

Auditor's Annual Report on West of England Combined Authority

2021/22

May 2023



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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.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

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Executive summary

Executive summary



Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Combined Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Combined Authority's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are summarised in the table below.

Criteria	2020/21 Auditor Judgment	2021/22 Auditor Judgement
Financial sustainability	No significant weaknesses in arrangements identified and no improvement recommendations made	No significant weakness identified but two improvement recommendations raised
Governance	Five significant weaknesses identified and three statutory recommendations, three key recommendations and four improvement recommendations made	Four significant weaknesses remain. Three statutory recommendations, two key recommendations and two improvement recommendations remain. Three new improvement recommendations raised.
Improving economy, efficiency and effectiveness	No significant weaknesses and no improvement recommendations made	No significant weaknesses in arrangements identified, but three improvement recommendations raised



Financial sustainability

The Combined Authority exhibited strong financial performance in 2021/22, finishing the year with a £87k surplus. The Combined Authority was also able to replenish reserves during 2021/22. The Combined Authority is forecasting a break-even year-end position for 2022/23. Between 2022/23 and 2023/24, the Combined Authority has seen a 256% increase in grant funding. Management of the capital programme shows room for improvement in respect of accuracy in budget setting, we have raised a recommendation in this area.



Governance

The Combined Authority has been the subject of a number of high-profile governance issues since 2020/21. The organisation is currently undergoing a significant improvement plan to remedy the fundamental governance challenges. We have highlighted the Combined Authority's progress against the recommendations raised in our Auditor's Report on Governance Matters from December 2022. The organisation is in the process of crafting an improvement plan in response to the recommendations raised by the independent review performed by the Society of Local Authority Chief Executives from March 2023. The Combined Authority has addressed one of the key recommendations raised in our Governance Report, therefore reducing the number of significant weaknesses from five to four. We have raised three new additional improvement recommendations in this report in relation to the SOLACE report, risk management and the Audit Committee.



Improving economy, efficiency and effectiveness

The Combined Authority has strengthened its performance management arrangements during 2021. The organisation must keep in alignment with its 'step change' in delivery through further improvements in this area. Arrangements to engage with partners and procurement appear adequate. The allocation of the City Region Sustainable Transport Settlement (CRSTS) in April 2022 presents a formidable opportunity for the Combined Authority but also represents a significant challenge. The Combined Authority will need to rise to this challenge through focusing on moving from development to delivery phase in its projects.



Auditor's Report on Governance Matters – March 2023 update

Area of Focus	Key Findings from Governance Report	Progress to date
Wider governance		
1. Partner Relationships	<p>Significant Weakness Requiring Statutory Recommendations (Recommendations SR1 and SR2).</p> <p>The poor state of professional relationships we found during the period of the review between the Combined Authority Mayor, the representatives of the other members of the Combined Authority and some Chief Officers reflected a significant weakness in partnership governance. We expressed concern that the poor state of relationships could start to limit the ability to collaborate to optimise strategic opportunities in future. External perceptions of dysfunction could also begin to affect the reputation of the Combined Authority with central government and other partners, ultimately affecting the ability to raise further funding and undermining public confidence. This becomes increasingly important in the context of increasing competition for devolved funding from other devolved regions and new county deals, and government's need to prioritise devolution decisions and activity.</p> <p>In addition to Statutory Recommendations SR1 and SR2 we raised one Improvement Recommendation (IR1).</p>	<p>The progress documented in the Combined Authority's Audit Action Plan against this recommendation demonstrates that the Combined Authority is putting effort toward ensuring decision-makers are provided with all relevant information prior to major decisions being made and for the challenge of key decisions before they are taken. The unplanned 100-minute adjournment at the 27 January 2023 Committee calls into question whether efforts have yet been effective. However, this meeting took place in January 2023 and the March 2023 update by the Combined Authority suggests progress has been made since then. The January committee pre-dated the final agreement of the action plan. At the March committee, positively, there was no extended adjournment. Officers have drawn our attention to other positive indicators of progress:</p> <ul style="list-style-type: none"> • The Mayor and individual UA leaders are holding more regular one-to-one meetings; • Mayors and leaders have met informally to discuss regional priorities; • Draft committee papers in the lead up to June Committee were circulated earlier, allowing for more time for partner engagement and input. CEOs received draft papers for comment four weeks ahead of the meeting date; • UA leaders and the Mayor have been invited to a briefing ahead of the June Committee where officers will be available to discuss the papers. <p>We will continue to monitor progress against this recommendation.</p> <p>The Society of Local Authority Chief Executives (SOLACE) report made a number of recommendations focused on collaborative engagement. Officers have highlighted positive examples of collaboration, such as:</p> <ul style="list-style-type: none"> • Bristol Temple Quarter – where strong partnership arrangements are in place to deliver this significant development and regeneration programme; • Regional Strategy – currently being developed in collaboration across CA partnership <p>The report encouraged the Combined Authority to revisit the regional housing strategy in the form of the Spatial Development Strategy. The successful development of this strategy would serve to demonstrate the Combined Authority's commitment to collaborative engagement.</p> <p>We are encouraged by the progress against our recommendations, for example, the establishment of an integrated Transformation Programme. However, progress against the action plan is still in its infancy and it is too soon to tell whether any implemented efforts are yet effective. The Council are set to report on progress to the June 2023 Committee. The response to the SOLACE report will provide supplementary assurance for the targeting of this weakness. For these reasons, the significant weakness in this area remains.</p>



Auditor's Report on Governance Matters – March 2023 update

Area of Focus	Key Findings from Governance Report	Progress to date
Wider governance		
2. The Constitution	<p>Area for Improvement (Not a Significant Weakness)</p> <p>The Combined Authority's Constitution proved difficult to apply when considering the severance matter and was acknowledged by all sides (including legal advisors) as being in need of review and clarification. We noted a number of specific areas where the Combined Authority Constitution would benefit from revision (see Governance Report for details). In the context of the relationship challenges, strengthening of the Constitution beyond fulfilling the basic requirements will help to mitigate issues arising in future. We note that amendments to the Constitution will require unanimous agreement by the Combined Authority Members.</p> <p>We made one Improvement Recommendation (IR2).</p>	<p>IR2 called for the Combined Authority to review the Constitution in its entirety. The Action Plan stated that this 'will be performed.' The SOLACE report has similarly issued a recommendation 'M', asking the Combined Authority to:</p> <p><i>'Identify the issues with the constitution which would help The West of England Combined Authority to work in a more effective and agile way. Have regard to constitutions in other Combined Authority areas. This process would have regard to activity in other recommendations listed above and would need to be sequenced as such.</i></p> <p><i>Hence, review the constitution making representations to government on proposed changes, if necessary.'</i></p> <p>The Combined Authority is currently in the process of implementing changes in response to the SOLACE report and have developed a transformation programme to address the recommendations raised. It is too soon to make a judgement on whether the progress is effective. The improvement recommendation within our Governance report therefore still stands.</p>
3. Turnover of senior staff	<p>Significant Weakness Requiring Key Recommendation (KR1)</p> <p>The Combined Authority lost several senior officers in a span of months in 2022. The loss of continuity could impact the proper administration of the Combined Authority and its ability to deliver its objectives. Following the Combined Authority Committee's refusal to endorse the proposed management restructure in 2022, there is a pressing need to finalise the future management structure, with the approval of the Combined Authority Committee, to provide clarity and enable the recruitment of permanent officers to key roles to support the strategy.</p> <p>We made one Key Recommendation (KR1).</p>	<p>KR1 asked the Combined Authority to review its future management structure to ensure it is fit for purpose in the context of new funding awards and strategic priorities. The Combined Authority agreed to allow the SOLACE report to guide the consideration of its leadership structure.</p> <p>The SOLACE report issued recommendation 'F' which surrounds 'The West of England Combined Authority as a management organisation.' The recommendation asks management to 'complete a management restructure to fill interim posts permanently in consultation with the LAs.'</p> <p>Progress has been made in this area. Permanent senior appointments have been made in recent months:</p> <ul style="list-style-type: none"> • Director of Infrastructure • Head of Strategic Communications <p>However, recruitment is still underway for the S73 and Monitoring Officer.</p> <p>The Combined Authority is currently in the process a crafting a response to the SOLACE report and developing a corresponding improvement plan to address the recommendations raised in that report. This significant weakness and key recommendation (KR1) in our December 2022 Governance Report therefore remain outstanding.</p>



