



Audit Committee Briefing: Value for Money arrangements

The West of England Combined Authority

2020-21

18 April 2022



Contents



We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Section	Page
Commentary on the arrangements to secure economy, efficiency and effectiveness in the use of resources	3
Executive Summary	4
Financial sustainability	5
Opinion on the financial statements	11
Appendices	
A – The responsibilities of the Combined Authority	
B – An explanatory note on recommendations	
C – Formal auditor's powers	

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. 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 Combined 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.

Commentary on the arrangements to secure economy, efficiency and effectiveness in the use of resources

All Local Authorities are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Combined Authority's responsibilities are set out in Appendix A.

Local Authorities report on their arrangements, and the effectiveness of these arrangements, as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Combined Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



Financial sustainability

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



Improving economy, efficiency and effectiveness

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



Executive summary



Value for money arrangements

We did not identify any risks of significant weaknesses during our initial planning work for 2020/21 and none were therefore included in our audit plan for that financial year.

Since issuing the audit plan for 2020/21, matters have been reported in the public domain regarding strained relationships within the West of England.

As reported in our final Audit Findings Report for 2020/21, which we presented to the Combined Authority's Audit Committee on 9 December 2021, we have designated the governance arrangements impacting these relationships as a risk of significant VFM weakness.

We have determined a plan of appropriate work relating to this particular risk, to determine whether or not a significant weakness exists, and shared an outline of this at an Audit Briefing meeting on 3 February 2022.

We subsequently held discussions with the Chief Executive and interim Monitoring Officer and agreed an updated Terms of Reference.

Work is currently underway in this area.

This briefing provides an overview of our findings to date on the 'financial sustainability' objective, as prescribed by the NAO's Code of Audit Practice.

We will include our detailed findings in this area in our Auditor's Annual Report alongside our governance findings and our conclusions regarding the Combined Authority's arrangements regarding the arrangements for improving economy, efficiency and effectiveness.

It is important to note that our work is still in progress and that this briefing paper contains our initial thoughts.

Given the overlap between the three areas of review (as summarised on the previous page), it is not yet appropriate to comment on the Combined Authority's arrangements for improving economy, efficiency and effectiveness as a significant weakness in the Combined Authority's governance arrangements, for example, could also impact on other areas – for example partnership working.

These preliminary findings may also be subject to change as our work is concluded and additional evidence is reviewed.



Opinion on the financial statements

We presented the final version of our Audit Findings Report for 2020/21 to the Combined Authority's Audit Committee on 9 December 2021.

We subsequently issued an unqualified audit opinion on the Combined Authority's financial statements for the year ended 31 March 2021 on 10 December 2021.

At the time we issued our audit opinion we were unable to issue our certificate for the year because we had not 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.

At the time of writing this Audit Committee briefing paper, the guidance regarding the Whole of Government Accounts has not been issued by the National Audit Office (NAO) and so this work remains outstanding for all Local Government organisations.

Financial sustainability



We considered how the Combined Authority:

- identifies all the significant financial pressures it is facing and builds these into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

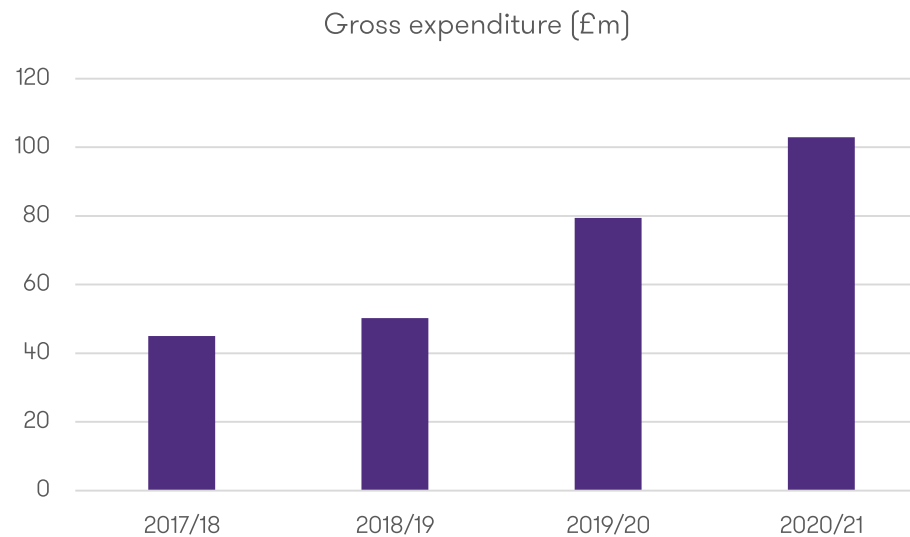
Introduction

The Devolution Deal for the West of England was agreed with the Government in 2016.

