

# Public Document Pack



West Midlands  
Combined Authority

## Audit, Risk & Assurance Committee

**Date:** Monday 3 February 2025

**Time:** 11.00 am **Public meeting** Yes

**Venue:** Room 116, West Midlands Combined Authority, 16 Summer Lane, Birmingham, B19 3SD

### Membership

Mark Smith (Chair)

Independent Chair

### Voting Members

Councillor Ram Lakha OBE (Vice-Chair)

Councillor Nicholas Bardsley

Councillor Richard Baxter-Payne

Councillor Edward Fitter

Councillor Jaspreet Jaspal

Councillor Thomas Johnston

Councillor Wayne Little

Councillor Rose Martin

Councillor Karen McCarthy

Councillor Jacquie Prestwood

Councillor Ian Woodall

Coventry City Council

Shropshire Non-Constituent Authorities

Warwickshire Non-Constituent Authorities

Solihull Metropolitan Borough Council

City of Wolverhampton Council

Sandwell Metropolitan Borough Council

Dudley Metropolitan Borough Council

Walsall Metropolitan Borough Council

Birmingham City Council

Staffordshire Non-Constituent Authorities

Worcestershire Non-Constituent Authorities

Quorum for this meeting shall be seven voting members.

**Laura Shoaf**

**Chief Executive, West Midlands Combined Authority**

If you have any queries about this meeting, please contact:

**Contact** Craig Evans, Governance Services Officer

**Telephone** 07584 009024

**Email** [Craig.Evans@wmca.org.uk](mailto:Craig.Evans@wmca.org.uk)

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# AGENDA

No.	Item	Presenting	Pages	Time
<b>Items of Public Business</b>				
1.	Apologies for Absence	Chair	None	11:00
2.	Declarations of Interest  Members are reminded of the need to declare any disclosable pecuniary interests they have in an item being discussed during the course of the meeting. In addition, the receipt of any gift or hospitality should be declared where the value of it was thought to have exceeded £25 (gifts) or £40 (hospitality).	Chair	None	11:01
3.	Minutes - 5 December 2024	Chair	1 - 4	11:02
4.	Matters Arising	Chair	None	11:05
5.	Action List	Chair	5 - 6	11:10
6.	Work Programme	Chair	7 - 10	11:15
7.	Chair's Remarks (if any)	Chair	None	11:20
8.	2024/25 Forecast & 2025/26 Budget Update	Linda Horne	Verbal Report	11:25
9.	Internal Audit Update Report	Matthew Dean	11 - 56	11:40
10.	Strategic Risk Update	Peter Astrella	57 - 86	11:55
11.	Assurance Performance Report Q2 2024/25	Joti Sharma	87 - 98	12:10
12.	2025/26 Treasury Management Policy, Strategy and Practices	Mark Finnegan	99 - 128	12:25
13.	Exclusion of the Public and Press [In accordance with s100(A) of the Local Government Act 1972, the public and press be excluded from the meeting for the following items of business as they are likely to involve the disclosure of exempt information as specified in the paragraphs of the Act.]	Chair	None	
14.	Consideration of Private Internal Audit Reports	Chair	None	12:45
<b>Date of Next Meeting</b>				

15.	Monday 14 April 2025		None	
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## **Audit, Risk & Assurance Committee**

**Thursday 5 December 2024 at 11.00 am**

### **Minutes**

#### **Present In Person**

Mark Smith (Chair) – Non-Voting

Independent Chair

Councillor Ram Lakha OBE (Vice-Chair)

Coventry City Council

Councillor Nicholas Bardsley

Shropshire Non-Constituent Authorities

Councillor Richard Baxter-Payne

Warwickshire Non-Constituent Authorities

Councillor Edward Fitter

Solihull Metropolitan Borough Council

Councillor Jaspreet Jaspal

City of Wolverhampton Council

Councillor Thomas Johnston

Sandwell Metropolitan Borough Council

Councillor Wayne Little

Dudley Metropolitan Borough Council

Councillor Rose Martin

Walsall Metropolitan Borough Council

Councillor Karen McCarthy

Birmingham City Council

#### **In Attendance**

Louise Cowen

West Midlands Combined Authority

Helen Edwards

West Midlands Combined Authority

Craig Evans (Secretary)

West Midlands Combined Authority

Laurelin Griffiths

West Midlands Combined Authority

Linda Horne

West Midlands Combined Authority

Lorraine Quibell

West Midlands Combined Authority

#### **Item Title**

##### **No.**

#### **47. Apologies for Absence**

An apology for absence was received from Councillor Jacque Prestwood (Staffordshire).

