

# Audit Committee Briefing: Value for Money arrangements

The West of England Combined Authority

2020-21

31 August 2022



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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.



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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. 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

### Introduction

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.

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

We determined a plan of appropriate work relating to this particular risk and shared an outline of this at an Audit Briefing meeting on 3 February 2022.

We subsequently held discussions with the Combined Authority's Chief Executive and interim Monitoring Officer and agreed an updated Terms of Reference for this view.

Our work to address this significant risk is substantially complete and we shared a draft report with the Combined Authority's Chief Executive and interim Monitoring Officer on 20 June 2022.

### Reporting to date

On 28 April 2022 we provided the Combined Authority's Audit Committee with feedback on our work on the 'financial sustainability' objective and on the Combined Authority's financial reporting for 2020/21. For completeness, this is also repeated in this document.

### Current Reporting

This report provides an overview of our findings to date on the 'governance' and 'Improving economy, efficiency and effectiveness' objectives, as prescribed by the NAO's Code of Audit Practice, alongside a commentary on the Combined Authority's response to COVID-19.

In order to avoid potential duplication, we have excluded the areas covered by our work to address the risk of significant VFM weakness regarding the Combined Authority's governance arrangements referred to above.

### Final Reporting

Our findings across all three objectives (i.e. 'financial sustainability', 'governance' and 'Improving economy, efficiency and effectiveness') together with a commentary on the Combined Authority's financial reporting arrangements, its response to COVID-19 and any recommendations arising from our work will be included in our Auditor's Annual Report.

We expect to issue this full and final Auditor's Annual Report in September 2022.

# Governance



## We considered how the Combined Authority:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effectiveness processes and systems are in place to ensure budgetary control
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards

## Background

The Combined Authority was established in early 2017 through the Region's devolution deal.

The structure of the Combined Authority is relatively straightforward compared to many Local Authorities and there are two decision-making committees in place as follows:

	The West of England Combined Authority Committee	West of England Joint Committee
<b>Chair</b>	West of England Mayor (Metro Mayor)	West of England Mayor (Metro Mayor)
<b>Voting members</b>	Leader (L) / Mayor (M) of the 3 constituent Councils: <ul style="list-style-type: none"> <li>• Bristol City Council (M)</li> <li>• South Gloucestershire Council (L)</li> <li>• Bath &amp; North East Somerset Council (L)</li> </ul> In addition, the West of England Mayor (Metro Mayor) votes on some matters.	Leader (L) / Mayor (M) of the 4 West of England Councils: <ul style="list-style-type: none"> <li>• Bristol City Council (M)</li> <li>• South Gloucestershire Council (L)</li> <li>• Bath &amp; North East Somerset Council (L)</li> <li>• North Somerset Council (L)</li> </ul>
<b>Other attendee (non-voting)</b>	Chair of the West of England Local Enterprise Partnership (LEP)	Chair of the West of England Local Enterprise Partnership (LEP)
<b>Remit</b>	Key decisions on matters affecting the region, including funding projects through the Regional Investment Fund.	Key decisions on matters affecting the Combined Authority, the West of England LEP and North Somerset Council.

We refer to the operation of these two Committees in our governance report regarding the risk of significant weakness and will include the final commentary here, once that report is published.

In addition to these two decision-making committees, there is also the West of England Combined Authority Overview and Scrutiny Committee which comprises 11 councillors from the 3 constituent councils, with 3 observers from North Somerset Council, and an Audit Committee – please see page 8 for further commentary on the Combined Authority’s Audit Committee.

