifically the business sector. The scale and scope of various grants has been significant and WECA has been central to this support process to assist regional business and to lobby central government on behalf of its constituent Authorities. The WECA Committee formally considered its response to the pandemic at its June and October 2020 meetings setting	Actions to support recovery from COVID-19 are set out in detail within the papers for the WECA Committee. In summary these include – Establishment of a regional economic recovery taskforce and creating of specific actions around 5 key pillars – a) Rebuild business to help new and existing businesses to survive and thrive in order to safeguard existing and create new jobs. b) Get residents back to work in jobs which pay above the living wage and offer security of employment through targeted training and brokerage to available opportunities. c) Strengthening inclusion to prevent further widening of inequalities and build an inclusive economy where everyone has the opportunity to achieve their potential and reducing inequality gaps.

	Issues identified in 2020/21	Commentary & Mitigating actions for 2020/21
	out its current position and the range of actions it was taking to support its communities. The recovery plan should be considered as an initial approach to address the known impacts of the crisis. Whilst the pandemic has had a significant impact on the region, the situation continues to evolve and the full extent of the long term implications are not yet clear. Work to respond to the impacts of the pandemic will continue over the coming months with further WECA funding allocated to recovery activity.	d) Green recovery to use the changes in behaviour brought about by the pandemic to accelerate our transition to net zero carbon. e) Renew places to re-think our approach to 'place' creating greener, healthier, more vibrant places to live and work and so continuing to attract people from across the world.

Governance issue identified November 2021

As with other combined authorities there is always the risk that political agreement may not be reached on key financial decisions. Given that relationships within the West of England are currently publicly reported to be strained and that plans are now in place to seek to address the current situation, it is not possible or necessary to quantify any financial impact of the matter.

Update on Previous Year – 2019/20

	Issues identified in 2019/20	Update on Mitigating actions delivered through 2020/21
1	**Coronavirus:** The current (March 2020) global known, and anticipated, impact of the coronavirus might have a material impact on core governance issues. Flexibility will need to be exercised on areas such as delegated decision making and procurement practices. There could also be an impact on the transition to operating our new Agresso financial system through Agilisys from April 2020.	• Refreshed WECA business continuity arrangements; • Ensured that core groupings of staff are able to process and authorise financial information remotely; • Equipped all WECA staff for effective homeworking; • Regular updates and communications provided to staff;

	Issues identified in 2019/20	Update on Mitigating actions delivered through 2020/21
		• All relevant WECA events were re-scheduled as virtual sessions; • Maintained effective networks with neighbouring Unitary Councils and other Combined Authorities in terms of controls put in place in response to coronavirus; • Incorporated climate change considerations within WECA decision making processes; • Successfully facilitated, and enabled, virtual meetings of full WECA Committee and WECA Scrutiny Committee
2	**Robustness of the Statement of Accounts**: Problems were encountered when finalising the Combined Authority's Statement of Accounts for 2018/19. Although draft accounts were issued on WECA website by the statutory deadline of 31 May 2019, the external auditors, Grant Thornton UK LLP, were not able to complete their audit, or form an opinion on the accounts, in time for the scheduled audit committee on 31 July 2019 due to a number of errors and incomplete information. Lack of functionality of our previous Finance system and problems encountered with external contractors, (commissioned to produce a draft set of accounts), were key contributing factors.	• Conducted 'lessons learnt' sessions to identify improvements needed for the 2019/20 accounts closedown process – subsequently developed a finance improvement plan; • Increased in-house finance capacity in WECA and reduced reliance on external contractors for drafting a full set of accounts; • Commissioned, and developed, a new version of the Agresso finance system through a new ICT provider, Agilisys; • Commissioned expertise to help design the new finance system with a clear focus on improving automation and reducing reliance on manual systems; • Engaged CIPFA as technical experts, to supplement internal finance capacity, on specific elements of

Annual Governance Statement (continued)

	Issues identified in 2019/20	Update on Mitigating actions delivered through 2020/21
		2019/20 technical accounting identified as being high risk.

Independent Auditor's Report

HOLD

Independent Auditor's Report

West of England Combined Authority (WECA)

Independent Auditor's Report

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Independent Auditor's Report

West of England Combined Authority (WECA)

Independent Auditor's Report

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Comprehensive Income and Expenditure Statement

For the year ended 31 March 2021

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing the Combined Authority's services in accordance with generally accepted accounting practices, rather than the amount to be funded from resources. The reconciliation from the accounting cost to the funding position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Gross Expenditure £'000	Gross Income £'000	2019/20 Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	2020/21 Net Expenditure or (Income) £'000
56,799	(16,632)	40,167	Combined Authority Services	6	**81,331**	**(33,685)**	**47,646**
19,565	(1,066)	18,499	Mayoral Fund	7	**18,067**	**(640)**	**17,427**
76,364	(17,698)	58,666	Cost of services		**99,398**	**(34,325)**	**65,073**
61	306	367	Financing and investment income and expenditure	8	**194**	**(4,120)**	**(3,926)**
2,965	(60,349)	(57,384)	Taxation and non-specific grant income and expenditure	9	**3,300**	**(65,849)**	**(62,549)**
79,390	(77,741)	1,649	**(Surplus) or deficit on provision of services**		**102,892**	**(104,294)**	**(1,402)**
		-	Fair value movement on financial assets		**-**	**-**	**-**
		2,990	Remeasurement of the net defined benefit liability	27	**-**	**-**	5,792
		2,990	**Other comprehensive (income) and expenditure**		**-**	**-**	**5,792**
		4,639	**Total comprehensive (income) and expenditure**	**-**		**-**	**4,390**

Movement in Reserves Statement

For the year ended 31 March 2021

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Combined Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and 'unusable reserves' (i.e. those allocated for specific purposes). This statement shows how the movements in the year are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts to be funded from resources.

	Usable reserves			Unusable reserves						
	General fund balance £'000	Ear-marked reserves (note 24) £'000	Total usable reserves £'000	Pooled Investment Fund Adjustment Account £'000	Accumul-ated Absences Account £000	Collection Fund Adjust-ment Account £000	Capital adjust-ment account £'000	Pensions reserve £'000	Total unusable reserves £'000	Total reserves £'000
Balance at 31 March 2019	**989**	**3,993**	**4,982**	**(342)**	**(28)**	**(42)**	**928**	**(2,715)**	**(2,199)**	**2,783**
Movements in reserves										
Total comprehensive income and expenditure	**(1,649)**	**-**	**(1,649)**	**-**	**-**	**-**	**-**	**(2,990)**	**(2,990)**	**(4,639)**
Adjustments between accounting basis under regulations	**3,432**	**-**	**3,432**	**(2,348)**	**-**	**(86)**	**(137)**	**(861)**	**(3,432)**	**-**
Increase before transfer to earmarked reserves	**1,783**	**-**	**1,783**	**(2,348)**	**-**	**(86)**	**(137)**	**(3,851)**	**(6,422)**	**(4,639)**
Transfers (from)/to reserves	**(1,134)**	**1,134**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movement in reserves in the year	**649**	**1,134**	**1,783**	**(2,348)**	**-**	**(86)**	**(137)**	**(3,851)**	**(6,422)**	**(4,639)**
Balance at 31 March 2020	**1,638**	**5,127**	**6,765**	**(2,690)**	**(28)**	**(128)**	**791**	**(6,566)**	**(8,621)**	**(1,856)**
Movements in reserves										
Total comprehensive income and expenditure	**1,402**	**-**	**1,402**	**-**	**-**	**-**	**-**	**(5,792)**	**(5792)**	**(4,390)**
Adjustments between accounting basis under regulations	**9,427**	**-**	**9,427**	**1,693**	**(85)**	**(9,747)**	**132**	**(1,420)**	**(9,427)**	**-**
Increase before transfer to earmarked reserves	**10,829**	**-**	**10,829**	**1,693**	**(85)**	**(9,747)**	**132**	**(7,212)**	**(15,219)**	**(4,390)**
Transfers (from)/to reserves	**(10,514)**	**10,514**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Movement in reserves in the year	**315**	**10,514**	**10,829**	**1,693**	**(85)**	**(9,747)**	**132**	**(7,212)**	**(10,291)**	**(4,390)**
Balance at 31 March 2021	**1,953**	**15,641**	**17,594**	**(997)**	**(113)**	**(9,875)**	**923**	**(13,778)**	**(23,840)**	**(6,246)**

Balance Sheet as at 31 March 2021

Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Combined Authority. The net assets (assets less liabilities) are matched by the reserves held by the Combined Authority. Reserves are reported in two categories — usable and unusable. Usable reserves are those that may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that the Combined Authority is not able to use for the provision of services. This category of reserves includes reserves that hold unrealised gains and losses and reserves that hold timing differences in capital investment (the Capital Adjustment Account).

West of England Combined Authority (WECA)

	Note	2021 £'000	2020 £'000
Intangible assets	14	**424**	507
Property, plant and equipment	15	**499**	285
Long-term investments	16	**45,434**	-
Long term assets		**46,357**	792
Short-term investments	17	**175,548**	128,601
Trade and other debtors	18	**18,177**	4,943
Financial assets at fair value through other comprehensive income	29	**-**	-
Financial assets at fair value through income and	29	**32,966**	21,274
Cash and cash equivalents	19	**25,726**	27,302
Current assets		**252,417**	182,120
Short Term Loans	20	**(20,005)**	(15,005)
Trade and other creditors	21	**(24,451)**	(10,754)
Grant receipts in advance - revenue	10	**(56,867)**	(48,990)
Current liabilities		**(101,323)**	(74,749)
Net current assets		**151,094**	107,371
Grant receipts in advance - capital	10	**(99,269)**	(58,506)
Net pensions liability	27	**(13,778)**	(6,566)
Provisions	23	**(3,067)**	(3,092)
Agency creditor	22	**(87,581)**	(41,853)
Non-current liabilities		**(203,695)**	(110,017)
Net assets/(liabilities)		**(6,244)**	(1,854)
General fund balance	24	**1,956**	1,638
Earmarked reserves	24	**15,641**	5,127
Usable reserves		**17,597**	6,765
Pooled Investment Fund Adjustment Account	25	**(997)**	(2,689)
Accumulated Absences Account		**(113)**	(28)
Collection Fund Adjustment Account	25	**(9,875)**	(128)
Capital adjustment account	25	**923**	792
Pensions reserve	25	**(13,778)**	(6,566)
Unusable reserves	25	**(23,840)**	(8,619)
Total reserves		**(6,244)**	(1,854)

The financial statements were approved and authorised for issue by:

Malcolm Coe
Director of Investment and Corporate Services and Chief Finance Officer
Date: 30th July 2021

Cash Flow Statement

For the year ended 31 March 2021

The Cash Flow Statement shows the changes in cash and cash equivalents of the Combined Authority during the reporting period. The statement shows how the Combined Authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations are funded by way of grant income or from the recipients of services provided by the Combined Authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Combined Authority’s future service delivery.

West of England Combined Authority (WECA)

	Note	2021 £'000	2020 £'000
Net (Deficit)/surplus on the provision of services		**1,402**	(1,649)
Adjustments to net surplus or deficit on the provision of services for non-cash movements			
Depreciation of property, plant and machinery	15	**191**	121
Amortisation of intangible assets	14	**344**	277
Release of impairment on investments		**24**	(18)
Change in pensions reserves	27	**1,420**	861
Increase in trade and other debtors	18	**(13,234)**	1733
Increase in trade and other creditors	21	**13,697**	4516
Decrease in provisions	23	**(25)**	232
Increase in agency creditor	22	**45,728**	(34,852)
Net interest receivable	8	**(4,120)**	306
Interest received		**2,023**	2,018
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and			
Capital grants received	10	**(23,383)**	(24,062)
Net cash flows from operating activities		**24,067**	(50,516)
Investing activities			
Purchase of property, plant and machinery	15	**(405)**	(70)
Purchase of intangible assets	14	**(261)**	(192)
Capital grants received for the purchase of property, plant and equipment	10	**23,383**	24,062
Increase in long and short-term investments	16,1	**(92,000)**	(12,000)
Increase in financial assets at fair value through other comprehensive income	29	**(10,000)**	(14,000)
Net cash flows from investing activities		**(79,283)**	(2,200)
Financing activities			
Increase in capital grants receipts in advance	10	**40,763**	9,654
Increase in revenue grants receipts in advance	10	**7,877**	11,501
Increase in short term loans	20	**5,000**	15,000
Net cash flows from financing activities		**53,640**	36,155
Net increase or decrease in cash and cash equivalents	19	**(1,576)**	(16,561)
Cash and cash equivalents at 1 April	19	**27,302**	43,863
Cash and cash equivalents at 31 March	19	**25,726**	27,302

Notes to the Financial Statements

1. Basis of preparation

a) General principles

The Statement of Accounts summarises the West of England Combined Authority's (WECA) transactions for the financial year 2020/21 and its position as at 31 March 2021. The Authority is required to prepare an Annual Statement of Accounts in accordance with the Accounts and Audit Regulations 2015 which require the financial statements to be completed in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code), supported by International Financial Reporting Standards (IFRS).

b) Basis of preparation

The accounting convention adopted by the Statement is principally historic cost, modified by the revaluation of certain categories on non-current assets and financial instruments in accordance with the Code.

c) Going concern

The Statement of Accounts has been completed on a going concern basis as it considered that the activities will continue in operational existence for the foreseeable future by meeting the Authority's liabilities as they fall due for payment.

d) Changes in accounting policies and disclosures

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

e) Accounting Standards issued but not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code.