Auditor's Report on Governance Matters – March 2023 update

Area of Focus	Key Findings from Governance Report	Progress to date
Severance issue		
4. Conflicts of interest regarding severance	<p>Significant Weakness Requiring Statutory Recommendation (SR3)</p> <p>The Chief Executive employed a particular approach with regard to the management of conflicts of interest that included the exclusion of the Monitoring Officer in relation to the severance payment addressed in the Governance Report. We determined this exclusion to have prohibited the Monitoring Officer from discharging their role effectively. The route chosen to manage the potential conflicts demonstrated the need to be more vigilant in ensuring an appreciation of the complementary roles of the statutory officers in protecting the authority from risk. Appropriate action was not taken to ensure that the statutory duties of the Monitoring Officer and Chief Finance Officer roles were appropriately discharged by the incumbent officers or through alternative arrangements.</p> <p>In addition, we noted that the Chief Executive was not well served by the Combined Authority's Constitution which provided no guidance on how conflicts of interest between statutory officers should be managed or sufficient clarity on the use of delegated powers. Significant reliance therefore was placed on the third party legal advisors to interpret the intention of the Constitution.</p> <p>In our view, the Chief Executive's decision not to inform the statutory officers of the severance transaction at an earlier stage and the failure to manage the potential conflict effectively was a significant weakness that placed the Combined Authority at the potential risk of committing to an unlawful payment. The specific roles of the three statutory officers are key checks and balances that the legislation puts in place to ensure that major financial and operational decisions are lawful and in the best interests of the Combined Authority. It is important to note that these also serve to protect any single statutory officer from inadvertently exposing the Combined Authority to risk. In this context and the absence of adequate alternative arrangements to manage any conflict of interest, it was not unreasonable for the former Monitoring Officer to resort to intervention in the process.</p> <p>We made one Statutory Recommendation (SR3).</p>	<p>The Combined Authority has circulated a protocol designed to reflect the unusual circumstances that can arise in a small authority where there may not always be another employee to discharge the role of deputy. The protocol sets out the action to be taken in the event of a conflict of interest affecting the statutory officers and this has been published on the Combined Authority's website.</p> <p>We accept that the agreement of the protocol reflects the seriousness with which the CA took the audit recommendation and took swift steps to address and avoid any repeat of the issue.</p> <p>The Combined Authority is still in the process of recruiting permanent staff to fill two of its statutory roles (Chief Financial Officer and Monitoring Officer). The impact of the progress made against this recommendation is simultaneously dependent on ensuring the statutory roles are assumed by individuals who will appreciate and respect the importance of each statutory role and act in a manner that reflects their unique importance. The authority has taken the steps necessary to partially fulfil the demands of this recommendation but the resolution of this recommendation is also dependent on the passage of time as we would need to observe that the relationship between the new substantive statutory officers is such that the roles of each officer can be effectively discharged to avoid the recurrence of the issues that engendered SR3 in the first instance. The authority need to demonstrate a culture of inclusivity which will need to be qualitatively assessed when a longer period of time has elapsed and when the Monitoring Officer role has been substantively filled by an appropriately qualified individual.</p> <p>The management restructure and review of the Constitution will also have an impact on the achievement of this recommendation.</p> <p>For these reasons, the significant weakness we identified in our Governance Report in this area remains. The response to the SOLACE report and the associated improvement plan will impact the delivery of this recommendation.</p>



Auditor's Report on Governance Matters – March 2023 update

Area of Focus	Key Findings from Governance Report	Progress to date
Severance issue	Significant Weakness Requiring Key Recommendation (KR2)	The 17 March 2023 CA Committee resolved to add the following paragraph 3.8 (e) to the functions of the Monitoring Officer in the Combined Authority's Constitution:
5. The approach to obtaining legal advice	<p>Conflicting legal advice was obtained by different officers at different points in the process in relation to the severance payment referred to in the Governance Report. In our view, the role of Monitoring Officer as Head of Legal Services is particularly important when it comes to commissioning and interpreting third party legal advice. Advice is usually sought based on very specific terms of reference and is highly reliant on the information supplied to the advisor. The Monitoring Officer is party to the wider context and can exercise professional experience to ensure that the right advice is sought and the right information given. It is important to recognise that it is not uncommon for legal advisors to differ in their judgements, especially where legislation or constitutional clauses are not clear and judgement has to be made. In practice, legal advice is often sought specifically because the legal position requires interpretation and judgement. The difficulty in reaching a consensus on the lawfulness of the severance transaction that arose in the case highlights the risk that arises when legal advice is sought independently of the Monitoring Officer.</p> <p>By bypassing the Monitoring Officer in this case and failing to make alternative provision for the discharge of the Monitoring Officer's responsibilities, the statutory protections provided by the Monitoring Officer's role were significantly weakened.</p> <p>In addition to one Key Recommendation (KR2), we made two Improvement Recommendations (IR3 and IR4).</p>	<p>'(e) Combined Authority Officers and Members are prohibited from obtaining legal advice without the written agreement of the Combined Authority Monitoring Officer. All legal services will be commissioned in accordance with arrangements settled by the Monitoring Officer from time to time. These arrangements will be set out in a legal services protocol which will be published on the authority's internet'</p> <p>The Combined Authority has therefore taken the necessary steps to ensure the approach to obtaining legal advice is grounded in its Constitution. The clarity reduces the likelihood of conflicting interpretations of due process.</p> <p>We are satisfied that the Combined Authority has implemented the recommendation raised in KR2. The significant weakness in this area no longer applies.</p> <p>In relation to the remaining improvement recommendations, IR3 relates to the formal recording of performance reviews for senior officers. The Combined Authority have confirmed that these have now taken place and senior officers have had performance reviews and appropriate records have been kept. This improvement recommendation is therefore resolved and completed.</p> <p>In relation to IR4, the recommendation surrounded the retention of the seniority of the Monitoring Officer role. The Combined Authority have designated the Monitoring Officer role at Director level as at June 2023. This role, however, is still out for advertisement for a substantive appointment. The improvement recommendation has been met, though it is important to note that at the time of writing the role remains to be permanently filled.</p>



Auditor's Report on Governance Matters – March 2023 update

Area of Focus	Key Findings from Governance Report	Progress to date
Severance issue	Significant Weakness Requiring Statutory Recommendation (SR3)	
6. The rationale for the award of severance	<p>There was a lack of clarity in the rationale for proposing the severance payment and how the payment and its terms were constructed. It was the Chief Finance Officer's statutory duty to undertake an assessment of value for money to protect the Combined Authority from the risk of overpayment in regard to the Director of Infrastructure's exit package. If there was a conflict of interest, this duty should have been passed to a nominated deputy. Without this assurance, it is understandable that Combined Authority members would be unsure as to whether VfM had been achieved and therefore felt it necessary to abstain from the vote when the matter was brought to the Combined Authority Board in October 2022.</p> <p>In our view, due to a potential conflict of interest, the Chief Finance Officer was not able to discharge their statutory duty to ensure VfM. The deputy CFO was consulted in some specific areas, for example, in regard to affordability within the budget. However, no satisfactory alternative arrangement was made to enable the broad range of the CFO's statutory function to be formally exercised through the deputy or any other means, prior to the severance package being agreed with the Director of Infrastructure. This reflects a significant weakness in arrangements.</p> <p>We incorporated this Significant Weakness into our third Statutory Recommendation (SR3).</p>	<p>The Combined Authority has circulated a protocol designed to reflect the unusual circumstances that can arise in a small authority where there may not always be another employee to discharge the role of deputy. The protocol sets out the action to be taken in the event of a conflict of interest affecting the statutory officers and this has been published on Combined Authority's website.</p> <p>We accept that the agreement of the protocol reflects the seriousness with which the CA took the audit recommendation and took swift steps to address and avoid any repeat of the issue.</p> <p>The Combined Authority is still in the process of recruiting permanent staff to the two of the three statutory roles. The impact of the progress made against this recommendation is simultaneously dependent on ensuring the statutory roles are assumed by individuals who will appreciate and respect the importance of each statutory role and act in a manner that reflects their unique importance.</p> <p>The management restructure and review of the Constitution will also have an impact on the achievement of this recommendation.</p> <p>For these reasons, the significant weakness we identified in our Governance Report in this area remains. The response to the SOLACE report and the associated improvement plan will impact the delivery of this recommendation.</p> <p>The significant weakness in this area therefore remains.</p>

Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Combined Authority's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22

We have completed our audit of your financial statements and issued an unqualified audit opinion on 21 December 2022. Our findings are set out in further detail on page 32.