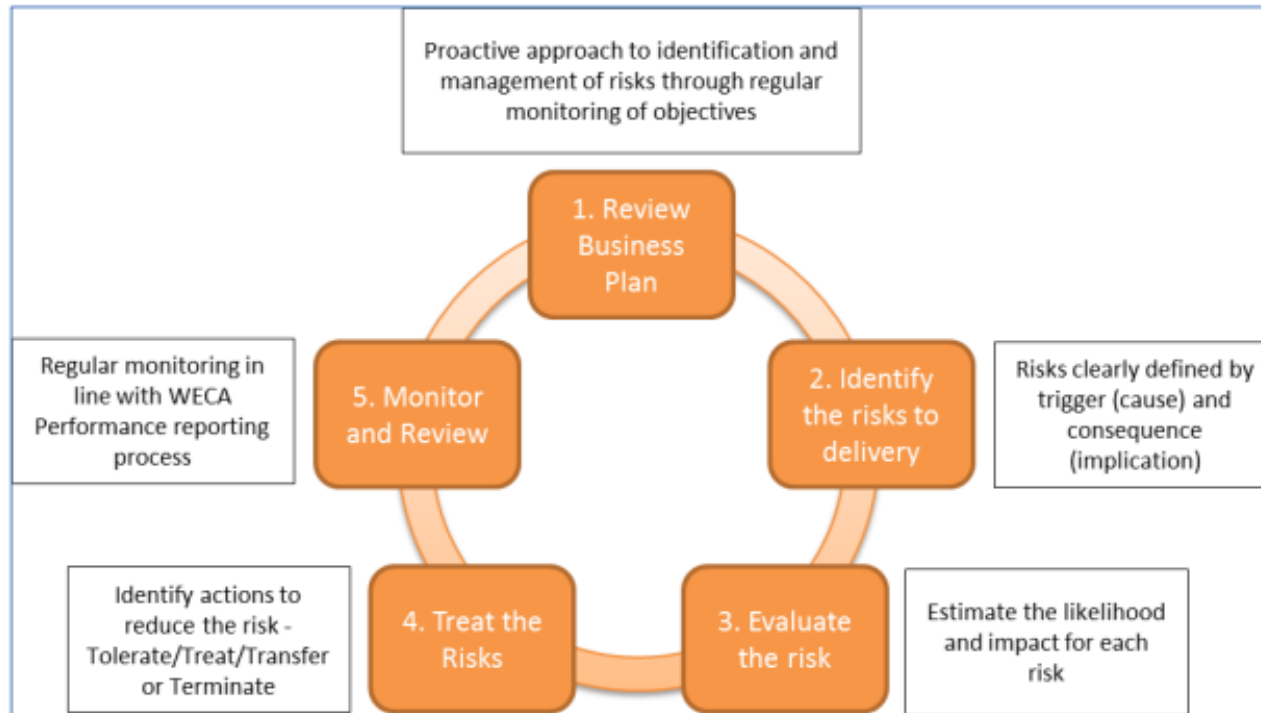
### Constitution

We refer to the Combined Authority’s constitution in our governance report regarding the risk of significant weakness and will include the final commentary here, once that report is published.

### Assessment of Risk and Internal Control

The arrangements for risk management are included within the risk management framework which is reviewed by the Combined Authority’s Audit Committee annually.

This framework includes the following helpful summary of the processes in place:



Risk management is an integral part of the performance reporting process and the framework referred to above is very clear on the various levels of risk management within the organisation – culminating in the corporate risk register which is reviewed monthly by senior management alongside the Directorate Risk Registers.

A summary of key risks is provided in the quarterly progress reviews to the Combined Authority.

The risk management framework is clear that the arrangements apply to the whole organisation and the various levels of risk management are articulated as follows:

Role	Responsibility for Risk Management
The West of England Combined Authority and Joint Committee	Oversee effective delivery of The West of England Combined Authority's objectives and management of risk
The West of England Combined Authority Audit Committee	Provide independent assurance of the risk management framework.
The West of England Combined Authority Scrutiny Committee	Provide scrutiny on progress to deliver the business plan.
The West of England Combined Authority SMT	Accountability for delivery of the business plan and management of the risks affecting its delivery. Ownership of Corporate Risk Register and departmental risk registers.
Heads of Service	Ensure the risk management process is promoted, managed and implemented effectively in the organization. Manage departmental risks.
Programme and Project Boards	Own programme and project risk registers, escalating risks to the The West of England Combined Authority Head of Service/Director as appropriate.
Employees	Identify and manage risk effectively in their jobs, liaising with their managers to identify new or changing risks.
Internal Audit	Review the risk management process and provide assurance to officers and members on the effectiveness of controls.

## Internal Audit

Internal Audit for the Combined Authority is provided by 'Audit West', which is part of 'One West', a trading arm of Bath and North East Somerset Council.