The Code requires local authorities to disclose information relating to the impact of an accounting change that will be required by a new standard under the International Financial Reporting Standard (IFRS) that has been issued but not yet adopted by the Code. The accounting standards that are to be introduced in the 2021/22 CIPFA Code of Practice are:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform –Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Most of these standards will not be applicable to the Authority. For those standards that apply, they are not anticipated to have a material impact on the financial statements.

CIPFA/LASAAC has deferred implementation of IFRS16 Leases for local government to 1st April 2022. The standard will require authorities that are lessees to recognise most leases on their balance sheet as right of use assets with corresponding lease liabilities. The estimated impact of this standard is not yet known.

2. Significant accounting policies

Taxation

Corporation, income and capital gains tax

The Combined Authority is exempt from corporation, income and capital gains tax by virtue of regulations section 74 of the Local Government Finance Act 1988.

Value added tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

Irrecoverable VAT on the purchase of assets or services is recognised as an expense in the Comprehensive Income and Expenditure statement.

a) Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are received. There are no material supplies where there is a gap between the date supplies are received and their consumption, which would require them to be carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- The Authority has determined that transactions occurring in respect of the collection of Non- Domestic Rates arise from non-exchange transactions and IPSAS 23 may be applied in accounting for these.

WECA does not engage in any material transactions that would meet the definition of a contract under IFRS 15.

Details regarding the accounting treatment for agency income and expenditure is provided in note 3.

b) Government grants and other contributions

Grants and contributions are accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement, except to the extent that the grant or contribution has a condition that the Combined Authority has not satisfied. Where a grant has been received and conditions remain outstanding at the Balance Sheet date, the grant is recognised in the Balance Sheet as grants receipts in advance. Once the condition has been met, the grant or contribution is transferred from grants receipts in advance and recognised as income in the Comprehensive Income and Expenditure Statement.

With respect to capital grants, if the expenditure to be financed from the grant has been incurred at the Balance Sheet date, the grant is transferred from the general fund to the Capital Adjustment Account via the Movement in Reserves Statement. If the expenditure has not been incurred at the Balance Sheet date, the grant is transferred from the general fund to the capital grants unapplied reserve via the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred from the general fund to the Capital Adjustment Account via the Movement in Reserves Statement.

With respect to revenue grants, if the expenditure has not been incurred at the Balance Sheet date, the grant is transferred from the general fund to earmarked reserves via the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred back via the Movement in Reserves Statement.

c) Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet. The Combined Authority receives grants from Central Government which it administers and passes onto Constituent Authorities. This expenditure is included within REFCUS.

REFCUS is charged to the Cost of Services as the expenditure is incurred and reversed out through the Movement in Reserves Statement and a transfer made to the Capital Adjustment Account.

d) Pensions scheme

Employees of the Combined Authority are members of the Avon Pension Fund.

Pension costs have been charged to the Comprehensive Income and Expenditure Statement and the Combined Authority's share of the fund's assets and liabilities are recognised in the Balance Sheet in accordance with IAS 19. The Comprehensive Income and Expenditure Statement has therefore been charged with the full cost of providing for future pension liabilities arising from in year service.

In the Movement in Reserves Statement an appropriation equal to the difference between this amount and the actual employer's pension contribution is made to the Pensions Reserve, so that any additional costs arising from applying IAS 19 do not impact on the amount to be levied on the Local Authorities, and therefore ensuring no additional impact on local taxation. This appropriation is made under the general application of the Code. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

e) Financial assets

The Combined Authority's financial assets include trade debtors, long-term investments, short-term investments and cash and cash equivalents.

Classification

The Combined Authority classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Combined Authority's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI.

For investments in equity instruments that are not held for trading, this will depend on whether the Combined Authority has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Combined Authority reclassifies debt investments when and only when its business model for managing those assets changes.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade date (that is, the date on which the Combined Authority commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Combined Authority has transferred substantially all the risks and rewards of ownership.

Subsequent measurement

At initial recognition, the Combined Authority measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Trade debtors are recognised and carried at invoice or contract value, less an allowance for any amounts which may not be collectible. Should such an amount become uncollectible, it is written off to the Comprehensive Income and Expenditure Statement in the period in which it is recognised.

Cash and cash equivalents

Cash is represented by deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash Equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

f) Fair Value Measurement

The Combined Authority measures some of its assets at fair value at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

i) In the principal market for the asset or liability, or

ii) In the absence of a principal market, in the most advantageous market for the asset or liability.

The Combined Authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Combined Authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of the Combined Authorities fair value measurement of its assets and liabilities are categorised within the fair value hierarchy as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

g) Financial liabilities

The financial liabilities of the Combined Authority consist of trade creditors.

Classification

Finance liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge. The Authority determines the classification of its financial liabilities at initial recognition.

Recognition and derecognition

All financial liabilities are recognised initially at fair value.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Subsequent measurement

Subsequent to initial recognition trade creditors are recognised and carried at invoice or contract value, which is materially equivalent to measurement at amortised cost using the effective interest method. Should an amount become non-payable, it is written back to the Comprehensive Income and Expenditure Statement in the period in which it is recognised.

Financial assets and liabilities are offset and the net amount presented in the Balance Sheet when, and only when, the Combined Authority has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

h) Property, plant and equipment

Recognition and measurement

All assets are measured at depreciated historical cost (as a proxy for current value), the carrying value is the initial cost less accumulated depreciation. Depreciation is calculated on a straight line basis over the expected useful life.

Cost includes expenditure that is directly attributable to the acquisition of the asset and any other costs directly attributable to bringing the assets to a working condition for their intended use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The Combined Authority has a de-minimis level for capitalisation of £5,000. Each capital project is reviewed on an individual basis and the costs considered for capitalisation. Non-enhancing expenditure is written off to the Comprehensive Income and Expenditure Statement.

Given the short asset life of office equipment and fit out costs, depreciated historical cost is considered to be a reasonable proxy for current value.

Depreciation

Depreciation is calculated on a straight line basis over the estimated useful life of the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives. Depreciation is charged from the date that the asset first comes into use and depreciation is charged in the year up to the date of disposal. The mid-year point is taken as a proxy for the date the asset comes into useful life, and the date it is disposed of.

Fixed assets are recorded at significant component level. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost is depreciated separately. The estimated useful lives for the current and comparative periods are as follows:

- Computer Equipment: 3 years
- Fixtures & Fittings: Over length of office lease term of 5 years and 4 months

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

i) Intangible assets

Intellectual property – The 5G Smart Tourism Project

Acquired intellectual property is capitalised on the basis of the costs incurred to acquire and bring to use the specific assets. These costs are amortised over their estimated useful lives of three years.

Development costs that are directly attributable to the design and testing of a 5G solution as part of the 5G Smart Tourism project are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the project so that the asset will be available for use;
- management intends to complete the project;
- there is an ability to use the asset;
- it can be demonstrated how the project will deliver service potential by demonstrating the usefulness of the asset;
- adequate technical, financial and other resources to complete the development are available; and
- the expenditure attributable to the asset during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the asset include employee costs, an appropriate portion of relevant overheads, materials and capital usage.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Economic Model

The acquired Economic Model is capitalised on the basis of the costs incurred to acquire and bring to use the model.

j) Impairment of Non-financial assets

The carrying value of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets recoverable amount is estimated.

Impairment losses are recognised in the Comprehensive Income and Expenditure Statement. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k) Impairment - Financial assets (including debtors)

Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. The Authority assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and fair value through profit or loss. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

l) Provisions and contingent liabilities

Provisions are recognised when the Combined Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to the provision is recognised in the Comprehensive Income and Expenditure Statement.

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the financial statements.

m) Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period — the Statement of Accounts is adjusted to reflect such events
- Those that are indicative of conditions that arose after the reporting period — the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

3. Significant Judgements and Estimation Uncertainty

The preparation of the financial report in conformity with the Code requires the Authority to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future periods affected.

Judgements

In applying the accounting policies set out in note 2, WECA has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Agency

The Authority took over the Accountable Body role for the West of England Local Enterprise Partnership (LEP) in 2017/18 and the balance of funds was transferred from Bath & North East Somerset Council to WECA during the Financial Year. The reporting approach is that total expenditure is not shown in the Financial Statements, rather the following accounting treatment is adopted:

- WoE LEP expenditure is incurred as an agent, acting as an intermediary on behalf of the four Unitary Authorities. Each Authority's financial statements will reflect its own contribution towards expenditure.
- Where the LEP has received grant funding directly, this is on behalf of all authorities, but the share for any individual authority is not considered material to show.

Similarly, WECA assumed the Accountable Body role for the Invest in Bristol and Bath inward investment function.

This agency accounting approach has been taken because;

- Expenditure decisions on these service areas are taken at a separate Joint Committee of the four Unitary Authorities and involve funding and expenditure decisions for a geographic area, North Somerset, which is outside the Combined Authority area. They do not form part of the decision-making process at WECA Committee that governs the business of the Mayoral and Combined Authority Funds.

- WECA is not exposed to significant risks or rewards associated with its actions in relation to these functions. Separate budgets are maintained and reported to the Joint Committee and where staff time and office overheads are shared between WECA and LEP/other agency duties, the actual costs are apportioned between those budgets on an appropriate basis.
- Any surpluses that are held on behalf of the four Unitary Authorities, whether from their own contributions or grant funding, may only be redistributed by a decision of the Joint Committee, WECA itself has no control over determining the use or remaining benefits of such assets and they do not result in an increase in equity for the Combined Authority.

A separate Disclosure for all the above functions, where the Authority acts as Agent, is shown at Note 22.
This provides a reconciliation between expenditure and income for agency functions and the cash balances held at 31 March 2021, where these are held on behalf of other organisations, and treated as a creditor liability in the Balance Sheet.

Estimates and assumptions

The financial report contains estimated figures that are based on assumptions about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2021 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

Pension benefits

The cost of defined benefit pension plans is determined using independent actuarial valuation involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end, and determined jointly between the pension fund management and the actuaries. The effects of changes in individual assumptions have been measured by the funds actuaries in their IAS 19 valuation report:

- A 0.1% p.a. increase in the discount rate will reduce the pension fund liability by £0.525m.
- An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £0.645m.
- 0.1% p.a. increase in inflation will increase the pension fund liability by £0.537m.
- 0.1% p.a. increase in pay growth will increase the pension fund liability by £0.102m.

Investment Fund Grant Income

In the 2017/18 and 2018/19 accounts, WECA treated the Investment Fund Grant as 'conditional'. This was due to the uncertainty surrounding the forthcoming 5-year government gateway review on how the fund had been deployed and subsequent outcomes delivered.

During 2019/20 a 4-year investment programme has been developed that allocates all Investment and Transforming Cities Funding against regional strategic priorities. The programme to 2022/23 was agreed at the WECA Committee in July 2019. We have been working closely with the government's commissioned contractors, SQW, to better understand the specifics of the review. The contractors have been engaged to undertake the evaluation of investment fund type arrangements across all localities who have these nationally. The One Year Out (baseline) Report has now been agreed and work progresses to complete the Final Report by the end of the year which will trigger the release of the next 5-year tranche of £150m funding from 2021/22.

4. Expenditure and Funding Analysis

(a) Expenditure and Funding Analysis

The Expenditure and Funding analysis shows how annual expenditure is used and funded from resources (business rates, levies, government grants, interest and other income) by WECA in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated between WECA's services.