This resulted in the establishment of the West of England Combined Authority (WECA) in February 2017 and the election of the first Mayor in May 2017.

As such, the Combined Authority is a relatively new organisation and its arrangements continue to evolve as the Combined Authority grows and becomes more established.

The total gross expenditure on the provision of services in each of the four years since its formation is illustrated below. The expenditure in 2016/17 was minimal as the Combined Authority was not established until February 2017.

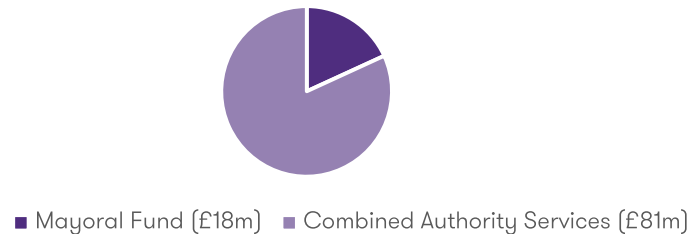


Financial Planning

The budget setting and financial reporting arrangements differentiate between the Mayoral Fund and the Combined Authority itself and this split arises from the legislation which originally set up the Combined Authority in 2017 – the West of England Combined Authority (WECA) Order 2017 (the 2017 Order)

In 2020/21 the reported gross expenditure for the mayoral fund was £18m and the gross expenditure for the Combined Authority services was approximately £81m.

Gross Expenditure in 2020/21



The mayoral fund relates to those functions that fall under the specific responsibility of the Mayor in accordance with the 2017 Order.

For 2020/21, these functions primarily related to the payment of Highways and Transport Capital grants as well as the costs of the Mayor and related office expenses and election costs.

The funding for the Mayoral budget comes from the Retained Local Business Rates Pilot, (which meets the majority of Transport Costs), and a contribution from the West of England Combined Authority itself.

The Combined Authority covers the remainder of the service expenditure and the funding for the Combined Authority in 2020/21 came from five main sources::

- Investment funding provided by the Government as part of the Devolution Deal;
- A levy on the constituent councils for the costs of transport functions that transferred to WECA;
- A 5% share of business rates under the 100% Business Rates Retention Pilot;
- Government funding for various functions, capacity and projects including:
 - Adult Education Budget;
 - Housing Capacity Fund;
 - Mayoral Capacity Fund; and
 - Future Bright (providing career coaching).
- Interest on balances.

Financial Planning (cont'd)

The 2020/21 budgets for the mayoral fund and the combined authority were both approved by the Combined Authority Committee on 31 January 2020, comfortably ahead of the start of the financial year. This was also just before of the outbreak of COVID-19 and, at the time the budget was set, the impact across the region – and the Country as a whole – could not have been foreseen.

Each budget was accompanied by a comprehensive paper clearly setting out the proposed income and expenditure for the year. Given the fact that the Combined Authority's spending plans are aligned to the income it receives, the budget setting is not as complex as with other local government bodies in that there are no trade-offs between different service areas and no Council Tax implications that need to be taken into consideration.

Budgets are kept under review and are flexed as necessary. For example, in June 2020 the joint meeting of the West of England Combined Authority Committee and the West of England Joint Committee approved the allocation of £5m to support COVID-19 economic recovery across the region.

Medium term financial planning

As part of the budget setting process for 2020/21, the WECA Committee also approved a medium term financial forecast (MTFF).

This forecast set out the expected income and expenditure for a three year period – 2020/21 itself plus a further two financial years. The length of financial planning is consistent with other Local Government bodies.

However, medium term financial planning at The West of England Combined Authority does have differences compared to most Public Sector organisations in that:

- The Combined Authority produces a medium term financial forecast rather than a medium term financial 'strategy', which would look to achieve certain financial or operational ambitions.
- Although there was a 30 year devolution deal agreed with the government, ongoing funding is subject to interim gateway reviews every five years. Please see page 10 for additional commentary in this area.
- Notwithstanding the interim reviews noted above, the bulk of the funding is assured meaning the Combined Authority can plan over the medium term with reasonable confidence.
- As the Combined Authority is not delivering statutory services (such as adult social care) it has the option to flex its expected expenditure to match the resources that are available.