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

No new statutory recommendations were raised in 2021/22 but we did follow up progress on those raised as part of last year's audit.

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.

We did not issue a Public Interest Report.

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.

We did not apply this power.

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.

We did not apply this power.

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.

We did not apply this power.

Commentary

Securing economy, efficiency and effectiveness in the Combined Authority's use of resources

All Combined 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.

Combined 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).



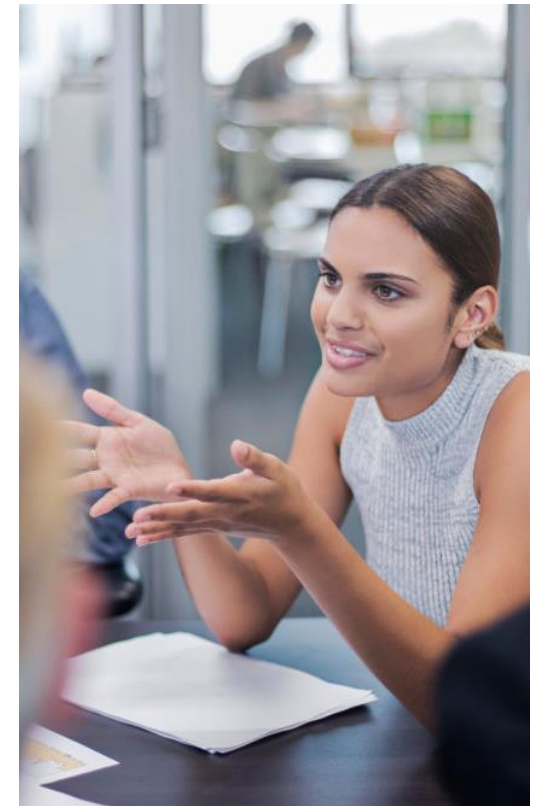
Governance

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.



Our commentary on the Combined Authority's arrangements in each of these three areas, is set out on pages 11 to 29. Further detail on how we approached our work is included in Appendix B.

Financial sustainability



We considered how the Combined Authority:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them 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 which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2021/22 financial performance

In January 2022, the Combined Authority Committee approved transferring £1,347k in 2021/22 to specific one-off earmarked reserves to invest in further support to regional bus services to protect routes in rural areas during 2022/23. Consequently, the £1,347k was transferred to earmarked reserves.

The Combined Authority finished 2021/22 with a £87k net revenue surplus. The Combined Authority was able to achieve this surplus primarily due to the higher income received from investing cash balances. The most significant variances in the 2021/22 budget related to in-year spend on Government projects being higher than expected and a reduction in the transport levy. Transport operations were also affected through reduced patronage and amended provider routes due to the ongoing impacts of the COVID-19 pandemic. Government grants for supporting bus operations were received during the year although these were uncertain in terms of value and duration.

The West of England Combined Authority Committee approved the transfer the £87k surplus to the West of England Combined Authority Reserve in July 2022.

The addition of the reserves balance shows the Combined Authority to be in a promising financial position at the end 2021/22 period. As local authorities across the country are exhibiting financial stress through depletion of reserves to fund revenue deficits, the Combined Authority is demonstrating that it is not in that position. 2021/22 financial performance indicates strong financial performance as the Combined Authority is demonstrating that it is not using reserves to plug financial gaps but rather replenishing reserves to provide protection for future service and project delivery.

2022/23 financial planning and performance

The Mayoral Fund and the Combined Authority follow different budget setting and financial reporting arrangements due to legislative requirements. In 2021/22, the Mayoral Fund reported outturn of £15.37m and the Combined Authority reported total expenditure of £72.95m. The Mayoral Fund is confined to those functions that fall under the specific responsibility of the Mayor in accordance with the 2017 Order.

2022/23 budgets for the Mayoral Fund and the Combined Authority were approved at the 28 January 2022 Combined Authority Committee.

The Combined Authority's revenue budget is made up of four main components:

1. core revenue funding;
2. specific grants;
3. a transport levy for defined services;
4. approved investment fund schemes.

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.

As per the Q3 budget report for 2022/23, the Mayoral Fund is forecasting a year-end break-even revenue budget position for 2022/23. There is a projected £10k overspend on staffing costs as a result of the higher than expected local government pay award offset by a contribution from the Investment Fund.

Financial sustainability

	Budget 2022/23 (£,000's)	Forecast 2022/23 (£,000's)	Variance (£,000's)
Expenditure			
Staff (a)	9,646	11,520	1,874
Staff Recharge (Capital & LEP) (b)	(2,382)	(114)	2,268
Net Revenue Staff	7,264	11,406	4,142
Supplies & Services (c)	9,127	16,746	7,619
Third Party Payments (d)	48,986	66,826	17,840
Overhead	(677)	(679)	(2)
Transfer to Reserves (e)	212	1,198	986
Total Expenditure	64,912	95,497	30,585
Income			
Levy Transport Function (f)	21,427	20,909	(518)
Business Rate Retention	600	-	(600)
Government Grants (g)	19,565	32,380	12,815
Investment Fund (h)	21,553	35,849	14,296
Other Contribution (i)	-	752	752
Interest on balances	1,600	3,300	1,700
Transfer from Reserves	167	2,307	2,140
Total Income	64,912	95,497	30,585

Figure 1: 2022/23 Budget vs Forecast Outturn
Source: Q3 Budget Report

The Combined Authority is similarly projecting a break-even position, see Figure 1. As the Combined Authority's budget is dictated by its income, the significant increase in funding received in-year has resulted in a corresponding increase in expenditure. Forecast income (excluding transfers to/from reserves) of £93.19m is expected for 2022/23 compared to an original budget of £64.75m, representing a 43.9% increase. Forecast expenditure (excluding transfers to/from reserves) of £94.3m compares to an original budget of £64.7m representing a 45.7% increase. The significant deviation from original budget is due to the 256% increase in grant funding received in 2022/23. The most significant variances in 2022/23 relate to the Transport Levy, the UK Community Renewal Fund, variations on project spend, interest on balances and inflation.

2023/24 budget and the medium term

Between 2022/23 and 2023/24, the Combined Authority saw a 256% increase in Grant Funding. An increase of 36% in staffing posts with staffing costs reflecting the higher-cost infrastructure posts. Following a lengthy debate, the CA Committee agreed at the 27 January 2023 meeting to approve the 2023/24 budget with the exception of the £8m staffing increase of which 10% will be withheld. The remaining funds will be released following the unanimous approval of the Combined Authority Chief Executive and Chief Executives of the Unitary Councils.

The staffing budget increase represents the need for additional resources to deliver the increased programme of work for the Combined Authority. For example, the infrastructure portfolio has seen a four-fold increase from 2022/23 to 2023/24.

There is pressure in terms of organizational capacity to deliver the scale and volume of activity the Combined Authority has been tasked with, that if not sufficiently addressed could expose the Combined Authority to risk. The Combined Authority has never had to deliver to this scale in its relatively short lifetime. The organisation is in the process of rolling out a staunch recruitment programme that will need to be judiciously managed if it is to secure the skills and resources necessary to carry out its 'step change' in delivery. Given the high-profile and public governance issues of the recent past, the Combined Authority is under even greater pressure to prove its utility as a public body engaged in the stewardship of public funds. The successful delivery of its 2023/24 work profile and budget will go a long way to prove to investors its competence and efficacy.

After combining all the approved funding streams, the overall Combined Authority revenue budget for 2023/24 is £115.2m with a total resource allocation of £359.8m up to March 2027.

The 'core' element of its revenue resources remains largely unchanged from 2023/24. The Combined Authority core revenue streams amount to £25.6m over the five-year period. The Combined Authority continues to retain 5% of the total business rates growth retained in the region after the highways maintenance grant.

Financial sustainability

In addition, specific grant funding as set out in the medium-term resource forecast amounts to £175m over the five-year period.

The Combined Authority is in a reasonable position with regard to 2023/24 budgeting and the medium-term. The significant influx in grant funding has provided financial cushioning and foregone the need to fundamentally review the budget, scale back services or realistically consider the need for a sophisticated savings plan. The challenge is now to deliver.

Reserves

The Combined Authority's management of reserves is driven by its Financial Reserves Policy. As at March 2022, the reserves balance stands at £2.4m. The policy targets to maintain a reserves balance of 5% of net annual revenue spend, which would put the balance at £5.7m against the proposed £115m 2023/24 budget. The current reserves balance is therefore low in comparison to the target level. The Combined Authority have in place a plan to build and increase the current reserves level through transferring any end of year surpluses as was demonstrated through the £87k transfer in 2021/22 in accordance with the Financial Reserves Policy.