2020/21	Net expenditure/ (income) as reported per Management Outturn £'000	Remove transfers to and from reserves from Outturn £'000	Adjustment to arrive at the net amount chargeable to the General Fund Balance (b i) £'000	Net expenditure chargeable to the general fund £'000	Adjustments between funding and accounting basis (bii) £'000	2020/21 Net expenditure in the comprehensive income and expenditure statement £'000
Combined Authority	(1,117)	(6)	24,136	**23,013**	24,633	47,646
Mayoral fund	-	(145)	17,572	**17,427**	-	17,427
Cost of services	**(1,117)**	**(151)**	**41,708**	**40,440**	**24,633**	**65,073**
Other income chargeable to the General Fund	-	(9,562)	(41,708)	**(51,270)**	(15,205)	(66,475)
Surplus or deficit on provision of services	**(1,117)**	**(9,713)**	**-**	**(10,830)**	**9,428**	**(1,402)**
Opening General Fund balance				**(1,638)**		
Transfers to earmarked reserves				**10,514**		
Closing General Fund balance				**(1,954)**		

2019/20	Net expenditure/ (income) as reported per Management Outturn £'000	Remove transfers to and from reserves from Outturn £'000	Adjustment to arrive at the net amount chargeable to the General Fund Balance (b i) £'000	Net expenditure chargeable to the general fund £'000	Adjustments between funding and accounting basis (bii) £'000	2019/20 Net expenditure in the comprehensive income and expenditure statement £'000
Combined Authority	(551)	(836)	17,881	**16,494**	23,673	40,167
Mayoral fund	-	(396)	17,572	**17,176**	1,325	18,501
Cost of services	**(551)**	**(1,232)**	**35,453**	**33,670**	**24,998**	**58,668**
Other income chargeable to the General Fund	-	-	(35,453)	**(35,453)**	(21,567)	(57,020)
Surplus or deficit on provision of services	**(551)**	**(1,232)**	**-**	**(1,783)**	**3,431**	**1,648**
Opening General Fund balance				**(989)**		
Transfers to earmarked reserves				**1,134**		
Closing General Fund balance				**(1,638)**		

(b i) Note to the Expenditure and Funding Analysis

Adjustments for 2020/21

	Combined Authority Services			Mayoral Fund	
	Interest Income	Transport Levy Income	Net Business Rates Retention Income	Business Rates Retention Income	Total Adjustments
Combined Authority	2,404	20,961	771	-	**24,136**
Mayoral fund	-	-	-	17,572	**17,572**
Net cost of services	**2,404**	**20,961**	**771**	**17,572**	**41,708**
Other income chargeable to the General Fund	(2,404)	(20,961)	(771)	(17,572)	**(41,708)**
(Surplus) or deficit on provision of services	**-**	**-**	**-**	**-**	**-**

Adjustments for 2019/20

	Combined Authority Services			Mayoral Fund	
	Interest Income	Transport Levy Income	Net Business Rates Retention Income	Business Rates Retention Income	Total Adjustments
Combined Authority	2,060	14,503	1,318	-	**17,881**
Mayoral fund	-	-	-	17,572	**17,572**
Net cost of services	**2,060**	**14,503**	**1,318**	**17,572**	**35,453**
Other income chargeable to the General Fund	(2,060)	(14,503)	(1,318)	(17,572)	**(35,453)**
(Surplus) or deficit on provision of services	**-**	**-**	**-**	**-**	**-**

(b ii) Note to the Expenditure and Funding Analysis

This note provides an analysis of the adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are shown in the Movement in Reserves Statement.

Adjustments for 2020/21

	Adjustments for capital purposes								
	Deprecia-tion/loss on disposal	**REFCUS**	**RCCO**	**Grants/ contribu-tions**	**Collec-tion Fund Adjust-ment Account**	**Pensions adjust-ments**	**Accumu-lated Absences Account**	**Pooled Investment Fund adjustment Account**	**Total adjust-ments**
Combined Authority	535	23,538	(666)	-	-	1226	-	**-**	**24,633**
Mayoral fund	-	17,572	(17,572)	-	-	-	-	**-**	**-**
Net cost of services	**535**	**41,110**	**(18,238)**	**-**	**-**	**1,226**	**-**	**-**	**24,633**
Other income chargeable to the General Fund	-	-	-	(23,538)	9,747	194	85	(1,693)	**(15,205)**
(Surplus) or deficit on provision of services	**535**	**41,110**	**(18,238)**	**(23,538)**	**9,747**	**1,420**	**85**	**(1,693)**	**9,428**

The amounts disclosed in tables (b i) and (b ii) are not included in the management outturn report but have been recognised in the Comprehensive Income and Expenditure Statement.

Adjustments for 2019/20

	Adjustments for capital purposes								
	Deprecia-tion/loss on disposal	**REFCUS**	**RCCO**	**Grants/ contribu-tions**	**Collec-tion Fund Adjust-ment Account**	**Pensions adjust-ments**	**Accumu-lated Absences Account**	**Pooled Investment Fund adjustment Account**	**Total adjust-ments**
Combined Authority	399	22,546	(70)	-	-	800	-	**-**	**23,675**
Mayoral fund	-	18,895	(17,572)	-	-	-	-	**-**	**1,323**
Net cost of services	**399**	**41,441**	**(17,642)**	**-**	**-**	**800**	**-**	**-**	**24,998**
Other income chargeable to the General Fund	-	-	-	(24,061)	86	61	-	2,347	**(21,567)**
(Surplus) or deficit on provision of services	**399**	**41,441**	**(17,642)**	**(24,061)**	**86**	**861**	**-**	**2,347**	**3,431**

Depreciation

Charges for depreciation of non-current assets are chargeable to the Comprehensive Income and Expenditure Statement under proper accounting practices.

REFCUS - Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute in respect of capital development schemes is charged to Cost of Services as the expenditure is incurred and reversed out through the movement in reserves statement and a transfer made to the capital adjustment account.

RCCO - Revenue Contribution to Capital Outlay

Capital expenditure may be funded from revenue budgets. This method of funding is known as Revenue Contribution to Capital Outlay (RCCO).

Grants/contributions

The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Collection Fund Adjustment Account

The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for NNDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

Pension Adjustments

The adjustment to Combined Authority Services represents the removal of the employer contributions made by WECA as allowed by statute and the replacement with current service costs and administration costs calculated under accepted accounting practices (IAS 19).

The adjustment to Financing and investment income and expenditure is the net interest on the defined benefit liability charged to the Comprehensive Income and Expenditure Statement under IAS 19.

Accumulated absences account

The adjustment for the removal of the accrued element of short-term accumulating compensated absences (for example holiday pay) to the salaries actually payable in the financial year in accordance with relevant statutory provisions.

WECA is considered a local authority following its existence by virtue of the Order, it has applied the statutory provisions that allow authorities to adjust the effect of accounting for benefits on the General Fund in the Movement in Reserves Statement, via the use of an Accumulated Absences Account.

Available for Sale Reserve

The adjustment to recognise the change in the fair value of financial assets held at fair value through income and expenditure that is recognised in Financing and investment income and expenditure in the Comprehensive Income and Expenditure Statement under IFRS 9.

5. Expenditure and income analysed by nature

WECA's expenditure and income is analysed as follows:

	2021 £'000	2020 £'000
Expenditure		
Employee benefits expenses including pension	**8,612**	4,250
Other service expenses	**49,370**	30,336
Depreciation, amortisation and impairment	**535**	399
Revenue expenditure funded from capital under statute	**41,110**	41,441
Business Rates Retention Tariff	**3,300**	2,965
Total Expenditure	**102,927**	79,391
Income		
Local Authority business rates growth and contributions	**(21,348)**	(22,852)
Levies	**(20,961)**	(14,503)
Government revenue grants and contributions	**(32,945)**	(16,553)
Capital grants and contributions	**(23,538)**	(24,061)
Interest and investment income	**(4,120)**	306
Other service income	**(1,417)**	(79)
Total Income	**(104,329)**	(77,742)
(Surplus)/Deficit on provision of services	**(1,402)**	1,649

6. Combined Authority's services

2020/21	Gross Expenditure £000	Grants Received £000	Other Incom £000	Net Expenditure £000
Implementation & set up costs	**755**	**-**	**-**	**755**
Combined Authority Services	**3,247**	**-**	**-**	**3,247**
Concessionary fares	**14,102**	**-**	**-**	**14,102**
Community transport	**1,251**	**-**	**-**	**1,251**
RTI costs	**418**	**-**	**-**	**418**
Futurebright	**1,188**	**-**	**-**	**1,188**
Adult Education	**14,960**	**-**	**-**	**14,960**
Supported Bus Services	**9,410**	**-**	**-**	**9,410**
Other projects	**7,464**	**-**	**-**	**7,464**
Mayoral capacity fund	**197**	**-**	**-**	**197**
Housing capacity fund	**1,085**	**-**	**-**	**1,085**
Mass Transit Options	**1,093**	**-**	**-**	**1,093**
Workforce for the Future	**995**	**-**	**-**	**995**
Productivity Challenge	**532**			**532**
Gainshare - Revenue Contribution	**-**	**(162)**	**-**	**(162)**
Grant Income	**-**	**(31,957)**	**-**	**(31,957)**
Other Income	**-**	**-**	**(1,565)**	**(1,565)**
Amounts chargeable to the General	**56,697**	**(32,119)**	**(1,565)**	**23,013**
Adjustments between funding and accounting basis, including - Capital REFCUS (note 4)	**24,633**	**-**	**-**	**24,633**
Per Comprehensive Income and Expenditure Statement	**81,330**	**(32,119)**	**(1,565)**	**47,646**

West of England Combined Authority (WECA)

2019/20	Gross Expenditure £000	Grants Received £000	Other Income £000	Net Expenditure £000
Implementation & set up costs	**144**	**-**	**-**	**144**
Combined Authority Services	**3,553**	**-**	**-**	**3,553**
Concessionary fares	**12,622**	**-**	**-**	**12,622**
Community transport	**1,691**	**-**	**-**	**1,691**
RTI costs	**502**	**-**	**-**	**502**
Futurebright	**1,346**	**-**	**-**	**1,346**
Adult education	**9,219**	**-**	**-**	**9,219**
Apprenticeship grants for employers	**94**	**-**	**-**	**94**
Other projects	**1,604**	**-**	**-**	**1,604**
Mayoral capacity fund	**852**	**-**	**-**	**852**
Housing capacity fund	**599**	**-**	**-**	**599**
Housing infrastructure bid	**611**	**-**	**-**	**611**
Workforce for the Future	**298**	**-**	**-**	**298**
Gainshare - Revenue Contribution	**-**	**(689)**	**-**	**(689)**
Grant Income	**-**	**(15,723)**	**-**	**(15,723)**
Other Income	**-**	**-**	**(220)**	**(220)**
Amounts chargeable to the General Fund	**33,135**	**(16,412)**	**(220)**	**16,503**
Adjustments between funding and accounting basis - Capital REFCUS (note 4)	**23,664**	**-**	**-**	**23,664**
Per Comprehensive Income and Expenditure Statement	**56,799**	**(16,412)**	**(220)**	**40,167**

7. Mayoral Funds

	2021 £'000	2020 £'000
Expenditure		
Mayoral office running costs	**195**	206
Joint Spatial Plan Scheme Development	**-**	-
Transport Feasibility Studies	**-**	464
Election preparation costs	**300**	-
Revenue expenditure funded from capital under statute:		
- Highways Maintenance Grants	**10,254**	10,254
- Transport Grants	**5,183**	5,183
- Highways Incentive Grants	**2,135**	2,135
- Pothole Action Fund	**-**	662
- Transport Scheme Business Case Grants	**-**	661
Gross Expenditure	**18,067**	19,565
Income		
Gainshare - Revenue Contribution	**(640)**	(1,066)
Gross Income	**(640)**	(1,066)
Net Expenditure	**17,427**	18,499

Within the Narrative Statement, WECA fund, a transfer of the Gainshare Revenue income has been shown gross in expenditure and income. For the financial statements this is shown only within the Mayoral Fund as the net value.

8. Financing and investment income and expenditure

	2021 £'000	2020 £'000
Net interest on the net defined benefit liability (note 27)	**194**	61
Fair value movement on financial assets	**(1,716)**	2,366
Interest receivable and similar income	**(2,404)**	(2,060)
Net financing and investment income and expenditure	**(3,926)**	(367)

9. Taxation and non-specific grant income and expenditure

	2021 £'000	2020 £'000
National Non-Domestic Rates	**(10,708)**	(20,272)
Section 31 National Non-Domestic Rates Grant -	**(10,640)**	(1,512)
Business Rates Retention Tariff	**3,300**	2,965
Transport levy from the Constituent Authorities	**(19,018)**	(14,503)
North Somerset Council contribution to transport levy	**(1,943)**	-
Pothole Action Fund Grant - DfT	**(8,519)**	(662)
Gainshare Capital Grant - MHCLG	**(15,021)**	(22,346)
5G Smart Tourism - DCMS	**-**	(1054)
	(62,549)	(57,384)

10. Government and other grant income

Whether paid on account, by instalments or in arrears, government grants and third-party contributions are recognised as due to the Authority when there is reasonable assurance that:

- The Authority will comply with the conditions attached to the payments and
- The grants or contributions will be received.