#### **48. Minutes - 18 November 2024**

The minutes of the meeting held on 18 November 2024 were agreed as a correct record, subject to the following amendments:

##### *Minute No. 34 Apologies for Absence*

Councillor Lakha noted a correction for the name of the councillor from Walsall who attended as an alternate for Councillor Martin at the meeting on 18 November 2024. Name to be corrected to Councillor Gurmeet Singh Sohal.

Councillor Lakha noted that the minutes of the meeting on 30 September 2024 were not approved at the 18 November 2024 Audit, Risk & Assurance Committee, due to the meeting being inquorate.

The Chair thanked Councillor Lakha for his comments and recommended that as this meeting was quorate, for the committee to approve the minutes retrospectively. This was agreed by committee members.

**49. Annual Accounts 2023/24 for West Midlands Combined Authority**

The committee considered a report from the Head of Financial Management to enable the Audit, Risk & Assurance Committee to approve the annual accounts for the West Midlands Combined Authority (WMCA) for the financial year ended 31 March 2024.

The Chair noted that appendix 2 containing the audit findings report from Grant Thornton had been updated following the meeting of 18 November 2024, with highlighted changes in yellow. In addition, the Chair noted that he had provided the WMCA Finance team with some minor typographical updates for the final version.

Additionally, the financial sustainability of the West Midlands and other mayoral combined authorities was queried by Councillor Martin and in response, the Executive Director of Finance & Business Hub noted that this was a national issue and discussions between West Midlands Leaders and the Mayor about budget proposals for the next year were ongoing. The focus was on a medium and long-term financial sustainability, with a full update expected in the January 2025 WMCA Board financial monitoring report. She further noted that the draft budget for 2025-2026 would also include updates on these sustainability efforts, however, it was confirmed that there was sufficient certainty in relation to the financial year ended March 2026 to support preparing the accounts on the going concern basis.

There was a strong desire from the committee to report the completion and signing of the accounts by the time of the 13 December WMCA Board meeting and the Chair offered the WMCA's assistance and cooperation to support Grant Thornton if required.

The Executive Director of Finance and Business Hub expressed her gratitude for the hard work of the finance and audit teams, noting that according to the latest update from PSAA, only five local government authorities, out of a population of 459 relevant bodies, had signed off their 2023-24 accounts by 31 October 2024.

Resolved:

- (1) The WMCA's annual accounts for 2023/24 be approved.
- (2) The Audit Findings Report for 2023/24 presented by Grant Thornton be noted.

- (3) That Grant Thornton proposed to issue an unqualified audit opinion for the accounts be noted.
- (4) The signing of the letter of representation by the Executive Director of Finance and Business Hub as set out in Appendix F of the Audit Findings Report be approved.
- (5) That the Chair of Audit, Risk and Assurance Committee be authorised to sign off any further changes required to the Statement of Accounts for 2023/24 prior to their publication be approved.
- (6) Subject to no further issues being raised by Grant Thornton, approve that the Mayor and the Executive Director of the Finance and Business Hub be authorised to sign the accounts on behalf of the WMCA be agreed.
- (7) The Auditor's Annual Report on WMCA for the year ended 31 March 2023 be noted.
- (8) Publication of the Auditor's Annual Report on the WMCA's website be approved.

[The meeting ended at 11.30am].

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**Audit, Risk and Assurance Committee Action List 2024-25**

Date of meeting	Minute No. / Item	Action	Owner	Scheduled Completion Date
30.09.24	24. Independent Transport Review Update	Circulation of the Independent Transport Review scope document to members of ARAC.	Craig Evans	ACTION COMPLETED 21.10.24
15.07.24	7. Work Programme	Amend January 2025 ARAC meeting due to Holocaust Memorial Day to 3 February 2025.	Craig Evans	ACTION COMPLETED 30.09.24
15.07.24	9. WMCA External Audit Plan 2023/24	Risks of significant Value for Money (VfM) weaknesses key recommendations. ARAC to revisit previous years recommendations to consider from the previous years audit to ensure recommendations being addressed.	Chair	ACTION COMPLETED 18.11.24 30.09.24 - To be discussed on 18 November 2024 ARAC meeting during Grant Thornton's 'FY2024 External Audit Findings' agenda item.
15.07.24	10. WMCA Revenue Budget and Capital Programme Summary 2024/25	Circulate WMCA Board papers to ARAC for oversight of finance papers prior to each WMCA Board meeting.	Craig Evans	ACTION COMPLETED 30.09.24
15.07.24	10. WMCA Revenue Budget and Capital	Circulate WMCA Budget 2024/25 presentation slides that were	Craig Evans	ACTION COMPLETED 30.09.24

	Programme Summary 2024/25	provided at the WMCA Member Induction Session in June 2024		
04.10.23	32. Summary of WMCA's Arm's Length Companies.	Regular update report to be submitted (quarterly or half yearly suggested).	Helen Edwards	ACTION COMPLETED 11.03.24