It is important to note that based on the 2021/22 transfer of £87k to the general fund reserves, it would take the Combined Authority close to forty years to reach the 5% of net annual revenue spend target for the reserves balance. The Combined Authority is still in its growth phase meaning the absolute value of the Combined Authority's self-determined 5% target will likely increase dramatically year on year making the achievement of the target even more challenging.

The adherence to the Financial Reserves Policy demonstrates sound financial management as it indicates that the Combined Authority is monitoring the elements of its balance sheet that could pose a risk to its financial sustainability. It demonstrates that it is pursuing a prevention element of risk management by addressing the ways in which the Combined Authority can avoid risk arising in the first place.

The Combined Authority's 2022/23 forecast reserves position as shown in the Q3 budget report shows that the reserves balance is expected to remain at £2.37m. As the reserves balance remains low in comparison to the target stated in the policy, the Combined Authority should seek to continue to increase this reserves balance. This risk should continue to be carefully monitored to ensure future financial stability.

Capital and the capital programme

In January 2021, the Combined Authority Committee agreed an original budget of £59.2m for the capital programme for 2021/22. One year later, the budget had risen to £89m, representing a £22.1m increase (50%). The increase is primarily due to reviews of decisions relating to re-phasing, for example, the decision to roll back Metrowest 1 and 2 from 2022/23. The Combined Authority finished 2021/22 against the £81.3m revised budget with a £62.9m outturn. This represents an underspend of £13.3m against budget. The key contributors to this underspend surround slippage and reprofiling, effectively moving the capital expenditure to another year to account for delays in delivery. Slippage is a key financial risk specific to the delivery of the capital programme and Capital Strategy that the organisation must manage through a combination of judicious budget setting and committed monitoring.

With respect to 2022/23, the original capital budget set in January 2022 was £142.2m. This represents a 140% increase from the original 2021/22 and 126% increase from 2021/22 outturn. The latest available capital forecast shows an outturn of £65.107m against a revised budget of £76.164m. The movement from £142.2m originally budgeted to the £76.164m revised budget is predominantly the result of the City Region Sustainable Transport Settlement grant being announced late causing a revision and rephasing of the capital budget. The Combined Authority are forecasting a £11m underspend for 2022/23 with an outturn of £65.107m against the revised £76.164m revised budget. The variance is due to slippage.

Although there is evidence of capital monitoring at the Combined Authority Committee, indications are that focus should be turned to setting realistic capital budgets that allow for sufficient lead time before expenditure is likely to be incurred. Inability to set a realistic capital budget undermines the Combined Authority's perceived capability to manage its capital budget and deliver its growth plans. The difficulty in management of the capital programme will become increasingly challenging given the current high level of inflation. We have raised an improvement recommendation in this area.

Conclusion

The Combined Authority performed well in 2021/22 and managed to finish the year with a transfer to the general reserve. 2022/23 represents a decisive shift from 2021/22 with regard to the sizeable increase in funding to the Combined Authority. 2022/23 financial outturn indicates a dramatic departure from the original budget due to the influx in grant funding. 2023/24 financial planning and the medium-term put the Combined Authority in a reasonable financial position with regard to income. The real challenge for the Combined Authority will be meeting the need to deliver against this significant increase in funds.

Improvement recommendations



Financial sustainability

Recommendation 1

The Combined Authority should review and evaluate how it sets its capital budget. Consideration of this will enable it to set more realistic budgets going forward.

Why/impact

Inability to set realistic capital budgets undermines the Combined Authority's ability to effectively manage and deliver its capital budget. Consistently high capital budget setting at the start of financial years coupled with low outturn cast doubt on the Council's ability to accurately forecast expenditure and present and deliver a realistic capital programme.

Management Comments

The West of England Combined Authority reviewed the profiling of its capital funding leading up to the 17 March Committee. In this exercise, spend was re-profiled and approved, This gave a more realistic profile moving spend to a position of £76m. On a longer term basis on the management of the Programme Review Board a Line by Line review of projects and programs is taking place covering the whole of the Combined Authorities Capital Program including those projects that a being implemented by Unitary Authorities.



The range of recommendations that external auditors can make is explained in Appendix C

Improvement recommendations



Financial sustainability

Recommendation 2

The Combined Authority should focus on building its general reserves balance to its target in a reasonable timeframe. For example, including a designated contribution to reserves in each year of the medium term financial plan, setting a defined timeframe.

Why/impact

Based on the 2021/22 transfer of £87k to the general fund reserves, it would take the Combined Authority close to forty years to reach the 5% of net annual revenue spend target for the reserves balance. As the reserves balance remains low in comparison to the target stated in the policy, the Combined Authority should seek to continue to increase this reserves balance. This risk should continue to be carefully monitored to ensure future financial stability.

Management Comments

The Combined Authority has undertaken a risk based review of reserves which is reported in the outturn report to the Combined Authority Committee on 16 June. This uses comparative analysis with other combined authorities and demonstrates that revenue general reserves at £2.4m are relatively below. Give significant inherent risks and the growing size of the authority the working objective is to build up revenue reserves so that they are not less than £10m over the next two years.

The range of recommendations that external auditors can make is explained in Appendix C

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 effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

Auditor's Report on Governance Matters

In December 2022, we presented to the Combined Authority's Audit Committee the findings of the additional audit procedures carried out to support our Value for Money (VfM) assessment for the 2020/21 audit. We reported five significant weaknesses in the following areas which resulted in three statutory recommendations and two key recommendations:

1. Partner relationships
2. Turnover of senior staff
3. Conflicts of interest regarding a severance payment
4. The approach to obtaining legal advice
5. The rationale for the award of the severance payment referred to above

A further four improvement recommendations were also raised. The Combined Authority accepted our findings and is currently in the process of implementing the actions agreed in light of the report. Following the acceptance of the findings, the Combined Authority Mayor wrote to the Secretary of State for Levelling Up, Housing and Communities to make him aware of the report and the Committee's proposed course of action in response. The Secretary of State responded and welcomed the proposed course of action as per Mayor Norris's letter. The Combined Authority proposed engaging with the SOLACE for an independent peer review, the results of which have been published and were presented at the March 2023 Committee.

Due to the close proximity between the December 2022 Governance Report and this 2021/22 VfM report, it is not considered unreasonable that the Combined Authority is still in the process of addressing the weaknesses identified and enacting the recommendations raised.

At the 17 March 2023 CA Committee, the Combined Authority presented the Audit Action Plan which set out the progress and next steps on the organisation's route to improvement following the recommendations raised in the December 2022 report.

As is in line with expectation, the Combined Authority is taking the necessary steps to addressing the recommendations raised though these actions are still predominantly in development stages. For some of the recommendations raised, the Combined Authority has put in place the necessary architecture to manage risks but it is too soon to tell whether the changes made are effective and adequate. Therefore, in four of the five significant weaknesses identified in the Auditor's Report on Governance matters, the significant weakness remains. In the remaining one weakness, regarding the commissioning of legal advice, the Combined Authority has implemented the demands of the recommendation, therefore the significant weakness no longer applies. This demonstrates an improvement from the previous position.

Pages 5 to 9 detail the areas of focus, key findings from the Governance Report alongside our view of the progress made following the March 2023 update on the audit recommendations presented to the CA Committee. Please see the Governance Report December 2022 for full details of the findings from the review. For details of the Combined Authority's own commentary on the progress against the recommendations, please see March 2023 Update report, linked here:

<https://westofengland-ca.moderngov.co.uk/documents/s6826/Audit%20and%20Action%20Plan%20-%20March%202023.pdf>

Governance

SOLACE Independent Review

In response to our December 2022 Report on Governance Matters, the Combined Authority Mayor wrote to the Secretary of State for Levelling Up, Housing and Communities stating the Combined Authority's intention to commission an independent review of the organisation. SOLACE performed the review and published its report in March 2023. The key findings surrounded the following areas:

- The Combined Authority's strategic direction
- Internal and external management
- Engagement with partners
- Governance arrangements (including meetings, the Constitution and organisational structure)
- Project evaluation

The report issued 11 recommendations in the key areas identified.