Amounts recognised as due to the Authority are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors (grants receipts in advance). When conditions have been satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the Revenue Account in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve.
Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The following grants and contributions have been credited to the Comprehensive Income and Expenditure Statement during the year:

	2021 £'000	2020 £'000
Revenue grants credited to cost of services		
Gainshare Revenue Grant - MHCLG	**9,506**	-
Housing Capacity Fund	**-**	1,050
Mayoral Capacity Fund	**1,000**	2,067
Futurebright	**1,106**	1,346
Workforce for Future	**496**	-
Supported Bus Services	**5,434**	-
Adult Education Budget Implementation Grant - SFA	**15,113**	9,215
Other grants	**272**	2,875
Total	**32,927**	16,553
Analysed between the following segments:		
Combined Authority services	**32,287**	15,487
Mayoral	**640**	1,066
	32,927	16,553

	2021 £'000	2020 £'000
Capital grants and contributions credited to taxation and non-specific grant income		
Gainshare Capital Grant - MHCLG	**15,020**	22,346
Pothole Action Fund Grant - DfT	**8,519**	662
5G Smart Tourism - DCMS	**-**	1,054
	23,539	24,062

The Combined Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the transferor if the conditions are not met or the grant is not used. The balances at the year-end are as follows:

	2021 £'000	2020 £'000
Grants received in advance - capital		
Pothole Action Fund Grant - DfT	**2,121**	-
Gainshare Capital - MHCLG	**34,506**	34,506
FTZ - Dft	**12,010**	-
Transforming Cities Fund - DfT	**48,000**	24,000
Active Travel - Dft	**2,632**	-
	99,269	58,506
Grants received in advance - revenue		
Gainshare Revenue Grant - MHCLG	**54,327**	47,380
Future Bright - DWP	**-**	1,471
Adult Education Budget Implementation Grant - SFA	**-**	106
ITA Supported Bus Service	**891**	-
Western Gateway - Dft	**471**	-
Active Travel - Dft	**925**	-
E-Cycle Extension - Dft	**248**	-
T Levels	**5**	-
Third Party Contributions	**-**	33
	56,867	48,990

11. Officers' remuneration

Employees receiving more than £50,000 remuneration per year, which includes exit packages for the year

The remuneration paid to senior employees during 2019/20 and 2020/21 was as follows:

Salary of £150,000 or more for the year ending 31 March 2020 and year ending 31 March 2021

	Salary £	Expenses £	Pension Contributions £	Total Remuneration £
For the period 01/04/2020 - 31/03/2021				
Chief Executive - Patricia Greer	160,352	-	21,648	182,000
For the period 01/04/2019 - 31/03/2020				
Chief Executive – Patricia Greer	159,060	43	22,368	181,471

Salary between £50,000 and £150,000 for the year ending 31 March 2020 and year ending 31 March 2021

	For the period:	Salary £	Expenses £	Pension Contributions £	Total Remuneration £
Director of Infrastructure	01/04/2020 – 31/03/2021	131,007	407	17,686	149,100
Director of Business Skills	01/04/2020 – 31/03/2021	95,228	-	12,851	108,079
Director of Investment and Corporate Services	01/04/2020 – 31/03/2021	125,766	332	16,978	143,076
Director of Legal Services	01/04/2020 – 31/03/2021	83,006	-	11,205	94,211

Salary between £50,000 and £150,000 for the year ending 31 March 2019 and year ending 31 March 2020

	For the period:	Salary £	Expenses £	Pension Contributions £	Total Remuneration £
Director of Infrastructure	01/04/2019 – 31/03/2020	127,500	617	17,956	146,073
Director of Business Skills	01/04/2019 – 31/03/2020	81,187	187	11,431	92,805
Director of Investment and Corporate Services	01/04/2019 – 31/03/2020	122,400	372	17,238	140,100
Director of Legal Services	01/04/2019 – 31/03/2020	81,127	83	11,421	92,631

Employees receiving more than £50,000 remuneration, which includes exit packages for the year (excluding pension contributions) were paid the following amounts:

	2021 £'000	2020 £'000
£50,000 - £54,999	8	4
£55,000 - £59,999	3	4
£60,000 - £64,999	6	3
£65,000 - £69,999	6	1
£70,000 - £74,999	1	1
£75,000 - £79,999	-	2
£80,000 - £84,999	4	3
£85,000 - £89,999	1	1
£90,000 - £94,999	-	-
£95,000 - £99,999	2	1
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
£120,000 - £124,999	-	1
£125,000 - £129,999	1	1
£130,000 - £134,999	1	-
£135,000 - £139,999	-	-
£150,000 - £154,999	-	-
£155,000 - £159,999	-	1
£160,000 - £164,999	1	-

Secondment costs are not included in the above table.

Exit Packages

The numbers of exit packages, with total cost per band, are set out in the table below. Exit packages include any pension contributions paid to the pension fund.

Cost band (including special payments)	Voluntary redundancies 2021 No.	Voluntary redundancies 2020 No.	Total exit packages 2021 No.	Total exit packages 2020 No.	Total cost of packages in each band 2021 £'000	Total cost of packages in each band 2020 £'000.
£0 - £40,000	**-**	1	-	-	-	17
£40,000+	**-**	-	-	1	-	57
	-	-	-	-	-	74

12. Members' allowances

	2021 £'000	2020 £'000
Allowances	**82**	78
Expenses	**-**	1
	82	79

13. External audit costs

The table below discloses the fees paid to the Authority's external auditor, Grant Thornton UK LLP, in respect of its external audit and inspection work:

	2021 £'000	2020 £'000
Fees payable to Grant Thornton UK LLP with regard to external audit services carried out by the appointed auditor for the year	**39**	30
Fees payable in respect of other services provided by Grant Thornton UK LLP during the year	-	-
	39	30

A significant increase in the operations and transactions of the Combined Authority has increased audit expenditure, but, has been offset through a reduction in fees paid to consultancy support.

14. Intangible Assets

	Economic Model £'000	Computer software £'000	Intellectual property £'000	Total £'000
Cost				
At 1 April 2019	115	47	603	765
Additions	-	-	192	192
At 1 April 2020	**115**	**47**	**795**	**957**
Additions	-	261	-	261
At 31 March 2021	**115**	**308**	**795**	**1,218**
Accumulated amortisation				
At 1 April 2019	48	25	100	173
Charge for the year	29	16	232	277
At 1 April 2020	77	41	332	450
Charge for the year	29	50	265	344
At 31 March 2020	**106**	**91**	**597**	**794**
Net book value				
At 31 March 2021	**9**	**217**	**198**	**424**
At 31 March 2020	38	6	463	507
At 31 March 2019	67	22	503	592

15. Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Total £'000
Cost			
At 1 April 2019	350	127	477
Additions	11	59	70
At 1 April 2020	361	186	547
Additions	-	405	405
At 31 March 2021	**361**	**591**	**952**
Accumulated depreciation			
At 1 April 2019	96	45	141
Charge for the year	69	52	121
At 1 April 2020	165	97	262
Charge for the year	71	120	191
At 31 March 2021	**236**	**217**	**453**
Net book value			
At 31 March 2021	**125**	**374**	**499**
At 31 March 2020	196	89	285
At 31 March 2019	254	82	336

16. Long Term Investments

Loans to	local authorities £'000
At 1 April 2019	25,181
Reclassification to short-term investments	(25,181)
Interest accrued	-
At 31 March 2020	**-**
Additions	45,000
Interest Accrued	434
At 31 March 2021	**45,434**

17. Short-term investments

Loans to	local authorities £'000
At 1 April 2019	91,373
Additions	36,627
Interest accrued	601
At 31 March 2020	**128,601**
Investments Matured	(128,601)
Additions	175,000
Interest Accrued	548
At 31 March 2021	**175,548**

18. Trade and other debtors

	2021 £'000	2020 £'000
Trade debtors	**171**	44
Other debtors	**18,006**	4,899
Prepayments and accrued income	**-**	-
	18,177	4,943
Analysed between the following classes of debtors:		
Central government bodies	**1,324**	803
Other local authorities	**14,699**	4,070
Other entities and individuals	**2,154**	70
	18,177	4,943

As at 31 March 2021 there were £Nil (2020: £Nil) trade debtors past due but not impaired.

As at 31 March 2021 other debtors of £756,270 (2020: £6,000) were impaired in relation to NNDR income and the amount of the impairment provision was £756,270 (2020: £6,000). The movement in the year on the provision for impairment was an increase of £750,270 (2020: £93,000).

19. Cash and Cash Equivalents

	2021 **£’000**	2020 £’000
Cash at bank and in hand	**77**	**166**
Short-term deposits	**25,648**	**27,136**
	25,726	**27,302**

Short-term deposits consist of Money Market Funds which are highly liquid (convertible into cash within the same day) and therefore classed as a cash equivalent.

20. Short-term Loans

Loans from	**local authorities** **£’000**
At 31 March 2020	15,005
Repayments	(15,005)
Additions	20,000
Interest Accrued	5
At 31 March 2021	**20,005**

As part of its approach to liquidity management, the Authority may borrow short term loans to cover any unplanned cash flow shortages as they arrive.

21. Trade and other creditors

	2021 **£’000**	2020 £’000
Trade creditors	**14,433**	2,434
Taxes and social security	**370**	223
Accruals and deferred income	**9,648**	8,097
	24,451	10,754
Analysed between the following classes of creditors:		
Central government bodies	**10,344**	1,668
Other local authorities	**12,042**	8,672
Other entities and individuals	**2,065**	414
	24,451	10,754

22. Agent for West of England LEP and associated grants/functions

Bath & North East Somerset Council, Bristol City Council, North Somerset Council and South Gloucestershire Council continue to work together and co-ordinate high level planning to improve the quality of life of their residents and provide for a growing population. This joint work focuses on activities that are better planned at the West of England level, rather than at the level of the individual council areas. Decisions are made at a Joint Committee.

Similarly, WECA assumed the Accountable Body role for the Invest in Bristol and Bath inward investment function.

Reconciliation of Agency

Agency Debtors	**2021 £000**	2020 £'000
IBB	**(58)**	(2,726)
MetroBus/MetroWest Communications	**-**	-
Total Agency Debtors	**(58)**	(2,726)

Agency Creditors	**2021 £000**	2020 £'000
LEP	**6,214**	4,185
Grant Balances	**81,425**	40,394
Total Agency Creditors	**87,639**	44,579
Total Net Agency	**87,581**	41,853

The 2020 closing balances have been restated to include an adjustment of £1.736m between Lep creditors and grant balances for expenditure not accrued in the 2019-20 accounts. The net impact of the adjustment to the closing agency figure last year of £41.853m was zero.

Under the agency accounting approach, none of the above transactions are recognised in the Combined Authority's Comprehensive Income and Expenditure Statement. The net cash balances, totalling £84.332m at 31 March 2021 (2020: £41.853m), held by the Authority where it is acting as agent, are treated as a creditor balance within WECA's Balance Sheet, as they are held on behalf of the West of England LEP Unitary Authorities, would be paid to future grant recipients or returned to government. The significant increase in the 2021 LEP figure of £60.7m is the receipt of a Green Homes funding grant for £53m.

The table below reflects the revenue expenditure incurred by WECA on behalf of the West of England Authorities in 2019/20 and 2020/21:

West of England LEP Revenue Expenditure 2019/20 and 2020/21

	2021 £'000	2020 £'000
Expenditure		
LEP Management & Co-ordination	**817**	801
LEP Infrastructure	**219**	415
LEP Skills & Economy	**396**	160
Growth Hub	**902**	484
LEADER	**23**	24
Inward Investment Table	**767**	-
RIF Administration	**-**	124
SW Energy Hub	**1,038**	356
Local Industrial Strategy	**-**	95
ERDF Administration	**64**	-
Enterprise Advisor	**-**	340
Skills Advisory Panel	**56**	11
LEP Strategy	**332**	105
Infrastructure & Investment Delivery Plan	**63**	38
LEP Innovation & Sector Development	**937**	486
Other expenditure	**485**	209
	6,099	3,648

West of England LEP Revenue Expenditure 2019/20 and 2020/21 continued…

Income		
Local Authority contributions	**440**	439
Investment Interest	**317**	415
Higher/Further Education contributions	**30**	320
Government Grant - Core & Strategic Economic Plan	**540**	530
Economic Development Grant	**893**	-
Government Grant - Growth Hub	**904**	484
Government Grant - Infrastructure & Investment Delivery Plan	**167**	38
Government Grant - Other	**1,794**	667
Government Grant – Innovation & Sector	**813**	432
Movement from Reserves	**201**	323
	6,099	3,648

	2021 £'000	2020 £'000
Expenditure/Income yet to be defrayed/received		
Growth Hub Net Creditor	**(8)**	50
LEADER Net Debtor	**(3)**	(25)
LEP Net Creditor	**5,243**	3,330
LEP Reserves	**982**	830
Cash Balance held	**6,214**	4,185

Invest in Bristol and Bath Revenue Expenditure 2019/20 and 2020/21

	2021 £'000	2020 £'000
Expenditure		
Inward Investment Team	**767**	**1,122**
	767	**1,122**
Income		
Economic Development Fund Grant	**760**	**1,100**
Other Grants	**-**	**-**
Sponsorship Income	**-**	**-**
Contributions	**7**	**22**
	767	**1,122**

	2021 £'000	2020 £'000
Expenditure/Income yet to be defrayed/received		
Net Debtor	**(58)**	(2,726)
Cash Balance Held	**(58)**	(2,726)

In addition, WECA is the accountable body for central government grants and acts as Agent. Balances were transferred from Bath & North East Somerset Council. Sums are distributed to specific projects, as various criteria are satisfied, with the receiving body or Authority treating as grant in their own financial statements. The balance of funds not distributed is therefore treated as a creditor in WECA's financial statements; these sums will either be paid to future grant recipients or returned to government if not used or where they are recovered:

West of England LEP Central Government Grants 2019/20 and 2020/21

2020/21 Grants Awarded	Funds transferred £'000	Grant received /returned £'000	Interest applied £'000	Grant distributed /recovered £'000	Funds c/fwd £'000
MHCLG - Growing Places Revolving Infrastructure Fund	**5,153**	**-**	**-**	**10**	**5,163**
BEIS - Regional Growth Fund 2 Revolving Infrastructure Fund	**(13)**	**-**	**68**	**(462)**	**(407)**
BEIS - Greenhomes	**-**	**53,139**	**-**	**-**	**53,139**
RIF - Returned Funds from completed schemes	**6,285**	**-**	**-**	**1,938**	**8,223**
MHCLG - Local Growth Fund	**20,728**	**41,162**	**-**	**(62,116)**	**(226)**
	32,153	**94,301**	**68**	**(60,630)**	**65,892**

2020/21

Grant funding yet to be distributed / (returned)

	Funds c/fwd (as above) £000	Net Creditor/ (Debtor) £'000	Impairment of Trade Debtors (RGF3) £'000	Total Cash Balance held £'000
MHCLG - Growing Places Revolving Infrastructure Fund	5,163	-	-	**5,163**
BEIS - Regional Growth Fund 2 Revolving Infrastructure Fund	(407)	-	-	**(407)**
BEIS - Greenhomes	53,139	-	-	**53,139**
RIF - Returned Funds from completed schemes	8,223	-	-	**8,223**
MHCLG - Local Growth Fund	(226)	15,533	-	**15,307**
Total	**65,892**	**15,533**	**-**	**81,425**

2019/20 Grants Awarded	Funds transferred £'000	Grant received /returned £'000	Interest applied £'000	Grant distributed /recovered £'000	Funds c/fwd £'000
MHCLG - Growing Places Revolving Infrastructure Fund	**5,251**	**-**	**-**	**(81)**	**5,170**
BEIS - Regional Growth Fund 2 Revolving Infrastructure Fund	**2,715**	**(363)**	**115**	**(2,975)**	**(508)**
RIF - Returned Funds from completed schemes	**6,285**	**-**	**-**	**478**	**6,763**
MHCLG - Local Growth Fund	**38,592**	**13,575**	**-**	**(31,439)**	**20,728**
	52,843	**13,212**	**115**	**(34,017)**	**32,153**

2019/20

Grant funding yet to be distributed / (returned)

	Funds c/fwd (as above) £000	Net Creditor/ (Debtor) £'000	Impairment of Trade Debtors (RGF3) £'000	Total Cash Balance held £'000
MHCLG - Growing Places Revolving Infrastructure Fund	5,170	52	-	**5,222**
BEIS - Regional Growth Fund 2 Revolving Infrastructure Fund	(508)	-	-	**(508)**
RIF - Returned Funds from completed schemes	6,763	-	-	**6,763**
MHCLG - Local Growth Fund	20,728	8,189	-	**28,917**
Total	**32,153**	**8,241**	**-**	**40,394**

23. Provisions, Contingent Liabilities and Guarantees

Provisions are recognised when the Authority has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount. The expense relating to the provision is recognised in the Comprehensive Income and Expenditure Statement.

Provision for Appeals - NNDR Income	**2021 £'000**	2020 £'000
At 1 April	**3,092**	2,860
Charged to income and expenditure	**(25)**	232
At 31 March	**3,067**	3,092

The National Non-Domestic Rates (NNDR) Appeals Provision is for appeals made to the Valuation Office Agency in respect of NNDR valuations. These estimates of reductions to NDR income are made by officers at the three Billing Authorities participating in the 100% BRR Pilot.

The Authority has not entered into any Guarantees.

24. Usable reserves

The purpose of the individual reserves are as follows:

General Fund Balance

The General Fund Balance is a statutory fund which represents funds available to the Combined Authority to meet unexpected short term requirements. Movements in the General Fund are detailed in the Movement in Reserves Statement.

Earmarked Reserves

Current year movements	Integrated Transport Authority reserve £'000	BRR Reserve £'000	Mayoral elections £'000	Mayoral Capacity funding £'000	Housing Capacity funding £'000	S31 Excess & TIG £'000	Central Over-heads £000	Treasury Manage ment £000	Other £'000	Total £'000
Balance at 1 April 2020	123	500	784	703	2,181		-	-	836	5,127
Transfers in year from/(to) general reserves	720	277	104	(196)	(1,085)	9,561	391	400	342	10,514
Net transfer from/(to) general reserves	720	277	104	(196)	(1,085)	9,561	391	400	342	10,514
Balance at 31 March 2021	843	777	888	507	1,096	9,561	391	400	1,178	15,641

Integrated Transport Authority reserve

The Integrated Transport Authority Reserve exists in order to hold variances between the costs of Concessionary Fares, Bus Information services and Community Transport support, pending the adjustment of Levy calculations in subsequent Financial Years, to maintain a revenue neutral position between WECA and contributing Authorities.

BRR Reserve

The Business Rates Reserve exists in order to meet costs arising from the volatility in NNDR income due to changes in the Rateable Value of properties or the granting of new exemptions and reliefs and is utilised to fund deficits impacting in future years.

Mayoral Elections Reserve

A contribution of £396k was made to this earmarked reserve to meet the estimated costs of the mayoral election in 2021, which is offset against a drawdown for election preparation costs.

Mayoral and Housing Capacity Funding

The balance of these two grant funding streams has been transferred into earmarked reserves to facilitate and accelerate delivery of infrastructure and investment projects, and to create a strategic housing delivery unit.

Section 31 Excess Reserve

The NNDR collection fund closed with a high deficit in 2020/21 (see note 25 for the breakdown), majority of which was due to COVID-19. To help funding the Covid related deficits, additional S31 grant has been awarded. An earmarked reserve was created to carry this over to 21/22 when the deficit will need to be repaid.

25. Unusable reserves

The purpose of the individual reserves are as follows

Pooled Investment Fund Adjustment Account

The Pooled Investment Fund Adjustment Account includes all gains and losses recognised on revaluation of financial assets held at fair value through other comprehensive income.

	2021 £'000	2020 £'000
Balance as at 1 April	2,689	342
Amount by which the change in fair value of pooled funds charged to the Comprehensive Income & Expenditure Statement are different from that calculated for the year in accordance with statutory requirements.	(1,692)	2,347
Balance as at 31 March	997	2,689

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with capital grants and contributions receivable and amounts set as finance for the costs of acquisition, construction and subsequent costs (MRP).

	2021 £'000	2020 £'000
Opening balance at 1 April	**791**	928
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and amortisation of non-current assets	**(535)**	(399)
Revenue expenditure funded from capital under statute	**(41,110)**	(41,441)
Transfer of revenue contributions on capital outlay (RCCO)	**18,239**	17,642
Capital financing applied in the year		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	**23,538**	24,061
Closing balance at 31 March	**923**	791

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The balance on the reserve shows the shortfall in the benefits earned by past and current employees and the resources the Combined Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2021 £'000	2020 £'000
Opening balance at 1 April	**(6,566)**	(2,715)
Remeasurements (liabilities and assets)	**(5,792)**	(2,990)
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement	**(2,264)**	(1,452)
Employers pension contributions payable in the year; Current year	**844**	591
Closing balance at 31 March	**(13,778)**	(6,566)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of NNDR income in the Comprehensive Income and Expenditure Statement as it falls due from business rate payers, compared with the statutory arrangements for paying across amounts to the Authority from the Billing Authorities. The annual movement attributable to each of the three Billing Authorities is shown in the table below:

Collection Fund Adjustment Account 2019/20 and 2020/21

	2021 £'000	2020 £'000
Balance at 1 April	**(128)**	(42)
Bath & North East Somerset Council	**(2,166)**	23
Bristol City Council	**(4,228)**	80
South Gloucestershire Council	**(3,353)**	(189)
Balance at 31 March	**(9,875)**	(128)

Majority of the deficit in 2020/21 has been caused by the unprecedented COVID-19 measures. Additional S31 grant has been awarded to fund this – Reference Section 31 Excess Reserve in Note 24.

26. Capital expenditure and capital financing

The Authority spent £41.6m (2019/20: £41.7m) on capital during 2020/21. This expenditure is summarised below:

	31 March 2021 £'000	31 March 2020
Office Fit out and ICT Set-up Costs	**-**	70
CPNN Cycle Links	**1,482**	-
IT Equipment	**666**	-
Great Stoke Roundabout Improvements	**1,845**	-
Wraxall Road	**2,328**	-
Metrowest Phase 2	**588**	-
Yate A432 Park & Ride	**225**	-
5G	**250**	-
FTZ Dft funding to capital programme	**491**	-
QTIC+	**62**	
Dft Active Travel Fund	**201**	-
Transport Scheme Business Case Development	**2,318**	661
Highways Maintenance & Infrastructure	**26,091**	18,233
Real Time Information	**93**	**-**
5G Smart Tourism	**-**	1,054
Bristol Temple Meads Eastern Access	**-**	560
On Bus Contactless	**67**	119
Housing Land Acquisition	**-**	8,297
Cribbs Patchway Metrobus	**5,069**	12,709
Total expenditure	**41,776**	41,703
Analysed between the following:		
Intangible Asset (note 14)	**261**	192
Property, plant and equipment (note 15)	**405**	70
Total capital expenditure	**666**	262
Written off to cost of services - transport capital grants and 5G grants	**41,110**	41,441
	41,776	41,703

The table below details the funding of the capital programme:

	31 March 2021 £'000	31 March 2020 £'000
Funded by:		
Central government grants	**8,518**	672
Gainshare Contributions	**15,020**	23,389
Mayoral Fund RCCO	**17,572**	17,572
WECA RCCO	**666**	70
	41,776	41,703

The Authority receives capital grants from MHCLG and DfT as well as funding via the 100% Business Rates Retention system, which it administers and passes onto Constituent Authorities. As detailed above, a significant proportion of the capital investment made by the Authority therefore relates to REFCUS. REFCUS relates to capital expenditure incurred on assets that are not in the ownership of the Authority.

27. Defined benefit pension scheme

Employees of the Combined Authority participate in the Avon Pension Fund, a defined benefit career average salary statutory scheme whose administering Authority is Bath & North East Somerset Council in accordance with the Local Government Pension Scheme Regulations 2013.

An actuarial valuation of this fund was carried out by Mercer, an independent firm of actuaries. There are significant increases in the assets and liabilities due to the updating of the position at the 2019 actuarial valuation. In particular, a number of extra members had moved across to WECA after the inception date bringing with them accrued benefits and extra assets.

Since February 2020 there has been substantial volatility in financial markets around the world in relation to the COVID-19 pandemic, and while this has reduced in recent months, the potential for further volatility remains. This may have consequences for asset values, and this will be reflected in the 2020/21 accounting figures. Over the same period, the market volatility has also extended to corporate bonds, and after an initial spike we have seen the yields on AA-rated corporate bonds reduce from previous levels. As the discount rate for accounting purposes is based on corporate bond yields, this will also impact on accounting liabilities. Finally, there has been an impact on market-implied RPI over the period, although this will in part be related to the consultation on RPI reform and demand for gilts, rather than any fundamental shift in expectations.

The decisions of the Court of Appeal in the Sargeant/McCloud cases (generally referred to for the LGPS as “McCloud”) have ruled that the transitional protections afforded to older members when the Public Service Pension Schemes were amended constituted unlawful age discrimination. The Government has accepted that remedies relating to the McCloud judgment are needed in relation to all public service pension schemes, and a consultation was published in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary scheme underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and either remain active or left service after 1 April 2014 (including to those members who no longer have a benefit entitlement from the Fund). Unless specifically requested by employers, our figures already include an allowance for McCloud that is substantially in line with the above. There are some minor areas where our approach differs (principally in respect of members who left service after 1 April 2014), but other than in exceptional circumstances we would expect the impact of these minor proposed changes to be nil. Even where there would be minimal impact, an accurate assessment would be extremely difficult (if not impossible) due to lack of availability of data. Therefore, in our view no further adjustments are required in relation to McCloud.

Based on the results of this valuation the actuaries advise that the cost of pensions to be charged to the Comprehensive Income and Expenditure Statement from 1 April 2019 should be 13% of the current employees' pensionable pay. This pension cost has been determined after allowing for the amortisation of the difference between the assets and the accrued liabilities relating to the Combined Authority over the average remaining service lives of the current members of the fund.

Calculation method

The figures as at 31 March 2021 were based on the Triennial ongoing valuation assumptions. The membership data from the 2019 Valuation was used as a basis for the 2021 IAS19 Report. The IAS19 Report had been valued on the criteria in the IAS19 Account Standards using high quality corporate bond yield returns.

Liabilities were based on benefit payment and contribution information provided by the fund's administrator as at 31 March 2021. The figures allow for the impact of a transfer of staff that took place on 1 April 2020 along with further transfers of staff throughout the year. The effect of the transfer of staff is shown in the business combination figure of £5.035m which sets out the accounting assets and liabilities at the date of transfer. This valuation was carried out by Mercer.