Savings plans

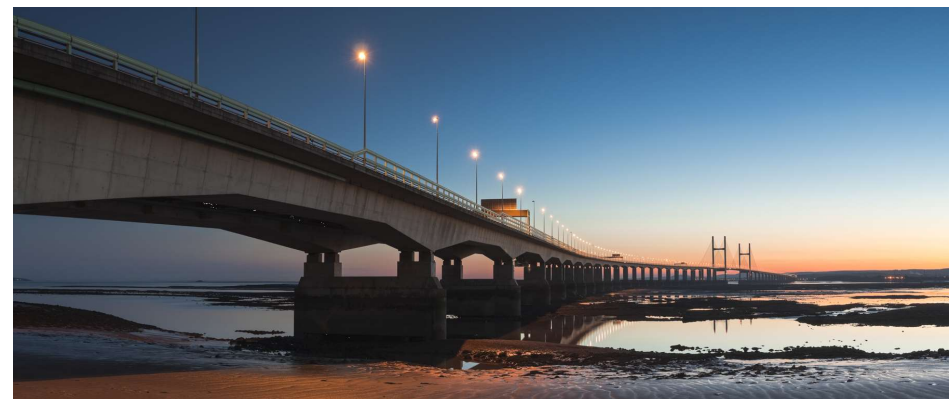
The primary purpose of the Combined Authority is to deliver long term sustainable growth projects and programmes across the region.

The West of England Combined Authority therefore does not have the same front-line service pressures that its neighbouring Unitary Councils experience, especially around the key national pressure points such as adult social care and children's services.

The core revenue funded activities relate to:

- integrated transport operations – which is fully funded via a levy from the constituent authorities; and
- the Adult Education Budget – which is managed through a robust grant process to various educational providers.

The Combined Authority's core funding is the Investment Fund which is a £30m per annum agreement with the Government over a 30 year period. WECA's responsibility is to ensure that its medium to long term investment programmes are affordable within the resources available at its disposal. As such, the Combined Authority has not needed to develop any savings schemes as part of its budget setting process.



Budgetary control

Day-to-day budgetary control is considered to be strong.

At an operational level, there is monthly monitoring of all areas of the Combined Authority that:

- Compares the month's financial performance with the budget for that period
- Compares the year-to-date financial performance with the budget for that period
- Forecasts the financial performance for the full year and compares this to the annual budget.

Each of these internal reports clearly signposts the variances for management to act upon.

In addition to the above operational reports, there is regular reporting to the joint meetings of the West of England Combined Authority Committee and the West of England Joint Committee. This enables action at a strategic level – for example the allocation of £5m to support COVID-19 economic recovery – where appropriate.

2020/21 Outturn

The Combined Authority's accounts for the year ending 31 March 2021 report the outturn for the year compared to the budget.

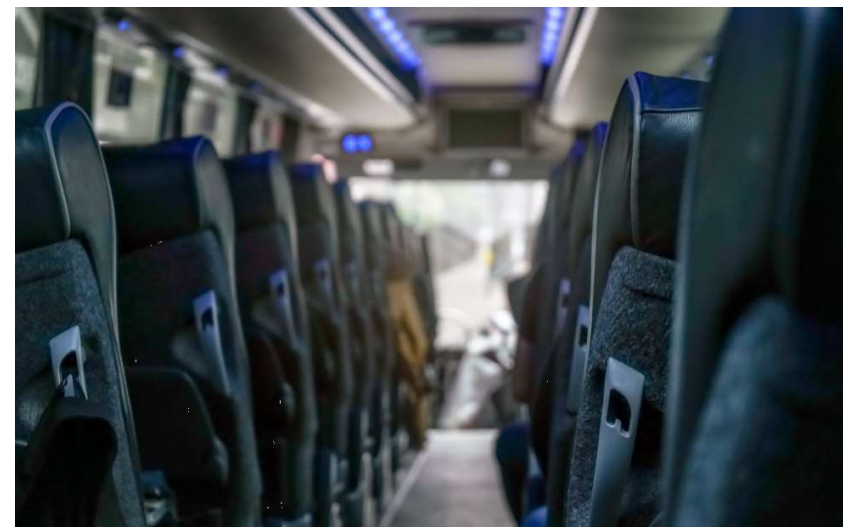
The mayoral fund income and expenditure were both in line with the budget and there was only a small variation of £41,000 relating to office and election costs.