We have reviewed the findings of SOLACE and are satisfied that they align to the findings in our Governance report (December 2022). We note that the Combined Authority is in the process of actioning the recommendations to the SOLACE report and the December 2022 Governance Report. In particular, we consider it to be highly important that the Combined Authority makes timely progress on refreshing its overarching economic strategy. We have raised an improvement recommendation that the Combined Authority should recognise and progress the recommendations raised by SOLACE alongside those in our Governance report.

Risk and internal controls

The Combined Authority has arrangements in place to identify strategic risks, understand them, record them within the risk management system and assess/score them. The Corporate Risk Management Framework guides the risk management process. Activities to identify and manage risks require regular monitoring of progress against objectives in the business plan, the key risks to delivery, emerging risks and the impact of mitigating actions. The Combined Authority strengthened this process in 2021, working with the Operational Management Team (Heads of Service and SMT) to review the cross-cutting risks to delivery and draw on collective expertise and understanding to help identify mitigations.

An updated draft Risk Management Framework was presented to the April 2022 Audit Committee.

There are concerns surrounding the presentation of risk in the risk registers. A Statement from the Chair of the Audit Committee dated 17 April 2023 reported that the Bus, Transport and Infrastructure Risk Register 'made for poor reading.' The Committee did not believe officers had appropriately recognised and presented the magnitude of the risks arising in the report. Members felt that some of the information was misleading and would impact the ability of the users of the report to properly assess risk. We have raised an improvement recommendation in this area (Improvement Recommendation 1).

For each risk reported to senior leadership, there should be the relevant key controls and sources of assurance set out, a RAG-rating (including impact and likelihood), mapping to corporate objectives, allocation to a named senior officer and a direction of travel for each risk. Risks on the Corporate Risk Register contain the majority of these features, though there is room for improvement. The Combined Authority should map each risk to a key corporate objective aligned with its corporate plan. This will ensure that risks are considered in relation to their ability to jeopardise the organisation's ability to achieve its corporate objectives. Risks are currently only allocated to 'Categories' which is vague and does not allow appropriate consideration of the risk and its alignment to the overall organizational strategy.

Annual budget setting process

Local authorities must ensure that they are familiar with the legislative requirements of the budget setting process. The Combined Authority updated its medium-term plan and budget for 2023/24 on 27 January 2023. The plan details the revenue resources available to the Combined Authority through the Investment Fund approvals along with various confirmed, and anticipated, grant allocations.

Reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' reserves is a matter for local authorities to determine. As mentioned in the financial sustainability section, the Combined Authority is following its Financial Reserves Policy and aiming to build the general reserve balance to 5% of the net revenue budget. This target setting demonstrates an understanding of the importance of reserves to ensuring financial protection. The Combined Authority is also planning to undertake a review of the Financial Reserves Policy in 2023/24 in line with the growth of the organisation and the continued volatility of revenue funding streams.

Governance

The Combined Authority has appropriate budgetary control arrangements in place. There is monthly monitoring for all areas of the annual budget. Monitoring against the Combined Authority budget is reported to each meeting of the CA Committee.

Audit Committee

The West of England Combined Authority Audit Committee comprises of 12 people; 11 members from the three constituent authorities of the Combined Authority and one independent member. There are no statutory requirements that determine the composition of the Audit Committee. CIPFA's 2016 survey of Audit Committees found that size of the committee ranged from five to fifteen or more, placing the West of England Combined Authority's within the normal range. CIPFA endorses the approach of mandating the inclusion of a lay or independent member, of which the West of England Combined Authority Audit Committee has one.

In our prior year audit, we noted that a number of Audit Committee meetings had been cancelled in recent years. There have been 11 Audit Committee meetings planned since April 2021, three of which have been cancelled and one of which was postponed. The cancellations of meetings therefore continue to occur.

To discharge its responsibilities effectively, the CIPFA Audit Committee guidance recommends Audit Committees to meet at least four times a year. In 2021/22, the Audit Committee failed to meet four, having only met twice due to a cancellation of the July 2021 committee meeting. The cancellation related to the Chair identifying that there were no urgent matters on the agenda. However, in 2022/23, the Committee did meet four times, even with the cancellation and postponement of committee meetings in June-July 2022.

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

An effective internal audit function is instrumental to an Combined Authority's ability to monitor and assess the effective operation of internal controls. The audit committee annually receives and approves a risk-based internal audit plan, which sets out its key activities and work programme for the year. The latest internal audit plan for 2023/24 was presented to the 2 March 2023 Audit Committee.

The Independent Review performed by SOLACE from March 2023 commended the Interim Acting Chief Executive for increasing the number of internal audit days for the Combined Authority from 100 to 300 days. This move goes some way to emphasizing the importance of the internal audit function at the organisation.

The Audit Committee hears from internal audit regularly, with verbal updates at each meeting and a formal update on delivery against plan in December each year. The Internal Audit Annual Audit Report was presented to the 28 April 2022 Audit Committee. The report showed that internal audit delivered 89% of planned audits within their original plan and, while there had been individual audits which exceeded the original budget, the overall plan remained within the agreed allocation. There is no evidence of significant gaps in assurance the Audit Committee has obtained on matters within internal audit's work programme. Internal audit awarded a reasonable assurance audit opinion for 2021/22, Audit West demonstrated their compliance with the PSIAS standards via an external assessment in 2018, it received the highest rating.

Audit committees should perform self-assessment reviews of their own effectiveness on a periodic basis. The Combined Authority has a review planned for April/May 2023 though a review has not been performed since 2019. We have raised an improvement recommendation to encourage the Combined Authority to establish a regular forward programme of audit committee effectiveness reviews.

Conclusion

The Combined Authority was established in 2017 and is still in the growing stage of its maturity as an organisation. Our report on Governance Matters from December 2022 highlighted some significant failings that the Combined Authority has accepted and is beginning to address.

Significant weaknesses remain in four of the five areas identified in December 2022, with one area improving due to the implementation of our recommendation regarding commissioning legal advice. This improvement is hopefully an early indication of West of England Combined Authority's transformative journey as the organisation rids itself from its past governmental difficulties. Our 2021/22 VfM review has identified some areas of improvements to risk management arrangements and Audit Committee practice and we issued corresponding recommendations.

Improvement recommendations



Governance

Recommendation 3

The Combined Authority should continue to work with external support to ensure the implementations raised in the SOLACE report are progressed and also address the issues raised in the Grant Thornton Auditor's Report on Governance Matters from December 2022.

Why/impact

We have reviewed the findings of SOLACE and are satisfied that they align to the findings in our Governance report (December 2022). We note that the Combined Authority is in the process of actioning the recommendations. In particular, we consider it to be highly important that the Combined Authority makes timely progress on refreshing its overarching economic strategy. We have raised an improvement recommendation that the Combined Authority should recognise and progress the recommendations raised by SOLACE alongside those in our Governance report.

Management Comments

The Combined Authority has launched a transformation program that is designed to; reinvigorate the organisation and act of the recommendations of both the Grant Thornton Report and the SOLACE review. A full report in the progress of the transformation program has been submitted to the 16 June Committee and no requests for changes were submitted.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 4

Risk management

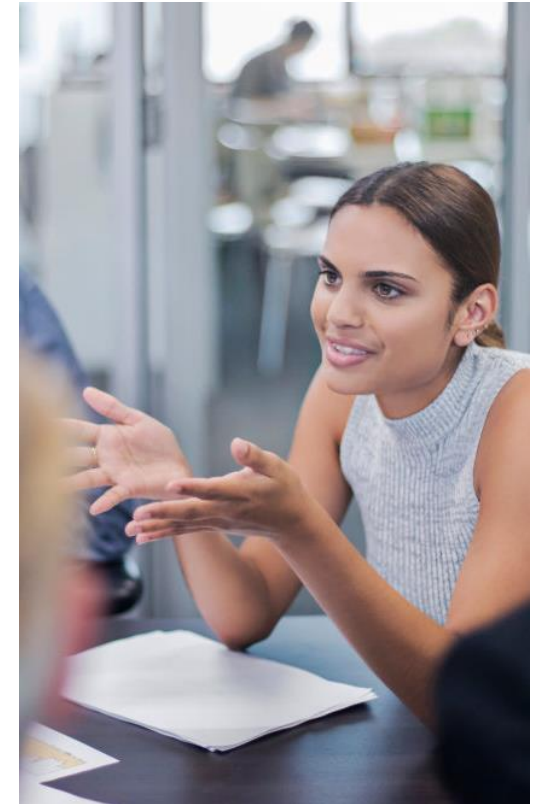
- a. The Combined Authority should work with Members to reconsider the presentation of risk registers to ensure clarity of understanding and reporting.
- b. The Combined Authority should map each risk on its Risk Register to a key corporate objective aligned with its Business Plan. This will ensure that risks are considered in relation to their ability to impact the organisation's capacity to deliver its corporate objectives.