**AUDIT, RISK AND ASSURANCE COMMITTEE  
WORK PROGRAMME**

<b>COMMITTEE MEETING</b>		<b>REPORT AND AUTHOR</b>	<b>OFFICERS' AGENDA BRIEFING MEETING WITH CHAIR</b>	
<i>Date of Meeting</i>	<i>Date Final Reports to be submitted to Governance Services</i>		<i>Date of Meeting</i>	<i>Draft reports for send out</i>
<b>15 July 2024</b>	<b>4 July</b>	<ul style="list-style-type: none"> <li>• 2024/25 Internal Audit Plan (Matthew Dean)</li> <li>• 2023/24 Internal Audit Update Report (Matthew Dean)</li> <li>• Whistleblowing Update Report (Loraine Quibell)</li> <li>• Risk Management at the WMCA (Peter Astrella)</li> <li>• Strategic Risk Update (Peter Astrella)</li> <li>• Assurance Report (Joti Sharma)</li> <li>• Treasury Management Outturn Report 2023/24 (Mark Finnegan)</li> <li>• WMCA External Audit Plan 2023/24 (Louise Cowen/Zak Francis, Grant Thornton)</li> </ul>	<b>1 July</b>	<b>26 June</b>
<b>30 September 2024</b>	<b>16 September</b>	<ul style="list-style-type: none"> <li>• Internal Audit Update Report (Matthew Dean)</li> <li>• Internal Audit Charter (Matthew Dean)</li> <li>• Strategic Risk Update (Peter Astrella)</li> <li>• Assurance Report (Joti Sharma)</li> <li>• Overview of WMCA's Arm's Length Companies (Helen Edwards)</li> <li>• Annual Accounts / External Audit Process (Louise Cowen)</li> </ul>	<b>TBC</b>	<b>TBC</b>

**AUDIT, RISK AND ASSURANCE COMMITTEE  
WORK PROGRAMME**

<b>COMMITTEE MEETING</b>		<b>REPORT AND AUTHOR</b>	<b>OFFICERS' AGENDA BRIEFING MEETING WITH CHAIR</b>	
<i>Date of Meeting</i>	<i>Date Final Reports to be submitted to Governance Services</i>		<i>Date of Meeting</i>	<i>Draft reports for send out</i>
		<ul style="list-style-type: none"> <li>• Transport Capital Projects Review (Linda Horne)</li> <li>• Independent Transport Review Update (Helen Edwards)</li> <li>• WMCA External Audit Progress Report (Louise Cowen)</li> </ul>		
<b>18 November 2024</b>	<b>7 November</b>	<ul style="list-style-type: none"> <li>• Internal Audit Update Report (Matthew Dean)</li> <li>• Treasury Management Mid-Year Report 2024/25 (Mark Finnegan)</li> <li>• FY24 External Audit Findings (Grant Thornton)</li> <li>• Energy Efficiency: Retrofit Schemes Overview (Rob Johnson)</li> <li>• Independent Transport Review Update (Helen Edwards)</li> <li>• Annual Accounts 2023/24 for WMCA (Linda Horne / Grant Thornton)</li> </ul>	<b>4 November</b>	<b>30 October</b>
<b>3 February 2025</b>	<b>23 January</b>	<ul style="list-style-type: none"> <li>• Internal Audit Update Report (Matthew Dean)</li> <li>• Treasury Management Strategy Statement 2025/2026 (Mark Finnegan)</li> <li>• Strategic Risk Update (Peter Astrella)</li> <li>• Assurance Report (Joti Sharma)</li> </ul>	<b>20 January</b>	<b>15 January</b>

**AUDIT, RISK AND ASSURANCE COMMITTEE  
WORK PROGRAMME**

<b>COMMITTEE MEETING</b>		<b>REPORT AND AUTHOR</b>	<b>OFFICERS' AGENDA BRIEFING MEETING WITH CHAIR</b>	
<i>Date of Meeting</i>	<i>Date Final Reports to be submitted to Governance Services</i>		<i>Date of Meeting</i>	<i>Draft reports for send out</i>
		<ul style="list-style-type: none"> <li>• 2024/25 Forecast &amp; 2025/26 Budget Update (Linda Horne)</li> </ul>		
<b>14 April 2025</b>	<b>3 April</b>	<ul style="list-style-type: none"> <li>• Internal Audit Update Report (Matthew Dean)</li> <li>• Strategic Risk Update (Peter Astrella)</li> <li>• Assurance Report (Joti Sharma)</li> <li>• Annual Governance Statement (Helen Edwards)</li> <li>• 25/26 Internal Audit plan (Matthew Dean)</li> <li>• Health and Safety Annual Update (Ben Gittings)</li> <li>• FY25 Audit Plan (Grant Thornton)</li> <li>• Overview of WMCA's Arm's Length Companies (Helen Edwards)</li> <li>• Independent Transport Capital Programme Review Update (Helen Edwards)</li> <li>• Business Continuity (Kili Thomas)</li> <li>• Data Protection &amp; Information Processing Annual Update (Gurmit Sangha)</li> </ul>	<b>28 March</b>	<b>25 March</b>