Audit West have been assessed as meeting the Public Sector Internal Audit Standards and their risk-based plan for 2020/21 was presented to the Combined Authority's Audit Committee in July 2020, having been agreed with The West of England Combined Authority's senior management beforehand.

The total planned Internal Audit coverage in 2020/21 was 100 days and this is considered an appropriate level of audit resource.

Internal Audit's Annual Report for 2020/21 was presented to the Audit Committee in September 2021 (the scheduled Audit Committee meeting for July 2021 was cancelled) and this noted that Internal Audit's planned programme of work had been flexed to reflect the COVID-19 pandemic at the start of the financial year. Nevertheless, the expected level of inputs for 2020/21 were delivered by the Combined Authority's Internal Auditors.



The Head of Internal Audit opinion for 2020/21 stated that ‘WECA’s internal control framework and systems to manage risk are reasonable’.

The Head of Internal Audit went on to say:

- reasonable assurance can be provided over the WECA’s systems of internal control, helping to ensure corporate priorities can be achieved;
- agreed policies, Financial Regulations and Contract Standing Orders are broadly being complied with;
- managers throughout the WECA are aware of the importance of maintaining adequate and effective governance arrangements;
- appropriate arrangements are operated to deter and detect fraud and investigations and did not identify any systemic failures;
- there were no fundamental system failures or control breakdowns to business-critical functions or any identified fraud; and
- there were no poor or weak ratings from [Internal] Audit Work.



## Audit Committee

The Audit Committee comprises 12 people, including one independent member. The make-up of the Audit Committee from the three constituent Councils is as follows:

- Bristol City Council – 6 members
- South Gloucestershire Council – 3 members
- Bath and North East Somerset Council – 2 members

The role of the Audit Committee is to provide independent assurance to the Combined Authority on its governance, internal control and risk management arrangements and to oversee the statutory financial reporting process.

However, as noted on page 5, the political decision-making within the Combined Authority is restricted to a small number of senior politicians from the three constituent Councils – plus the ‘Metro Mayor’ – and so the role of the Audit Committee is very much one of oversight, as the Committee members have no day to day involvement in the operations of the Combined Authority.

This lack of involvement is inevitable given the constitution of the Combined Authority, but we have noted that a number of Audit Committee meetings have been cancelled in recent years. These cancellations dilute the understanding and engagement of Audit Committee members and this is exacerbated when substitutes attend the Audit Committee instead of the named Councillors.

## Annual Approach to Budget Setting

As set out in our reporting regarding financial sustainability, 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 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.



## Budgetary Control and Financial Information

In our reporting on financial sustainability we concluded that day-to-day budgetary control was 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.

## Informed Decisions

The primary objective of the Devolution Deal for the West of England agreed in 2016 was attract investment and to deliver an enhancements in a strategic way that would support the Region's ambitions. In this context, enhancements can be physical assets – such as improved public transport – but also other enablers to economic growth such as an increase in skills across the Region.

We refer to this in our governance report regarding the risk of significant weakness and will include the final commentary here, once that report is published.

## Standards and Regulation

We refer to this in our governance report regarding the risk of significant weakness and will include the final commentary here , once that report is published.



# Improving economy, efficiency and effectiveness



## We considered how the Combined Authority:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships, engages with stakeholders, monitors performance against expectations and ensures action is taken where necessary to improve
- ensures that it commissions or procures services in accordance with relevant legislation, professional standards and internal policies, and assesses whether it is realising the expected benefits.

## Background

Effective partnership working is fundamental to the success of the Combined Authority, recognising that it was established to help deliver better outcomes for the West of England as a whole.

Through the devolution process, the West of England has been awarded long term investment funds to use to design and deliver programmes to accelerate local economic growth.

These funds are subject to a Gateway Review process which is required by Central Government every five years and future funding can only be unlocked if a Combined Authority passes these Gateway Reviews..

An independent firm, SQW, was appointed by the Government to undertake Gateway Reviews for all Combined Authorities across the Country and the results were announced in early 2021. The successful outcome of this review unlocked funding of a £30m per annum for a further five years.