Why/impact

- a. If Members do not receive clear risk management information at Committee, their utility and value as a democratic function of scrutiny is significantly weakened and the exposes the Combined Authority to the risk of failure to achieve value for money in decision-making due to lack of clarity of understanding.
- b. Risks on the Corporate Risk Register are currently only allocated to 'Categories' which is a vague categorisation that does not place the risk in relation to its overall impact on the organisational strategic direction. The current categorisation does not facilitate appropriate consideration of the risk and its alignment to the Business Plan.

Management Comments

- a) The Combined Authority has established an arrangement by which divisional Risk Registers are reviewed by the Audit Committee. The first of these reviews took place at the Audit Committee on 28th April 2022. This will now be a rolling program with the consideration of Fraud Risk Register being considered at the Audit Committee on 3rd July 2023.
- b) The Combined Authority has recently refreshed its business plan and as part of this consideration has been given to the risks across the organisation and the Risk Register. In terms of the capacity to deliver corporate objective workstream 4 of the transformation program (efficiency and effectiveness) combined authority is reviewing all of the organisations' operations in terms of capacity and fitness for purpose.



The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Governance

Recommendation 5

Audit Committee

- a. The Combined Authority should seek to ensure that the Audit Committee meets at least four times in a year in line with the CIPFA Guidance: *Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)*, (CIPFA, 2018)
- b. The Combined Authority should implement a mandated regular self-assessment review of Audit Committee effectiveness, for example, every two years.

Why/impact

- a. In 2021/22, the Audit Committee only met twice due to the cancellation of the July 2021 committee meeting. To discharge its responsibilities effectively, the CIPFA Guidance: *Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)* recommends meeting at least four times a year.
- b. The Combined Authority Audit Committee is set to perform its self-assessment of effectiveness in April/May 2023. The last review was performed in 2019. The Combined Authority should ensure that there is not such an extended time frame between self-assessment reviews so as to ensure that the Audit Committee continues to effectively perform its functions.

Management Comments

The Combined Authority is increasing the frequency of the Audit Committee. For the 2023/24 Financial year there are 4 scheduled meetings that are consistent with the CIPFA guidance.

The range of recommendations that external auditors can make is explained in Appendix C.

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 and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance

The Combined Authority was established in 2017 with the purpose of driving forward plans to improve transport, take action to tackle climate change, drive long-term economic growth in the region and to support people and communities in the West of England.

The Combined Authority executes its plans through a mixture of allocating of funds to the Unitary Authorities for them to carry out projects and projects directly managed by the Combined Authority itself. The Combined Authority reporting framework details the ways in which progress against projects and the priorities detailed in the Combined Authority's strategy are measured (Figure 2).

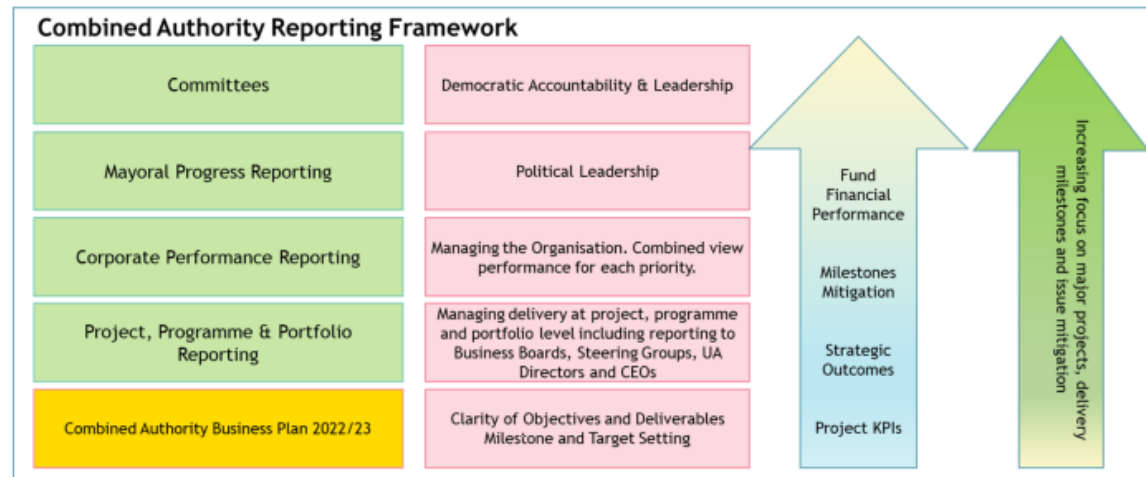


Figure 2: Combined Authority Reporting Framework
Source: MONITORING & EVALUATION FRAMEWORK 2022

The Combined Authority has strengthened its performance management arrangements through the adoption of a Monitoring and Evaluation Framework, as endorsed by the Audit Committee. The Monitoring and Evaluation Framework is underpinned by principles of ensuring meaningful, measurable and consistent performance management.

The Combined Authority's annual business plan is the operational document that sets out the key activities that the Combined Authority will deliver each year. The Combined Authority's medium term financial strategy (MTFS) references the shifting focus from maximising funding to delivering projects. The organisation is looking to make 'a step change in delivery' focusing on increasing the pace and demonstrating a capability to use secured funding to bring about real tangible changes.

Improving economy, efficiency and effectiveness

Given the negative media attention that the Combined Authority has been the focus of due to the difficulties with governance and partner relationships, it is even more important for the Combined Authority to be able to prove that it can effectively manage the funding it is being allocated and deliver the expected outcomes.

We note a number of instances where stakeholder relationships within the West of England Combined Authority have impinged on the alignment of strategy over the last two years (for example, in regard to disagreements over bus services and the spatial development strategy).

The West of England Combined Authority is working on improving stakeholder relationships and has been able to make progress on developing and delivering projects for the benefit of the west of England region.

We will continue to closely monitor progress on the development and delivery of projects to make sure the trajectory remains one of improvement and that the programme is moving with sufficient pace and impact.

The reputational benefits of demonstrating an organized and judicious management of resources will help the Combined Authority to indicate that the arrangements in place provide assurance of value for money. The Combined Authority currently does not externally publish regular updates on its performance against its annual business plan. We have raised an improvement recommendation in this area. Implementation of this recommendation would ensure that key performance indicators are provided to stakeholders to enable monitoring of performance and identify areas for improvement.

The processes for managing the Combined Authority Investment Fund and West of England One Front Door Programme are set out in the Local Growth Assurance Framework which details the agreed prioritisation, appraisal, monitoring and evaluation requirements for each scheme. In December 2022, the Combined Authority updated the Local Growth Assurance Framework. The aim of the guidance is to embed a single approach to the governance of the key funding streams, including the Investment Fund and Transforming Cities Fund.

The Programme Review Board has been created with the aim of identifying and agreeing which projects are needing review and support, providing strategic direction for the recovery of projects, to help manage risks associated with the projects, ensuring a post-project review is scheduled and takes place and make recommendations or request approvals to Committee. The Board is comprised of the Combined Authority and Council S73/S151 officers and directors.

We have reviewed the Terms of Reference of the Programme Review Board and they are fairly lacking in detail and clarity and the ability to provide strategic direction for the Board. Though the Board is still in its infancy, we have raised an improvement recommendation in this area.

Engaging with partners

The Combined Authority was created with the aim of facilitating partnership working between the constituent Unitary Authorities and the Metro Mayor.

The Combined Authority engages with partners on existing major infrastructure projects such as the Metrobus network and the delivery of a range of projects through the Local Enterprise Partnership. The Investment Fund enables the Combined Authority to develop a number of longer-term strategic interventions such as the redevelopment of Temple Meads Station, Mass Transit, Temple Quarter Enterprise Canvas and Somer Valley Enterprise Zone. The delivery of these initiatives depends on the strong foundations of partnership working with delivery partners such as Network Rail, Highways England and the Environment Agency.

The Combined Authority has arrangements in place to learn from other local government organisations to improve its performance. Many networks are in place with other councils and combined authorities, both formal and informal. Chief Executives, S73/S151 officers, HR directors and Strategy Directors all meet frequently and share ideas and learning. The Combined Authority runs the secretariat for the M10 group of the Metro Mayoral Combined Authorities which works across the network to develop shared policy positions, submissions to Government and consultants on behalf of the group.