Net liability and pension reserve

The net amount recognised on the Balance Sheet at 31 March 2021 is a deficit of £13,778,000 (2020: £6,566,000).

Movement in net pension fund liability during the year

	2021 £'000	2020 £'000
Opening balance at 1 April	**6,566**	2,715
Employer's pension contributions payable in the year	**(844)**	(591)
Current service cost	**2,031**	1,273
Past service cost	**-**	10
Curtailment	**-**	84
Administrative expenses	**39**	24
Net interest cost	**194**	61
Business Combination	**5,035**	-
Remeasurements (liabilities and assets)	**757**	2,990
Closing balance at 31 March	**13,778**	6,566

Employer's pension contributions expected to be paid in 2021/22 are estimated at £790,000.

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the levy is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	2021 £'000	2020 £'000
Comprehensive Income and Expenditure		
Statement Cost of services		
Current service cost	**2,031**	1,273
Past service cost	**-**	10
Administration expenses	**39**	24
Curtailment	**-**	84
Financing and investment income and expenditure		
Net interest cost	**194**	61
Total post-employment benefit charged to the surplus or deficit on provision of services	**2,264**	1,452
Remeasurements (liabilities and assets)	**5,792**	2,990
Total post-employment benefit charged to the Comprehensive Income and	**8,056**	4,442

Movement in reserves statement

	2021 £'000	2020 £'000
Reversal of net charges made to the surplus or deficit on provision of services for post-employment benefits in accordance with the Code	**(2,264)**	(1,452)
Actual amount charged against the General Fund Balance for pensions in the year	**844**	591
	(1,420)	(861)

Assets and liabilities in relation to post-employment benefits

	2021 £'000	2020 £'000
Present value of scheme liabilities	**(31,929)**	**(16,804)**
Present value of scheme assets	**18,151**	**10,238**
Amounts recognised as liabilities	**(13,778)**	**(6,566)**

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	2021 £'000	2020 £'000
Opening balance at 1 April	**16,804**	6,140
Current service cost	**2,031**	1,273
Past service cost	**-**	10
Interest on pension liabilities	**492**	163
Member contributions	**492**	329
Actuarial losses/(gains)	**2,705**	8,415
Curtailment	**-**	84
Benefits paid	**222**	390
Business Combination	**9,183**	-
Closing balance at 31 March	**31,929**	16,804

Reconciliation of fair value of the scheme assets

	2021 £'000	2020 £'000
Opening balance at 1 April	**10,238**	3,425
Employer's pension contributions payable in the	**844**	591
Interest on plan assets	**298**	102
Member contributions	**492**	329
Actuarial gains/(losses)	**1,948**	5,425
Administrative expenses	**(39)**	(24)
Benefits paid	**222**	390
Business Combination	**4,148**	-
Closing balance at 31 March	**18,151**	10,238

The plan assets at the year-end were as follows:

	2021 %	2021 £'000	2020 %	2020 £'000
Asset				
Equities	**37**	**6,806**	44	4,460
Gilts	**14**	**2,564**	6	573
Other bonds	**9**	**1,535**	9	927
Property	**7**	**1,307**	10	1,013
Cash/liquidity	**3**	**533**	2	225
Other	**30**	**5,406**	30	3,040
	100	**18,151**	100	10,238

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. The expected rate of return on plan assets is based on market expectations, at the beginning of the year, for investments returns over the entire life of the related obligation.

	2021	2020
Valuation assumptions		
Discount rate	**2.2%**	2.3%
Rate of salary increase	**4.2%**	3.6%
Rate of pension increase	**2.8%**	2.2%
Inflation assumption	**2.7%**	2.1%
Future life expectancies from age 65		
Retiring today:		
Males	**23.3**	23.2
Females	**25.4**	25.3
Retiring in 20 years:		
Males	**24.8**	24.7
Females	**27.4**	27.3

Estimates within these accounts take account of the actuary's best estimate of pension liabilities at the balance sheet date.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring in the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Sensitivity analysis

	Per financial statements £'000	+ 0.1% p.a. discount rate £'000	+ 0.1% p.a. inflation £'000	+ 0.1% p.a. pay growth £'000	1 year increase in Life expectancy £'000
Liabilities	31,929	31,152	32,726	32,078	32,830
Assets	(18,151)	(18,151)	(18,151)	(18,151)	(18,151)
Deficit/(Surplus)	13,778	13,001	14,575	13,927	14,679
Projected Service Cost for	2,560	2,478	2,645	2,560	2,560
Projected Net Interest Cost for next year	293	289	311	297	289

28. Financial risk management

The Authority has existed as an entity since February 2017. During the year to 31 March 2021, the focus has been on continuing to develop appropriate governance structures and ensure that sufficient resources are in place to support the delivery of the organisation's objectives.

As part of a prudent investment strategy, the Authority seeks to invest any monies received in advance of need with public sector bodies and financial institutions of a high credit-worthiness.

The Authority's principal financial liabilities comprise trade and other creditors. The main purpose of these financial liabilities is to fund WECA's operations. The Authority has trade and other debtors, and cash, long-term investments and short-term deposits that derive directly from its operations. WECA does not enter into any derivative transactions.

WECA is exposed to credit risk, liquidity risk, market risk and price risk. Currency risk is not a significant factor for WECA since all its financial assets or liabilities are denominated in Sterling and it makes few purchases or sales in foreign currencies. It therefore has no material exposure to loss arising from movement in exchange rates.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risk from its operating activities (primarily for trade debtors) and from its financing activities, including deposits with banks, other financial institutions and local authorities.

WECA manages the credit risk from its financing activities by restricting its exposure with financial institutions to those that are on the official lending list as compiled by the Authority's treasury management advisors. The criteria for these lending lists are set out in the Treasury Management Strategy report and credit ratings monitored constantly through the receipt of credit rating bulletins from its treasury management advisors. If a financial institution fails to meet the criteria they are removed from the official lending list. The lending list contains financial as well as duration limits to reduce risk. Minimal balances are held for daily cash-flow management and any surplus funds are invested in Money Market Funds or Fixed Term Investments.

Customer credit risk: customers for goods and services are assessed, taking into account their financial position, past experience and other factors.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	31 March 2021 £'000	31 March 2020 £'000
Long-term Investments	**45,434**	-
Short-term Investments	**175,548**	128,601
Trade and other debtors	**18,177**	4,943
Cash and short-term deposits	**25,726**	27,302
	264,885	160,846

Liquidity risk

Liquidity risk covers the ease of access to finance. The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. WECA maintains a sufficient level of liquidity through the use of Money Market Funds. If short term funding was required, the Authority has ready access to borrowings from the money markets. There is no significant risk that it will be unable to raise finance to meet its commitments. All trade and other creditors are due to be paid in less than one year.

Market risk

The Authority is exposed to the risk of interest rate movements on its investments. For instance, a rise in interest rates would cause the fair value of investments at fixed rates to fall. The effect of interest rates is monitored throughout the year and the impacts are reflected in budget monitoring reports which identify the performance against budget. However, fixed rate investments are not currently carried at fair value, so nominal losses would not impact on the Comprehensive Income and Expenditure Statement.

Price Risk

The Authority invests in one pooled property fund and four multi asset funds, and is therefore exposed to losses arising from movements in these funds. During the initial phase of the pandemic, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings which was reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12 month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of these strategic bond, equity and multi-asset income funds in the Authority's portfolio. Similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund was suspended in March 2020 and lifted in September. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. These investments are made in the knowledge that capital values will move both up and down on months and quarters, but with the confidence that over a three to five-year period, total returns will exceed interest rates. They provide regular revenue income and in 2020-21 provided an average total return of 3.94%. In light of their performance over the medium-long term, investment in these funds have been maintained.

EU Referendum

Following the triggering of Article 50 on 29 March 2017, WECA continues to closely assess and manage the direct effects of the UK leaving the European Union, in relation to market reaction (i.e. returns on investments), financial stability of counter parties and likelihood of future funding opportunities. WECA are assisted in this regard by professional Treasury Management advisors, Arlingclose Limited.

Coronavirus

The Authority will continue to monitor closely the impacts of COVID-19 including the effect on financial markets and the stability of the financial institutions the Authority has dealings with to ensure that security and liquidity of Group investments are not adversely affected. WECA are assisted in this regard by professional Treasury Management advisors, Arlingclose Limited.

29. Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet. Financial assets at fair value consist of Pooled Multi Asset fund investments and Money Market Funds. Short-term debtors consist of investments, accrued interest and trade and other debtors. Cash and cash equivalents include investments in Money Market Funds. Short-term creditors consist of trade creditors and accruals.

The Combined Authorities investment in the CCLA property fund, totalling £9.211m, has been moved to level 1 of the hierarchy for 2020/21, reflecting that trading in the fund has resumed from 30th September, after being suspended on 25th March 2020, and therefore an active market in this instrument at year end. Fund managers had previously suspended redemptions, reflecting market conditions caused by the economic consequences of the coronavirus pandemic.

Reconciliation of fair value measurements for pooled property fund carried at fair value and categorised within level 1 of the fair value hierarchy

	Quoted prices in active markets Level 1 £'000	Observable inputs Level 2 £'000
CCLA Property Fund opening balance 1st April 2020	-	9,277
Transfers into Level 1 from Level 2	9,277	(9,277)
Total gains losses for period	(66)	-
CCLA Property Fund closing balance 31st March 2021	**9,211**	**-**

There has been no other change in valuation technique used during the year for the financial instruments.

West of England Combined Authority (WECA)

	Long term		Current		Total	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Financial assets at fair value through other income or expenditure:						
Pooled funds	**-**	-	**-**	-	**-**	-
Financial assets at fair value through profit and loss:						
Pooled funds - Property FVL1	**-**	-	**9,211**	9,277	**9,211**	9,277
- Multi Asset FVL1	**-**	-	**23,755**	11,997	**23,755**	11,997
Financial assets at amortised cost:						
Investment assets:						
- Principal	**45,000**	-	**175,000**	128,000	**220,000**	128,000
- Accrued interest	**434**	-	**548**	601	**982**	601
Total investments	**45,434**	-	**208,514**	149,875	**253,948**	149,875
Financial assets at fair value through profit and loss:						
- Short-term deposits FVL1	**-**	-	**19,100**	6,840	**19,100**	6,840
Financial assets at amortised cost:						
- Cash at bank and in hand	**-**	-	**77**	166	**77**	166
- Short-term deposits	**-**	-	**6,197**	19,974	**6,197**	19,974
- Accrued interest	**-**	-	**351**	322	**351**	322
Total Cash & cash equivalents	**-**	-	**25,725**	27,302	**25,725**	27,302
- Trade debtors	**-**	-	**171**	44	**171**	44
- Other debtors	**-**	-	**18,538**	5,060	**18,538**	5,060
- Accrued income	**-**	-	**-**	-	**-**	-
- Loss allowance	**-**	-	**(532)**	(161)	**(532)**	(161)
Included in Trade and other debtors *	**-**	-	**18,177**	4,943	**18,177**	4,943
Total financial assets	**-**	-	**252,416**	182,120	**297,850**	182,120

* The trade and other debtors line on the Balance Sheet include £Nil (2020: £NIL) short-term debtors that do not meet the definition of a financial asset as they relate to non-exchange transactions.

	Long term		Current		Total	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000	**2021 £'000**	2020 £'000
Financial liabilities at amortised cost						
- Trade creditors	**-**	**-**	**(14,433)**	(2,434)	**(14,433)**	(2,434)
- Short term borrowing	**-**	**-**	**(20,005)**	(15,005)	**(20,005)**	(15,005)
- Accruals	**-**	**-**	**(9,648)**	(8,096)	**(9,648)**	(8,096)
Total financial liabilities	**-**	**-**	**(44,086)**	(25,535)	**(44,086)**	(25,535)
Included in trade and other creditors **	**-**	-	**(24,081)**	(10,530)	**(24,081)**	(10,530)

** The trade and other creditors line on the Balance Sheet include no (2020: Nil) short-term creditors that do not meet the definition of a financial liability as they relate to non-exchange transactions.

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	For the year ending 31 March 2021		
	Financial assets at amortised cost £'000	**Financial assets at fair value through income and expenditure £000**	**Total £000**
Interest income	**(2,404)**	**-**	**(2,404)**
Gain on assets at fair value through income or expenditure	**-**	**(1,716)**	**(1,716)**
Interest expense	**-**	**-**	**-**
Net impact on surplus/deficit on provision of services	**(2,404)**	**(1,716)**	**(4,120)**
Gain on assets at fair value through other comprehensive income	**-**	**-**	**-**
Net gain for the year	**(2,404)**	**(1,716)**	**(4,120)**

	For the year ending 31 March 2020		
	Financial assets at amortised cost £'000	Financial assets at fair value through income and expenditure £000	Total £000
Interest income	**(2,060)**	**-**	**(2,060)**
Loss on assets at fair value through income or expenditure	**-**	**2,366**	
Interest expense	**-**	**-**	**-**
Net impact on surplus/deficit on provision of services	**(2,060)**	**2,366**	**306**
Gain on assets at fair value through other comprehensive	**-**	**-**	**-**
Net loss for the year	**(2,060)**	**2,347**	**306**

Fair value of financial assets and liabilities

Except for financial assets carried at fair value (Pooled Property fund and short-term deposits within cash and cash equivalents), all other financial assets and financial liabilities are carried on the Balance Sheet at amortised cost in accordance with the requirements of the Code and IFRS 9.