This outturn reflects the predictable nature of both the income and expenditure of the mayoral fund.

As far as the Combined Authority itself is concerned, the outturn itself was also in line with the budget and the only significant variance (approximately £5m) related to supported bus services.

As noted on page 7, the original budget for 2020/21 was set in January 2020 which just before of the outbreak of COVID-19. The additional spending on supported bus services was as a result of the pandemic and not as a result of weaknesses in the budget setting or budgetary control processes.

This additional spending was financed by a range of Government grants and so there was no direct impact on this as far as the Combined Authority is concerned.



Reserves

When the Combined Authority was established in 2017 there were no reserves or balances transferred to it from the constituent councils.

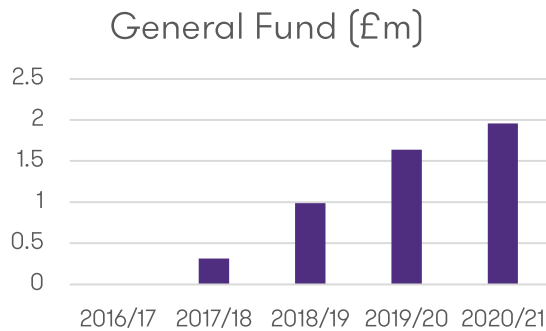
However, unlike a typical Council, the Combined Authority delivers very few front-line services and so does not face the level of risks associated with service cost and demand pressures that are experienced by other local government bodies.

Equally, the income of the Combined Authority is relatively certain within each year and there are no pressures around, for example, the level of income received from fees and charges or Council Tax collection rates.

The Combined Authority therefore does not need to maintain significant levels of reserves to help mitigate such financial risks.

There are inevitably some financial pressures for the Combined Authority and WECA has therefore started to build a General Fund reserve to manage future financial risk. These risks are primarily because the core operating costs are funded through temporary sources such as Mayoral Capacity Fund and Business Rates Retention pilot share, meaning there is no long-term certainty. There are also the inevitable day-to-day budgetary pressures experienced by every organisation.

However, this remains at a relatively low level compared to the size of the organisation and at 31 March 2021 the General Fund balance was approximately £2m:



The budget setting papers for 2020/21 and 2021/22 suggested that General Fund reserves of approximately 5% of total turnover would be appropriate for the Combined Authority.

WECA's revenue budget for 2021/22, which was approved by Combined Authority Committee on 29 January 2021, was £56.7m.

The target General Fund balance (5% of £56.7m) is therefore approximately £2.8m and so the current General Fund balance is only 70% of the amount the former Chief Financial Officer deemed appropriate.

It is therefore important for the Combined Authority to develop plans to achieve the level deemed appropriate, taking into account any projected changes in future revenue budgets.

The main exposure to financial risk that the Combined Authority faces in respect of increases in construction costs for the delivery of capital projects and this has become very real in recent times.

The Investment Programme is kept under regular review and all projects would be subject to a re-prioritisation process should the programme run into affordability issues. There is therefore no need to build reserves to help mitigate this risk.

Cash Flow

The Authority holds significant cash investments which have arisen largely from income being received in advance of the corresponding expenditure as well internal balances and reserves held, although these are far less significant.

WECA's Treasury Management strategy for 21/22 states that since 1 April 2020, the Authority's investment balance has ranged between £178m and £285m.

For 2021/22 the balances were expected to range between £125m and £210m - this is slightly lower than the previous years due to capital grants and reserves being used to finance spend.

Cash flow is monitored and the maturity dates of investments take into account the projected needs of the Combined Authority in terms of planned expenditure.

However, with the level of investment balances referred to above, the key issue for WECA is one of timing rather than the risks of having insufficient funding or 'running out of cash'.

Looking ahead

As part of devolution deal referred to on page 5, the West of England Combined Authority (WECA) was awarded a total of £900m - £30m per year over 30 years.