As one of the recommendations from the SOLACE independent review was for the Combined Authority to 'examine best practice in other combined authorities', the relationship between partners will be instrumental in ensuring that this recommendation is addressed.

Improving economy, efficiency and effectiveness

Procurement

The Combined Authority has had a procurement strategy in place from January 2019. We have reviewed an updated draft procurement strategy that is planning on being made public imminently. The renewal of the procurement strategy is linked to the review of governance and assurance across the Combined Authority.

The Combined Authority also has Contract Standing Orders in place that form part of the body's Constitution. All West of England Combined Authority contracts must comply with the Contract Standing Orders and guidance from specialist procurement officers and legal advice is available in order to comply with legal requirements e.g. EU/UK procurement regulations.

The significant increase in grant funding has resulted in an increased need for enhanced procurement and contract management arrangements to support the programme or work. The organisation has recognised this and have acknowledged the risk that if it fails to adequately procure and contract manage, it would put the successful delivery of projects at risk and inhibit the organisation's ability to achieve value for money.

The organisation has formed a Procurement Team to ensure the West of England Combined Authority is achieving value for money in procurement. Assurance is provided by the Audit Committee's reviews of control frameworks. The Audit Committee provides assurance that internal controls are in place and operating effectively for key control areas including procurement.

City Region Sustainable Transport Settlement (CRSTS)

In April 2022, the Department for Transport declared the success of the West of England Combined Authority's final City Region Sustainable Transport Settlement (CRSTS) programme business case and confirmed the full CRSTS allocation of £540m. The funding is for investment in local transport networks in the West of England Combined Authority area with the following profile of the capital grant:

City Region Sustainable Transport Settlement (CRSTS) grant profile

£'000				
2022/23	2023/24	2024/25	2025/26	2026/27
£104,961	£108,760	£108,760	£108,760	£108,759

The Combined Authority is obligated to account annually what the funding has been spent on as part of the programme business case update and monitoring.

The Combined Authority has designed the CRSTS to function as a five-year capital investment programme to improve the speed and reliability of bus services through segregation, bus priority, junction upgrades and transport hubs. Some of the identified priorities include the Bristol to Bath Sustainable Transport Corridor and the Bristol to Hengrove Metrobus extension. The CRSTS programme relies on partnership arrangements with bus operators. The Combined Authority has directed efforts into building on previous fare agreements to enhance the benefits of investments.

The Metro Mayor is responsible for the delivery of the CRSTS programme. DfT assess performance against the following criteria:

- Value for money
- Growth and productivity
- Levelling up
- Decarbonisation, especially modal shift to public transport and active travel
- Local contribution
- Deliverability

Improving economy, efficiency and effectiveness

In July 2022, the CA put forward a delivery assurance model for all CRSTS funded projects. The governance has four levels:

1. CA Committee – accountable for overall CRSTS programme oversight, assurance and approval for funding
2. CA client sponsor team – responsible for delivery of the overall CRSTS programme
3. Project delivery teams – client teams responsible for overseeing the delivery of individual projects
4. Supply chain – consultants and contractors responsible for design and build of individual projects

The Combined Authority is progressing the MetroWest Phase 1a and Phase 2 throughout 2023/24. It aims to improve frequency and accessibility of trains through delivery of new train lines and stations.

There is evidence of staff changes being funded by CRSTS funding. The change from 2022/23 to 2023/24 budgets shows evidence of several new roles being created, funded by CRSTS. This demonstrates that the Combined Authority is using its CRSTS funding to bring about organizational capacity.

The Overview and Scrutiny Committee 13 March 2023 noted that there were challenges in spending the CRSTS award quickly as many of the projects were still in business case development stage. On 17 March 2023 the Audit Committee also expressed concerns surrounding delays and dependence on contractors relating to projects funded by CRSTS. The Committee also highlighted risks surrounding potential government clawback and the risk that descoping could reduce benefits and net zero gains.

The Combined Authority should now focus on demonstrating delivery of the projects funded by CRSTS in order to demonstrate the capability to turn the successful receipt of funding into tangible changes on the ground. There has been significant mention of the success in securing the CRSTS funding, with little mention of the progress on delivery of the projects funded by CRSTS. At present, there is evidence of using CRSTS funding to progress the next stages of business case development as opposed to moving the projects from business case phase to delivery phase. The Combined Authority has a notable task at hand with the 256% increase in grant funding.

The challenge will be to demonstrate that it can manage this increase and translate the funding into meaningful changes. To hammer home the organizational shift to the 'step change' in delivery, the organisation must focus on demonstrating that delivery through public reporting of key performance indicators and delivery milestones.

Conclusion

The West of England Combined Authority has had a successful year in terms of attracting and securing funding to the region as is demonstrated by the 256% increase in grant funding. The organisation must now shift its focus to demonstrating delivery of the programme of work supported by this funding.

The independent peer review by SOLACE pointed to weaknesses in the organisational understanding of its purpose and overall strategic direction. Performance is guided by strategy. The Combined Authority has made efforts to strengthen performance management through the development of the Monitoring and Evaluation Framework. There is, however, room for improvement with regard to measurement and publication of key performance metrics.

Procurement strategies are currently being refreshed and a Procurement Team has been formed in light of the increase in grant funding.

The receipt of the £540m CRSTS funding from the Department for Transport represents a significant sum for the Combined Authority to progress investment in local transport networks. There is currently limited evidence of 'on the ground' delivery of projects funded by CRSTS due to projects being in business case development phase. We have raised improvement recommendations in this area.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 6

The Combined Authority should publicly publish its performance against its Business Plan.

Why/impact

The organisation is looking to make ‘a step change in delivery’ focusing on increasing the pace and demonstrating a capability to use secured funding to bring about real tangible changes. Given the negative press that the Combined Authority has been the focus of due to the difficulties in the governance arrangements, it is even more important for the Combined Authority to be able to prove that it can effectively manage the funding it is being allocated. The reputational benefits of demonstrating an organized and judicious management of resources will help the Combined Authority to indicate that the arrangements in place provide assurance of value for money. The Combined Authority currently does not publicly publish its performance against its annual business plan. Implementation of this recommendation would ensure that key performance indicators are provided to Members to enable monitoring of performance and identify areas for improvement.

Management Comments

A performance framework to track delivery against for the Business Plan is in development.

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 7

The Combined Authority should strengthen the Programme Review Board Terms of Reference to include regularity of meetings, composition of membership, powers of the Board, operation of the Board and the review and assessment of the Board.

The Board should agree an agreed list of indicators to report against at meetings to ensure consistent measurement of performance against like-for-like indicators. This will help to ensure greater clarity and accountability for progress against key performance indicators.

Why/impact

We have reviewed the Terms of Reference of the Programme Review Board and they are fairly lacking in detail and clarity surrounding the arrangements of the Board. The creation of a list of indicators to report against would ensure greater accountability for performance.

Management Comments

The frequency of the meetings of the Programme Review Board has been set at monthly frequency. The scope and attendance is being extended including a wider range of Unitary Authority representation. In the light of this the terms of reference will be reviewed at the next meeting of the Board. As part of the ongoing work of the Board and, in particular, related to the "Line by Line" review of projects and programs new performance indicators will be established and performance monitored by the Board and reported back to the Combined Authority Committee

The range of recommendations that external auditors can make is explained in Appendix C.

Improvement recommendations



Improving economy, efficiency and effectiveness

Recommendation 8

The Combined Authority should seek to move the use of CRSTS funding from business case development phase to delivery phase. There must be corresponding reporting against performance indicators and key delivery milestones to evidence this.

Why/impact

There are currently concerns that CRSTS funding is not moving from planning to delivery phase due to the high number of projects that are still in business case development phase. As the organisation is keen to prove its ability to deliver change, reporting against key delivery milestones will go a long way to demonstrate West of England Combined Authority's capability to turn funding into meaningful change.

Management Comments

The Combined Authority is already in the process of reviewing and rebasing the city region sustainable transport settlements. Additionally, city region sustainable transport settlements and the progress of the program was a major item on the Program Review Board agenda on 25th May 2023 and it was agreed that CRSTS to be added to each monthly PRB agenda – July – Sept with a focus on tightening up all scoping for each project for CRSTS – with this Board having full visibility of progress.

The range of recommendations that external auditors can make is explained in Appendix C.