Whilst there is a large degree of freedom for Combined Authorities regarding the way in which the allocated funding is spent, it must ultimately contribute to economic growth in the area in order to pass the Gateway Review.

The next Gateway Reviews, to be undertaken in 2024/25, will therefore be crucial for all Combined Authorities as there is an expectation that greater evidence will be available to demonstrate the outcomes that have already been achieved and that there are robust plans in place to build on these earlier achievements.

However, we understand that The Department for Levelling Up, Housing and Communities (DHLUC) will be undertaking a mid-term, non-scored review of all Combined Authorities, commencing later in 2022. These reviews will provide helpful guidance on any issues to be addressed ahead of the next formal Gateway Review.

### Using information and evaluating service performance to identify areas for improvement

The Combined Authority’s planning is based on delivering against its operating framework, which sets out its priorities for clean and inclusive economic growth in the West of England.

This operating framework is set out in the figure below:



The Authority develops an annual business plan which sets out the strategic activities over the next 12 months across the three pillars of the Combined Authority’s operating framework:

- Infrastructure
- Skills
- Business

There is a Monitoring and Evaluation Framework which sets out the Combined Authority’s overall approach to the monitoring and evaluation of activities across The West of England Combined Authority and the Local Enterprise Partnership.

As noted on page 10, £150m of funding was released following the completion of the first Gateway Review.

SQW (the firm appointed by the Government to undertake such assessments for all Combined Authorities) concluded that the West of England Investment Fund (WEIF) had made an important contribution to the capacity development and partnership working improvements observed across the West of England.

They also noted that there had been delays in commencing the various programmes and that programme expenditure was expected to increase significantly from 1 April 2021 to 31 March 2023.

There were a variety of reasons for these delays cited, including some of which were inevitable or beyond the Combined Authority’s control. These included:

- The Devolution Deal was announced in March 2016, but The West of England Combined Authority was not formally created until February 2017, with the Mayor being elected in May 2017;
- The need for greater capacity and expertise in-house to establish internal processes (such as the assurance framework and approach to risk management) and support the deployment of the Investment Fund; and
- COVID-19, particularly where social distancing has delayed contractors accessing sites or where projects needed to pause and reflect on appropriate delivery mechanisms in light of changing needs.

SQW reviewed two completed projects (interventions) as part of their review and their findings are summarised below:

	Bath Western Riverside	Real Time Information System Upgrade
Was expenditure on budget?	Yes	Yes
Were agreed delivery milestones met?	Yes	No - delay
Were outputs delivered as anticipated?	Yes, in part	Yes
Were intermediate outcomes delivered as anticipated?	Too early to assess	Partly
Does the intervention remain on course to deliver against its original objectives?	Yes	Yes

We had previously reported that we had not identified any issues regarding the Combined Authority's financial management and this is mirrored in the findings above, where both projects were delivered on budget.

SQW also concluded that the Monitoring and Evaluation Framework was sufficient information to enable the success of the projects against the original expectations to be assessed, albeit that there had been slippage in the delivery.

As noted on page 10, there is an expectation that greater evidence will be available to demonstrate the outcomes that have already been achieved and that there are robust plans in place to build on these earlier achievements.

Project management therefore needs to continue beyond financial close.

As services have been devolved in bespoke arrangements, the opportunity for benchmarking with others is limited.

### Engaging with partners

The Combined Authority is itself a partnership, bringing together the local authorities within the West of England to drive economic growth.

We refer to this in our governance report regarding the risk of significant weakness and will include the final commentary here, once that report is published.

### Procurement of services

The Authority has a procurement strategy in place. Internal audit have completed a review of these arrangements and did not identify any significant weaknesses with their assessment being one of 'reasonable assurance' (amber rating).

The impact of COVID-19 resulted in the need to revise procurement and supplier practices and ensure compliance with Central Government directives.

Our discussions with officers have identified how they have worked in collaboration with suppliers, particularly in relation to transportation services, to ensure they have remained solvent during the pandemic. Further information on the impact of COVID-19 is included overleaf.