This funding is subject to a 5-year gateway review process – whereby an independent panel assesses the impact of investments on economic growth – and this review is used to trigger the release of the next 5-year tranche of funding.

As the funding was agreed as part of the devolution deal there is no ability to change the profile of that funding.

It is also important to recognise that the £30m per annum Investment Fund is fixed and is not increased to reflect increases in costs. Inflationary pressures have become more pertinent of late and they are particularly relevant for construction projects. The Combined Authority estimates that the impact of inflation over the 30 year investment period will be as follows:

Year	Grant	Equivalent Purchasing Power
0	£30m	£30m
10	£30m	£22.3m
20	£30m	£16.6m
30	£30m	£12.7m

The need to keep the future plans of the Investment Fund under review is therefore increasingly important if the expected benefits from the planned schemes are to materialise.

Opinion on the financial statements



Audit opinion on the financial statements

We issued an unqualified audit opinion on the Combined Authority's financial statements for the year ended 31 March 2021 on 10 December 2021.

Audit Findings Report

More detailed findings can be found in our AFR, which was published and reported to the Combined Authority's Audit Committee on 9 December 2021.

Preparation of the accounts

The Combined Authority provided draft accounts in line with the national deadline and provided a good set of working papers to support it.

Issues arising from the accounts:

We identified nine adjustments to the draft financial statements that resulted in a £4.6m adjustment to the Authority's Comprehensive Income and Expenditure Statement.

These adjustments 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.

Other matters

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 issued an unmodified opinion in this respect.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts (WGA), we are required to review and report on the WGA return prepared by the Combined Authority. This work includes performing specified procedures under group audit instructions issued by the National Audit Office.

At the time of writing this Audit Committee briefing paper, the guidance regarding the Whole of Government Accounts has not been issued by the National Audit Office (NAO) and so this work remains outstanding for all Local Government organisations.

Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation.

Appendices

Appendix A - Responsibilities of the Combined Authority



Role of the Chief Financial Officer (or equivalent):

- Preparation of the statement of accounts
- Assessing the Combined Authority's ability to continue to operate as a going concern

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

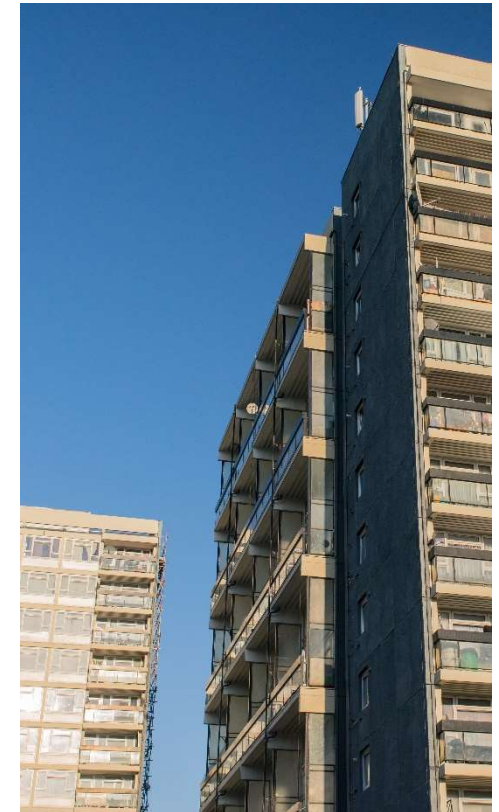
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare 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. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Combined Authority's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Combined Authority will no longer be provided.

The Combined Authority is responsible for putting in place proper arrangements to secure 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.



Appendix B - An explanatory note on recommendations

A range of different recommendations can be raised by the Combined Authority's auditors as follows:

Type of recommendation	Background
Statutory	Written recommendations to the Combined Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the Combined Authority to discuss and respond publicly to the report.
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Combined Authority. We have defined these recommendations as 'key recommendations'.
Improvement	These recommendations, if implemented should improve the arrangements in place at the Combined Authority, but are not a result of identifying significant weaknesses in the Combined Authority's arrangements.

Appendix C - Formal auditor's powers

There are a range of formal powers available to External Auditors. These are summarised below.

We have not exercised any of these at the Combined Authority in 2020/21.

Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

Public interest report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
 - is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
 - is about to enter an item of account, the entry of which is unlawful.
-

Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.



[grantthornton.co.uk](https://www.grantthornton.co.uk)

© 2022 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.