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
SR1	The Mayor and members of the Combined Authority represented by the Council Leaders, must commit to improving their working relationship and demonstrate that significant progress has been made within a reasonable timeframe to be determined by the Mayor and Combined Authority. This should include a role for independent mediation and the constructive consideration of advice arising from this process.	Statutory	December 2022	In addition to our findings on pages 5 to 9, we recognise that since this recommendation was raised, the independent peer review has taken place and the local government minister has indicated he is content with the action being taken. Action is in train to enable independent facilitation of discussion around role and purpose of the CA.	No	Remains outstanding.
SR2	A formal protocol should be agreed between member organisations within the Combined Authority to commit to consultation on key proposals, that they should define, at an earlier stage. Combined Authority members should engage effectively in this process, to help mitigate points of contention before they are published and debated in public. This should include a commitment to deliver proposals on a reasonable timetable.	Statutory	December 2022	In addition to our findings on pages 5 to 9, in the lead up to the June Committee, the process for paper development has been brought forward allowing for earlier engagement from partners in content and recommendations. CEOs now receive papers four weeks ahead of the meeting date.	No	Remains outstanding.
SR3	In future, in all circumstances, including where there is a potential conflict of interest affecting individual statutory officers, adequate steps must be taken to ensure the statutory duties of these officers is effectively discharged.	Statutory	December 2022	In addition to our findings on pages 5 to 9, action has taken with a new protocol in place. There is still progress to be made in terms of recruitment of an MO.	Partially	Remains outstanding.
KR1	The future management structure of the Combined Authority should be reviewed in order to ensure it is fit for purpose in the context of new funding awards and strategic priorities and this must include appropriate consultation and agreement by the CA Committee.	Key	December 2022	In addition to our findings on pages 5 to 9, the Transformation Programme will progress this work.	No	Remains outstanding.
KR2	The Constitution of the Combined Authority should be revised to define the conditions under which it is acceptable for other officers and members to seek independent legal advice, without reference to the Monitoring Officer and/or Head of Legal Services.	Key	December 2022	See pages 5 to 9	Yes	Resolved

Follow-up of previous recommendations

	Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?
IR1	We recommend that consideration of relationships within the Chief Executive Group should be incorporated into any relationship development and mediation work undertaken.	Improvement	December 2022	See pages 5 to 9	No	Remains outstanding
IR2	We recommend that the Constitution be reviewed, as previously considered by Combined Authority members. This should incorporate the new Monitoring Officer protocol but also focus on the specific ambiguities raised in recent legal advice including the definition of statutory roles, delegated powers, managing conflicts of interest, decisions on all senior staffing matters including restructure and severance. The results should be reported to Committee and used alongside the points we have raised as a basis for revision. There may be value in reviewing other combined authority constitutions to optimise the opportunity to improve the document in these areas.	Improvement	December 2022	See pages 5 to 9	No	Remains outstanding
IR3	We recommend that the annual performance reviews of senior officers be formally recorded, including reasonable steps taken to manage issues and provide access to resources to enable skills development as appropriate.	Improvement	December 2022	See pages 5 to 9	Yes	Resolved
IR4	We recommend that the Monitoring Officer role retains its current seniority at Director level in any future restructure or that sufficient safeguards are implemented to protect the Combined Authority and influence of the role.	Improvement	December 2022	See pages 5 to 9	Yes	Resolved

Opinion on the financial statements



Audit opinion on the financial statements

We gave an unqualified opinion on the Combined Authority's financial statements on 22 December 2022.

Other opinion/key findings

There are no issues to report.

Audit Findings Report

More detailed findings can be found in our final AFR, which was shared with the Combined Authority's Audit Committee at the time we issued our opinion.

We produced an initial AFR in late October 2022 and presented this to the Audit Committee on 17 November 2022. We produced a further AFR in late November and presented this to the Audit Committee on 12 December 2022, together with a verbal update.

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 returns where appropriate.

The Combined Authority is below the threshold set by the NAO and no additional work was required.

Preparation of the accounts

The Combined Authority provided draft accounts in line with the national deadline.

Issues arising from the accounts:

Our testing identified omitted accruals in both 2020/21 and 2021/22.

The sum regarding the omitted accruals in 2020/21 was material (£6.9m) and so a prior period adjustment was required.

The adjustments relating to the omitted accruals in 2021/22 were made to the 2021/22 financial statements.

There was no net impact on the outturn in either year as the income drawn down was amended to reflect the revised expenditure in the year. However, there were over 100 amendments made to the financial statements as a result of these missed accruals and the other issues reported in our Audit Findings Report.

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

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 – Risks of significant weaknesses, our procedures and findings

As part of our planning and assessment work, we considered whether there were any risks of significant weakness in the Combined Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we identified are detailed in the table below, along with the further procedures we performed, our findings and the final outcome of our work:

Risk of significant weakness	Procedures undertaken	Findings	Outcome
Financial sustainability was not identified as a potential significant weakness, see pages 13 to 15 for more details.	N/A – no risk of potential significant weakness identified	See pages 13 to 17	Appropriate arrangements in place, one improvement recommendation raised.
Governance was identified as a potential significant weakness, see page 5 to 9 and 17 to 19 for more details.	We reviewed the progress against our December 2022 audit report and the SOLACE report.	See pages 5 to 9 and 18 to 23.	Appropriate arrangements not in place. Four significant weaknesses remain. Three statutory recommendations, two key recommendations and four improvement recommendations remain. Three new improvement recommendations raised.
Improving economy, efficiency and effectiveness was identified as a significant weakness, a more detailed review was undertaken see page 23 to 26 for further information	We reviewed the progress against our December 2022 audit report and the SOLACE report.	See pages 24 to 30	Appropriate arrangements in place, three improvement recommendations raised.

Appendix C – 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	Raised within this report	Page reference
Statutory	Written recommendations to the Combined Authority under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	Yes	See pages 5 to 9
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’.	Yes	See pages 5 to 9
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.	Yes	See pages 5 to 9, 16-17, 21 to 23, 28 to 30

Appendix D – Sources of evidence



Staff involved

- Richard Ennis, Interim Acting Chief Executive
- Stephen Fitzgerald, Interim Director of Investment and Corporate Services
- Stephen Gerrard, Interim Director of Law and Democratic Services
- Alistair Kirk, Interim Director of Infrastructure
- David Gibson, Director of Infrastructure
- Selonge Russell, Head of Finance
- Pete Davis, Head of Grant Management and Assurance
- Matt Davis, Senior Finance and Project Business Partner
- Malcolm Parsons, Head of Capital Delivery
- Nuala Waters, PMO Manager
- Kevin Bates, Interim Head of Commercial
- Jess Lee, Head of Strategy and Policy



Documents Reviewed

- Mayoral And Combined Authority Budget 2023/24 And Medium-term Financial Strategy
- Statement Of Accounts 2021/22
- Capital Strategy Including Treasury Management & Investment Strategies
- West Of England Combined Authority And Mayoral Budget Forecast Outturn 2022/23
- Decisions Of West Of England Combined Authority Committee On 27 January 2023
- Lep Budget Setting Report – 2023/2024
- The West Of England Combined Authority Audit Committee Terms Of Reference
- Audit Committee – Review Of Effectiveness 2023
- Internal Audit Plan 2023/24
- Internal Audit Annual Report 2021/22
- Risk Management Framework 2022
- Constitution – Amended December 2022
- West Of England Combined Authority Vfm Report On Governance
- Corporate Risk Register
- Independent Review, West Of England Combined Authority, SOLACE
- Audit Action Plan: Feedback From Audit And Overview & Scrutiny Committees And Progress Report
- Combined Authority Committee Constitutional Update
- West of England Combined Authority Audit Findings Report 2021-22
- Joint Committee Governance Review
- Climate And Ecological Strategy And Action Plan 2023
- Independent Evaluation Of Local, Growth Interventions November 2022
- Investment Fund Delivery Assurance
- CRSTS Funding Settlement Letter For West Of England 1 April 2022
- Programme Review Board Terms Of Reference
- Procurement Strategy
- Monitoring And Evaluation Framework 2022

Appendix E - Key acronyms and abbreviations

The following acronyms and abbreviations have been used within this report

NAO – National Audit Office

AGS – annual governance statement

The Code - Code of Audit Practice

SOLACE – Society of Local Authority Chief Executives

CIPFA – Chartered Institute of Public Finance and Accountancy

CRSTS – City Region Sustainable Transport Settlement

AGN - Auditor Guidance Note

WECA – West of England Combined Authority

VfM – Value for Money

CA – Combined Authority

SMT – Senior Management Team

MTFS – Medium Term Financial Strategy

DfT – Department for Transport