Some of WECA's financial assets are carried on the Balance Sheet at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Pooled Multi Asset funds (managed externally by fund managers) and Money Market Funds are valued by reference to the published unit price, and this is input level 1 in the fair value hierarchy.

The different levels in the fair value hierarchy have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets of liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The table below compares the Balance Sheet value of financial assets and financial liabilities to their fair value.

	2021		2020	
	Balance Sheet £'000	**Fair value £'000**	Balance Sheet £000	Fair value £000
Financial assets at fair value through other income and expenditure				
Pooled funds	**-**	**-**	-	-
Financial assets at fair value through profit and loss				
Pooled funds	**32,966**	**32,966**	21,274	21,274
Financial assets at amortised cost				
Investment assets:				
- Fixed-term investments	**220,000**	**221,754**	128,000	129,078
- Accrued interest	**982**	**982**	601	601
- Trade and other debtors	**18,177**	**18,177**	4,943	4,943
Total investment assets	**272,125**	**273,879**	154,818	155,896
Cash and cash equivalents:				
Financial assets at fair value through profit and loss:				
- Short-term deposits	**19,100**	**19,100**	6,840	6,840
Financial assets at amortised cost:				
- Cash at bank and in hand	**77**	**77**	166	166
- Short-term deposits	**6,198**	**6,200**	19,974	20,000
- Accrued interest	**351**	**351**	322	322
Total cash and cash equivalents	**25,726**	**25,728**	27,302	27,328
Total financial assets	**297,851**	**299,607**	182,120	183,224
Financial liabilities at amortised cost				
Trade and other creditors	**(24,451)**	**(24,451)**	(10,530)	(10,530)
Short term borrowing	**(20,005)**	**(20,005)**	(15,005)	(15,005)
Total financial liabilities	**(44,456)**	**(44,456)**	(25,535)	(25,535)

Short-term debtors and creditors, cash and cash equivalents (including short-term deposits) approximate to their carrying amounts largely due to the short-term nature of these instruments. Accrued interest reflects interest on fixed-term investments which is payable within 12 months of the balance sheet date.

Sensitivity analysis

Income or expenditure and the fair value of financial assets are sensitive to the following changes:

Impact on fair value				**Impact on income or expenditure**
	5%property price fall	**1% interest rate rise**	**5% equity price fall**	**1% interest rate rise**
	£'000	**£'000**	**£'000**	**£'000**
Pooled funds	**(501)**	**361**	**(372)**	**14**
Fixed-term investments	**-**	**1,318**	**-**	**1,088**
Short-term deposits	**-**	**28**	**-**	**225**

30. Operating leases

Under the requirements of IAS 17 Leases, the Authority is required to review all lease arrangements and apply the primary and secondary tests detailed in the standard to determine the extent to which the risks and rewards incidental to ownership lie with the lessor or lessee and therefore whether leases should be classified as operating or finance leases, with the subsequent accounting treatment being in accordance with the standard.

The Authority is a lessee for the occupation of its offices at Temple Quay. This is considered an Operating Leases.

Operating leases are not recognised in the Balance Sheet but charged as an expense in the Comprehensive Income and Expenditure Statement on a straight line basis over the lease term, even if this does not match the pattern of payments. The table below sets out the future minimum lease payments payable under non-cancellable operating leases due to be paid by the Authority:

	31 March 2021 £'000	31 March 2020 £'000
Land and buildings		
Less than one year	**173**	173
Between two and five years	**126**	299
	299	472

There are no lease payments due to be paid to the Authority.

31. Capital commitments

As at 31 March 2021, the Authority has issued a number of Grant Offer Letters funding Transport Scheme Business Cases and Highways and Transport Grants. It has also entered into a contract for the installation of Bus Information hardware.

The major commitments are listed in the table below:

	2021/22 £'000	2022/23 £'000	2023/24 £'000
WECA Capital			
Business Case Development Grants	660	-	-
Metrowest Phase 1	5,860	-	-
Metrowest Phase 2	5,444	843	4,228
Cribbs Patchway Metrobus Extension	7,968	-	-
CPNN Cycle Links	1,290	-	-
On Bus Contactless Payment	90	-	-
Wraxall Road	3,769	30	-
Quantum Technologies	-	8,501	16,487
Centre for Digital Engineering	140	-	-
Love our High Streets	602	-	-
Keynsham Town Centre	425	-	-
South Bristol Industrial Light Workspace	266	1,667	636
Yate Park and Ride	2,824	-	-
Low Carbon Challenge Fund	200	900	-
FTZ DfT Capital Programme	8,340	9,221	5,899
DfT Active Travel Fund	1,099	-	-
Great Stoke Roundabout Improvements	30	-	-
Mayoral Capital			
Highways and Transport Grants	14,063	-	-
Pothole Action Fund grants	7,071	-	-
	60,141	21,162	27,250

32. Related party disclosures

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence WECA or to be controlled or influenced by WECA. Disclosure of these transactions allows readers to assess the extent to which WECA might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. These include:

Central Government

Central Government has significant influence over the general operations of WECA. It is responsible for providing the statutory framework within which WECA operates and provides funding in the form of grants. Grants received from Government Departments are set out in note 10 together with grant receipts not yet recognised due to conditions attached to them at 31 March 2021. A significant body of funding comes from Central Government, which provides the majority of the Authority's funding as part of the Devolution deal, including through redistributed NNDR income.

Members

The Mayor has control over WECA's financial and operating policies. The total of Members allowances paid in 2020-21 is shown in note 12. There were no transactions with related parties during the year.

Officers

During the year, there were income and expenditure transactions with local authorities or central government departments which officers had registered an employment interest with (for either themselves or their partner). These transactions are included in the expenditure and income disclosures below. There were no transactions with companies in which officers had an interest.

Constituent authorities

The Leaders of Bath and North East Somerset and South Gloucestershire Councils, and the Mayor of Bristol City Council, alongside the Mayor of the West of England, have direct control over the Authority's financial and operating polices through decision-making at WECA Committee. Within this capacity, in consultation with their respective councils, they approve the level of Levy raised annually to support the transport functions of the Authority. The Authority operates several other committees, details of which are in the Annual Governance Statement.

To support the operation of the Authority, the constituent councils within the region have provided support to WECA to assist in the discharge of its functions, i.e. The provision of ICT, Payroll, Insurance, Financial Systems and Exchequer services. Recharges have been made by the respective councils to the Authority to recover the cost of providing elements of this support.

Details of material income and expenditure are detailed below.

The Authority received the following levy payments and funding from Related Parties:

Funding received by WECA from Related Parties

2020/21

	ITA Levy	100% BRR Pilot	Grants	Other Contributions
	£'000	£'000	£'000	£'000
Government	-	-	-	-
Constituent Authorities				
Bath & North East Somerset Council	5,048	1,256	-	25
Bristol City Council	10,035	6,207	-	67
South Gloucestershire Council	3,935	3,323	-	51
	19,018	10,786	-	143

Funding received by WECA from Related Parties 2019/20

	ITA Levy	100% BRR Pilot	Grants	Other Contributions
	£'000	£'000	£'000	£'000
Government	-	-	1,066	-
Constituent Authorities				
Bath & North East Somerset Council	4,104	3,281	-	-
Bristol City Council	7,912	10,497	-	223
South Gloucestershire Council	2,566	6,494	-	125
	14,582	20,272	1,066	348

The Authority made the following payments to Related Parties:

Expenditure incurred by WECA to Related Parties 2020/21

	ITA Functions £'000	Second -ments £'000	Support Services £'000	Distribu- tion of Grants £'000	Reimburse- ment of Election Costs £'000	Other Contribu- tions £'000
Government	-	-	-	-	-	-
Constituent Authorities						
Bath & North East Somerset Council	686	89	9	10,316	-	423
Bristol City Council	124	68	5	7,048	-	434
South Gloucestershire Council	1,485	84	12	23,336	-	37
	2,295	241	26	40,700	-	894

Expenditure incurred by WECA to Related Parties 2019/20

	ITA Functions £'000	Second -ments £'000	Support Services £'000	Distribu- tion of Grants £'000	Reimburse- ment of Election Costs £'000	Other Contribu- tions £'000
Government	-	-	-	-	-	-
Constituent Authorities						
Bath & North East Somerset Council	482	23	197	216	-	-
Bristol City Council	1,372	62	15	542	-	-
South Gloucestershire Council	12,960	43	12	26	-	-
	14,814	128	224	784	-	-

Entities controlled or significantly influenced by WECA

WECA owns no subsidiary companies.

33. Events after the Balance Sheet date

The Statement of Accounts were authorised for issue by the West of England's Responsible Financial Officer on 30th July 2021. Events taking place after this date are not reflected in the financial statements or notes to the accounts. Where events taking place before this date provided information about conditions existing as at 31 March 2021, the amounts in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

As with other combined authorities there is always the risk that political agreement may not be reached on key financial decisions. Given that relationships within the West of England are currently publicly reported to be strained and that plans are now in place to seek to address the current situation, it is not possible or necessary to quantify any financial impact of the matter.

34. 100% Business Rates Retention Pilot

In 2017/18, the Authorities in WECA area joined a pilot of 100% Business Rates Retention (BRR), under which WECA receives a 5% share of Business Rates collected by the three Billing Authorities with effect from 1 April 2017.

Under the pilot, the £17.572m of Highways Maintenance Grants that WECA would have otherwise received from the Department for Transport, is instead funded from the 5% share of NNDR income (including s31 grants for compensation under the new burdens principle) with a Tariff payment to Government representing the difference between the value of the Grants and WECA's Business Rates Baseline.

As a Major Preceptor within the BRR system, WECA also has to account for its share of Business Ratepayer arrears, overpayments, appeals and bad debt provisions calculated by the Billing Authorities, who are acting as WECA's agents in collecting such amounts. NNDR income included within the Comprehensive Income and Expenditure Statement includes the Authority's share of the surplus or deficit from other Local Authorities collection funds and any surplus or deficit is subject to the statutory arrangements which allow such variances to impact on the General Fund in subsequent accounting periods.

35. Acquired Operations

On the 1st April 2020 transport operations were transferred to the Combined Authority, following the transfer of staff from three Unitary Authorities – Bristol City Council, South Gloucestershire Council and BANES. The Combined Authority spent the following amounts on this service in 2020-21.

			2020-21
	Gross Expenditure	**Gross Income**	**Net Expenditure**
	£'000	**£'000**	**£'000**
Integrated Transport Team			
- Staff Costs	682	-	682
- Remeasurement of Pension Costs	5,035	-	5,035
Total Provision of Services	**5,717**	**-**	**5,717**

Appendix 1: Glossary of Financial Terms

A

Accounting Period
The period of time covered by the accounts, normally a period of 12 months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

Accounting Policies
Within the range of possible methods of accounting, a policy is a statement of the actual methods chosen locally and used to prepare these accounts.

Accounting Statements
The Authority's Core Financial Statements and Supplementary Financial Statements.

Accruals
Sums included in the final accounts to cover income or expenditure attributable to the accounting period for which no payment has yet been made or received at the Balance Sheet date.

Actuarial Gains and Losses (Pension Schemes)
Changes in the net pensions liability that arise because events have not matched assumptions at the last actuarial valuation or because actuarial assumptions have changed.

Amortisation
A term used to refer to the charging of the value of a transaction or asset (usually related to intangible assets or deferred income charges) to the Income and Expenditure Account over a period of time, reflecting the value to the authority; similar to the depreciation charge for Non-Current Assets.

AQM
Air Quality Management

Asset
An asset is a resource controlled by the Authority as a result of past events, and from which future economic benefits are expected to flow to the Authority. An item having value in monetary terms. See also Current Assets, Non-Current Assets and Financial Asset.

B

Bad (and Doubtful) Debts
Debts/income which may be uneconomic to collect or un-enforceable.

Balances
The reserves of the Authority, which include the accumulated surplus of income over expenditure.

Balance Sheet
A statement of the recorded assets, liabilities and other balances at the end of an accounting period.

Budget
The forecast of net revenue and capital expenditure over an accounting period.

C

Capital Adjustment Account
This provides a balancing mechanism between the different rates at which assets are depreciated under the Code and are financed through capital control system.

Capital Expenditure
Expenditure for the acquisition, provision or improvement of non-current assets, which will be long term value to the Authority, providing services beyond the current accounting period.

Capital Financing
The raising of money to pay for capital expenditure through borrowing, usable capital receipts, capital grants and contributions or use of reserves.

Capital Programme
The capital schemes as the Authority intends to carry out over a specified period.

Capital Grants
Grants received towards capital expenditure either generally or for a particular project.

Capital Receipts
Money received from the sale of property, plant and equipment or repayment of a capital advance.