# Financial sustainability

## (previously reported to April 2022 Audit Committee)



### 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.

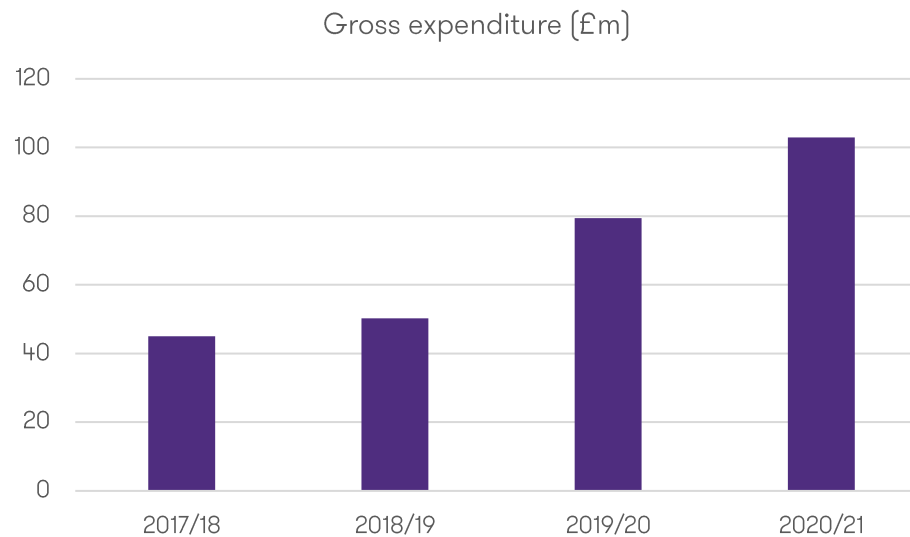
### Introduction

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 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.

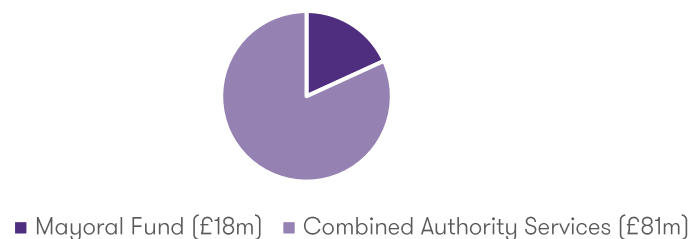


## Financial Planning

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 The West of England Combined Authority;
- 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 The West of England Combined Authority 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. The West of England Combined Authority'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.

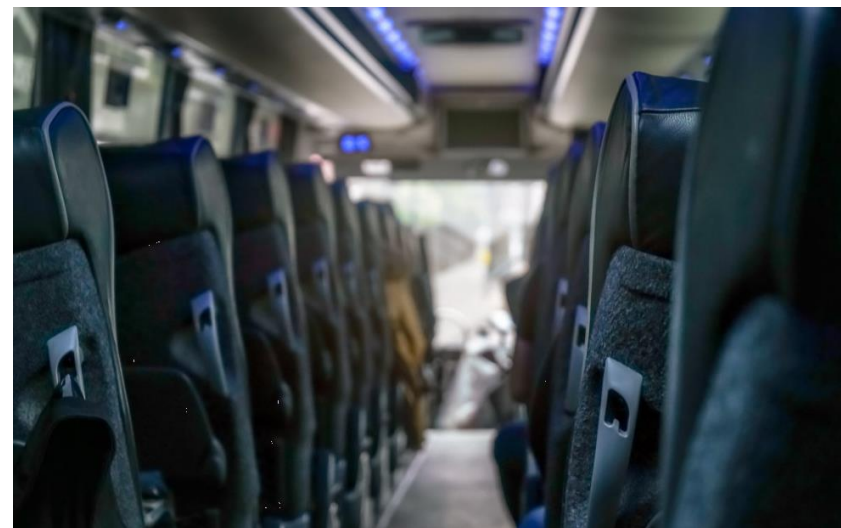
The mayoral fund income and expenditure were both in line with the budget and there was only a small variation of £41,000 relating to office and election costs.

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 from the planned expenditure (approximately £6m) related to an additional spend on supported bus services. There was no overall impact on the Combined Authority's financial position as this increased spend, necessitated by the fall in passenger numbers caused by the outbreak of COVID-19, was largely offset by an increase in Government grant support.

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 of 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.