Carrying Amount
The balance sheet value recorded of an asset or a liability.

Appendix 1: Glossary of Financial Terms (continued)

Cash and Cash Equivalents
This comprises cash in hand, cash overdrawn and short-term investments, which are readily convertible into known amounts of cash.

CIPFA (The Chartered Institute of Public Finance and Accountancy)
CIPFA is the leading professional accountancy body for public services.

Collection Fund
A statutory fund maintained by a billing authority, which is used to record local taxes and NonDomestic Rates collected by the authority, along with payments to precepting authorities, the national pool of Non-Domestic Rates and the billing authority's General Fund.

Consistency
The concept that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Consolidated
Added together with adjustments to avoid double counting of income, expenditure or to avoid exaggeration.

Contingency
Money set aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income.

Contingent Asset
A possible asset that arises from past events from whose existence will be confirmed only by the occurrence of one or more uncertain future events now wholly within the Authority's control.

Contingent Liability
A contingent liability is either:
• A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control;
or
• A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount cannot be measured with sufficient liability.

Council Tax
The main source of local taxation for local authorities. Council Tax is levied on households within its area by the billing authority and the proceeds are paid into the Collection Fund for distribution to precepting authorities and the Authority's General

Fund.

Creditors
Amounts owed by the Authority for works completed, goods received, or services rendered before the end of the accounting period but for which payments have not been made.

Current Assets
Assets which can be expected to be consumed or realised during the next accounting period.

Current Liabilities
Amounts which will become due or could be called upon during the next accounting period.

Current Service Cost (Pensions)
The increase in the present value of a defined benefit scheme's liabilities as a result of employee service earned in the current period.

D

Debtors
Amounts due to the Authority for works completed, goods received, or services rendered before the end of the accounting period but for which payments have not been received.

De-minimis
Indicates that beneath a certain low level a quantity is regarded as trivial, and treated commensurately.

Depreciation
The estimated benefit of an asset consumed during the accounting period, owing to age, wear and tear, deterioration or obsolescence.

E

Equity
The Authority's value of total assets, less total liabilities.

Equity Instrument (Financial instruments)
A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Events After the Reporting Period

Those events, both favourable and unfavourable, of such materiality that either their disclosure, or amendment to the accounts, is required for the fair presentation of the Statement of Accounts, which occur between the Balance Sheet date and the date on which the Accounts are signed by the responsible financial officer.

Expected credit losses (Financial instruments)
The weighted average of credit losses with the respective risks of a default occurring as the weights. 12-month expected credit losses is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instruments.

Experience gain (Pension schemes)
The actuarial gains and losses element arising where actual events have not coincided with the actuarial assumptions made at the last assessment.

External Audit
The independent examination of the activities and accounts of local authorities in order to give an opinion as to whether the Statement of Accounts have been prepared in accordance with legislative requirements and proper practices, and to ensure the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Expected Return on Pension Assets
For a funded defined benefit pension scheme, the average return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Expenditure
Amounts paid by the Authority for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment.

F

Fair Value (FV)
The price an asset could be exchanged for in an orderly transaction between market participants at the measurement date.

Finance Leases
A lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. Accounting guidance requires that it should be presumed that such transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments including any initial payment, amounts to substantially

all (normally 90% or more) of the fair value of the leased asset. The present value is calculated using the interest rate implicit in the lease.

Financial Asset
A right to future economic benefits controlled by the Authority that is represented by:

- cash
- an equity instrument of another entity
- a contractual right to receive cash (or another financial asset) from another entity
- a contractual right to exchange financial assets/liabilities with another entity under conditions that are potentially favourable to the Authority.

Financial assumptions (Pensions)
Finance related assumptions used by the actuary in assessing pension scheme liabilities (e.g. rates of inflation)

Financial Instruments
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Liability
An obligation to transfer economic benefits controlled by the Authority that is represented by:

- a contractual obligation to deliver cash (or another financial asset) to another entity
- a contractual obligation to exchange financial assets/liabilities with another entity under conditions that are potentially unfavourable to the Authority.

G

General Fund (GF)
The main revenue fund of a billing Authority used to meet day-to-day spending.

Government Grants
Grants made by the Government towards either revenue or capital expenditure to support the cost of provision of the Authority’s services. Some grants may be restricted to be used towards the cost of particular capital schemes or revenue expenditure of the Authority.

Gross Expenditure
The total cost of providing the Authority's services before taking into account income from government grants and fees and charges for services.

Growth
Any increase in spending from one year to another which enables the Authority to pay for more services rather than to meet higher costs.

GVA
Gross Value Added

H

Historical Cost
The actual cost of assets, goods or services, at the time of their acquisition.

I

Impairment
A permanent reduction in the value of an asset, below its carrying amount on the Balance Sheet.

Income
Amounts that the Authority receives or expects to receive from any source, including fees and charges, sales and grants.

Intangible Assets
Non-financial assets which do not have physical substance but are identified and controlled by the Authority through legal rights.

Interest Receivable
The money earned from the investment of surplus cash.

Inventories
Items of raw materials and stores the Authority has procured to use on a continuing basis and which it has not yet used.

International Financial Reporting Standards (IFRS)
These are statements prepared by the International Accounting Standards Board to ensure consistency in Accountancy matters. Many of these standards now apply to local authorities and any departure from these must be disclosed in the published accounts.

Appendix 1: Glossary of Financial Terms (continued)

J

JLTP4
Joint Local Transport Plan 4

L

Levy
An amount of money, such as a tax, that you have to pay to a government or organisation.

Liability
A liability is where the Authority owes payment to an individual or another organisation. See also Contingent Liability, Current Liabilities and Financial Liability.

Long-Term Assets
Non-current and other assets which can be expected to be of use or benefit the Authority in providing its service for more than one accounting period.

Long-Term Liabilities
Amounts which will become due or could be called upon beyond the next accounting period.

M

Materiality
The concept that the Statement of Accounts should include all amounts which, if omitted, or misstated, could be expected to influence the decisions of the user of the financial statements.

N

National Non-Domestic Rates (NNDR)
A levy on businesses, based on a national rate in the pound set by the Government, multiplied by the rateable value of the premises they occupy.

Net Debt
The Council's total borrowings less cash investments.

Net Expenditure
Gross expenditure less specific service income.

Net Interest on the Net Defined Benefit Liability (Pensions)
The net interest expense - the change during the period in the net benefit liability

that arises from the passage of time.

Net Realisable Value
The open market value of the asset in its existence use (or open market value in the case of nonoperational assets), less the expenses to be incurred in realizing the asset.

Non-Current Assets
Property, plant and equipment and other assets that bring longer term benefit or service potential to the Authority.

O

Operating Leases
A lease other than a Finance Lease (see above). The future obligations relating to operating leases are disclosed to provide the reader with an estimate of the outstanding un-discharged obligations in relation to such leases.

Other Comprehensive Income
Consists of items that have an effect on the balance sheet amounts, but the effect is not reported on the company's income statement. Instead, these changes are reported on the statement of comprehensive income along with the amount of net income from the income statement.

Out-turn
Actual income and expenditure in a financial year (accounting period).

P

Pension Fund
An employees' pension fund maintained by an authority, or group of authorities, in order to make pension payments on the retirement of its participants. It is financed from contributions from the employing authority, the employee and from investment income.

Preceptor
Precepting authorities levy a charge on local tax payers through council tax or business rates in the same way as the local authority for provision of services across the region.

Prior Period Adjustments
Adjustments made to prior years comparator figures arising from changes in accounting policies or from the correction of material errors.

Appendix 1: Glossary of Financial Terms (continued)

Provisions
Amounts set aside for the purposes of providing for any liability or loss which is likely or certain to be incurred but is uncertain as to the amount or the date on which it will arise.

R

Rateable Value
The annual assumed rental value of a property that is used for NNDR purposes.
Revenue Expenditure Funded by Capital Under Statue (REFCUS)
Expenditure of a capital nature but which gives rise to no tangible asset held by the Authority.

Recognition/Derecognition
Regular purchases and sales of financial assets are recognised on trade date (that is, the date on which the Combined Authority commits to purchase or sell the asset). Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Combined Authority has transferred substantially all the risks and rewards of ownership.

Related Parties
Two or more parties are related parties when at any time during the financial period:

- One party has direct or indirect control of the other party; or
- The parties are subject to common control from the same source; or
- One party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- The parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Examples of related parties to an authority include central government, local authorities and other bodies precepting or levying demands on the Council Tax, its members, its Chief Officers and its pension fund.
For individuals identified as related parties, it is also presumed that members of the close family, or the same household, or any partnerships, companies in which the individual or a member of their close family, or the same household has a controlling interest, are deemed to be related parties.

Related Party Transactions
The transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made. The materiality of related party transactions is judged not only in terms of their significance to the Authority, but also in relation to its related party.

Reserves
Amounts set aside in the accounts for the purpose of meeting general, future expenditure. Reserves may also be used to smooth the cost of certain activities over a number of years. A distinction is drawn between reserves and provisions (see above), which are set up to meet known liabilities.

Receipts in Advance
Amounts actually received in an accounting period prior to the period in which they are due.

Residual Value
The net realizable value of property, plant or equipment at the end of its useful life.

Retirement Benefits
All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

Return on Plan Assets (Pensions)
Changes during the period in the net benefit liability that arises from the passage of time, excluding amounts included in Net Interest on the Net Defined Benefit Liability.

Revenue Expenditure
Spending on day-to-day items including employees' pay, premises and transport costs and supplies and services.

S

Settlements (Pension schemes)
A gain or loss on settlement arises when an authority enters into a transaction that eliminates all further obligation for the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer.

T

Total Cost
The actual cost of services reflecting all of the direct, indirect and overhead costs that have been incurred in providing the service, even where the expenditure is not under the control of the service's chief officer.

T Levels

T Level are courses that focus on vocational skills and can help students into skilled employment, higher study or apprenticeships.

Abbreviations used in the Statement of Accounts

B&NES	Bath & North East Somerset Council
BEIS	Department for Business, Energy and Industrial Strategy
BRR	Business Rates Retention
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CIPFA	Chartered Institute of Public Finance and Accountancy
CPNN	Cribbs Patchway New Neighbourhood (Cycle Scheme)
DCMS	Department for Digital, Culture, Music and Sport
DFE	Department for Education
DFT	Department for Transport
DWP	Department for Work and Pensions
ERDF	European Regional Development Fund
EU	European Union
FOI	Freedom of Information
FVOCI	Fair Value through Other Comprehensive Income
FVPL	Fair value through Profit or Loss
HR	Human Resources
IBB	Invest in Bristol and Bath
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ICT	Information Communication Technology

Appendix 1: Glossary of Financial Terms (continued)

IFRS	International Financial Reporting Standard
ITA	Integrated Transport Authority
LASAAC	The Local Authority (Scotland) Accounts Advisory Committee
LEP	Local Enterprise Partnership
LGF	Local Growth Fund
LGPS	Local Government Pension Scheme
LIS	Local Industrial Strategy
LSTF	Local Sustainable Transport Fund
MHCLG	Ministry of Housing, Communities and Local Government
NNDR	National Non-domestic Rates
OCI	Other Comprehensive Income
RCCO	Revenue Contribution to Capital Outlay
REFCUS	Revenue Expenditure from Capital Under Statute
RIF	Revolving Infrastructure Fund
SFA	Skills Funding Agency
WECA	West of England Combined Authority
WIDJET	Women in Digital Jobs, Education & Training

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Grant Thornton UK LLP
2 Glass Wharf
Bristol

9 December 2021

Dear Sirs

The West of England Combined Authority
Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of The West of England Combined Authority for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the Authority's financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Authority and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include the valuation of the Authority's Pension Fund liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

   a. there are no unrecorded liabilities, actual or contingent

   b. none of the assets of the Authority has been assigned, pledged or mortgaged

   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Authority's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Authority and its financial position at the year-end and are based on an extrapolation of errors. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Authority's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

   a. the nature of the Authority means that, notwithstanding any intention to liquidate the Authority or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

   b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

   c. the Authority's system of internal control has not identified any events or conditions relevant to going concern.

   We believe that no further disclosures relating to the Authority's ability to continue as a going concern need to be made in the financial statements

Information Provided

xv. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the Authority's financial statements such as records, documentation and other matters;

  b. additional information that you have requested from us for the purpose of your audit; and

  c. access to persons within the Authority via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. We have disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxv. The disclosures within the Narrative Report fairly reflect our understanding of the Authority's financial and operating performance over the period covered by the Authority's financial statements.

Approval

The approval of this letter of representation was minuted by the Authority's Audit Committee at its meeting on 9 December 2021.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of the Authority

Extract from Audit Findings Report:

Impact of unadjusted misstatements

The table below sets out what the potential impact the unadjusted errors and uncertainties identified during our audit could have when extrapolated across the entire population. This is not material and we would not expect the Authority to adjust for an extrapolated amount.

Detail
We identified a number of trivial errors within our creditors testing which, if extrapolated across the whole population would equate to £101k. We would not expect the Authority to adjust for this extrapolation.