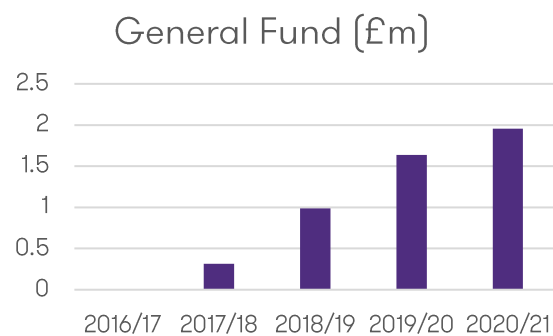
However, unlike a typical Council, the Combined Authority delivers very few front-line services and so does not face the level of risks associated with service cost and demand pressures that are experienced by other local government bodies.

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 The West of England Combined Authority 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.

The West of England Combined Authority'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.

The West of England Combined Authority'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 The West of England Combined Authority 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

## (previously reported to April 2022 Audit Committee)



### 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.

There were no unadjusted misstatements within the Combined Authority's financial statements for the year ended 31 March 2021.

### 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.

The guidance regarding the Whole of Government Accounts for the year ended 31 March 2021 was not been issued by the National Audit Office (NAO) until July 2022 and so this work was delayed for all Local Government organisations.

We expect to complete this by 31 August 2022.

### 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.

# COVID-19 arrangements



Since March 2020, COVID-19 has had a significant impact on the population as a whole and how services are delivered.

We have considered how the arrangements adapted to respond to the new risks they faced.

## Financial sustainability

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.

The mayoral fund income and expenditure outturn 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.

This additional spending was as a result of the pandemic and not as a result of weaknesses in the budget setting or budgetary control processes.

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

## Governance

As a result of the lockdown restrictions announced on the 16 March 2020, the Authority moved to ensure all but a handful of essential staff were able to work from home. This has continued throughout the pandemic, with no significant impact identified on productivity.

Following the introduction of regulations to hold formal meetings via remote attendance committee meetings moved to video conferencing.

The arrangements around procurement have been reviewed by Internal Audit, who reported reasonable assurance in this area.

The Corporate risk register has also been updated to ensure Covid related risks are appropriate recorded, mitigated and monitored.

## Improving economy, efficiency and effectiveness

Although the Combined Authority itself was not adversely impacted by the pandemic from a financial perspective there was an impact on the investment plans, such as:

- slippage to projects, particularly where social distancing has delayed contractors accessing sites; and
- where projects needed to pause and reflect on appropriate delivery mechanisms in light of changing needs.

The West of England was impacted by COVID-19, with 30% of Region's workforce being furloughed, with a knock-on effect on the local economy.

The West of England Combined Authority published the West of England Recovery Plan in September 2020, which set out its ambition for the Region to emerge from the pandemic 'better, greener and stronger'.

# 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.

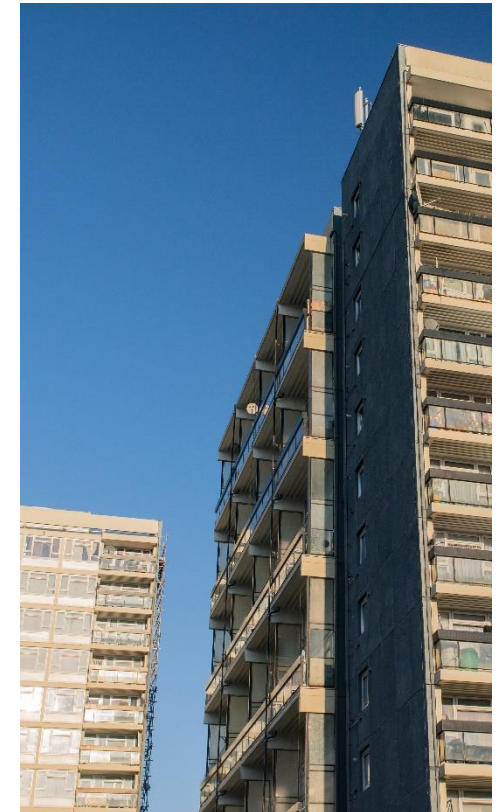
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records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

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# 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

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## **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.

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## **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.

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## **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.

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