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**Name of meeting:** Audit, Risk & Assurance Committee

**Meeting date:** 03 February 2025

**Report title:** Internal Audit Update Report

**Responsible Director:** Helen Edwards, Director of Law, Governance & Audit  
Email: Helen.Edwards@wmca.org.uk

**Report author:** Matthew Dean, Head of Internal Audit and Information Governance  
Email: Matthew.Dean@wmca.org.uk

**Key Decision?** No

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Is the ability for the Combined Authority to make a decision internally reliant on Constituent or Non-Constituent Councils making a formal decision first?

Yes       No

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**Public/private report:** Part Exempt

**Exempt by virtue of paragraph:** Private Appendices only - Paragraph 3 of 12A of the Local Government Act 1972. The public interest test has been applied and it is considered that the public interest in keeping the relevant information confidential outweighs the public interest in disclosing it.

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## Recommendations

The Audit, Risk and Assurance Committee is asked to:

- (1) Note the contents of the latest Internal Audit Update Report and the amendments to the original plan, including those audits which have been added, deferred or cancelled since its approval on 15 July 2024.
  - (2) Note progress on the implementation of recommendations.
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## Voting Requirements

A simple majority of the members appointed by the constituent councils, in attendance in the meeting room and indicating their preference, are required to vote in favour of any recommendation/proposition for it to become a decision of the board.

## **1. Executive Summary**

- 1.1 The purpose of this report is to present the Committee with an update on the work completed by Internal Audit since the previous update in November 2024 and progress made against delivery of the 2024/25 Internal Audit Plan.
- 1.2 The annual audit plan approved by the Committee in July 2024 continues to be reviewed to ensure that areas included originally remain relevant and reflect the risk profile of the organisation. In relation to this the first two quarters of the financial year were dominated by a range of grant verification exercises including Core Growth Hub, Commonwealth Games Legacy Enhancement Fund, West Midlands Innovation Programme, Multi Area Connected Automated Mobility and Social Housing Decarbonisation Fund, along with completion of the deferred 23/24 Internal Audit plan audits.
- 1.3 The Internal Audit Team has maintained its work on key corporate projects by providing a project support consultancy role and advising on the implementation and application of internal control. These projects include the implementation of the new Procurement Act 2023, Contract Management working group and the Integrated Settlement workstream.
- 1.4 During the period of this update and since November 2024 audit work has consisted of the completion of 2024/25 audits contained within the audit plan, alongside unplanned audit work in relation to investigation work and urgent corporate project audit requests. Within the period two corporate projects have been requested for completion within 24/25 including additional audit work in relation to the external review of capital projects within TfWM.
- 1.5 To bring the 2024/25 Internal Audit Plan back into balance and having taken into account the additional work requested and carried out, as well as unforeseen staff absences a total of four audits have been cancelled from the original audit plan. A further two audits are due to be deferred into 2025/26 due to individual project/area requirements as detailed within the full progress report at Appendix 1.
- 1.6 Where possible, some elements of the cancelled audits are included in those reviews still going ahead. In other cases, the auditable area will be reconsidered as part of next year's annual audit planning process. The amendments to the Internal Audit Plan will not impair the Chief Audit Executive from making their annual audit opinion on the WMCA's control environment at the end of 2024/25.

## **2. Matters for Consideration**

2.1 N/A

## **3. What options have been considered and what is the evidence telling us about them?**

3.1 N/A



#### **4. Reasons for recommending preferred option**

4.1 N/A

#### **5. Implications and Considerations**

Priority:	Contribution:
Delivery of Strategic Transport Plan	N/A
Promote inclusive economic growth in every corner of the region	N/A
Ensure everyone has the opportunity to benefit	N/A
Connect our communities by delivering transport and unlocking housing and regeneration schemes	N/A
Reduce carbon emissions to net zero and enhance the environment	N/A
Secure new powers and resources from central government	N/A
Develop our organisation and our role as a good regional partner	N/A

#### **6. Consultation and Scrutiny:**

6.1 N/A

#### **7. Financial implications:**

7.1 N/A

#### **8. Legal implications:**

8.1 N/A

#### **9. Implications:**

##### **Programme Assurance and Appraisal Implications:**

9.1 N/A

##### **Procurement Implications:**

9.2 N/A

##### **Equality Implications:**

9.3 N/A

##### **Inclusive Growth Implications:**

9.4 N/A

#### **10. Risk implications, including Risk Appetite:**

10.1 N/A

#### **11. Local Authority Impact:**

11.1 N/A

#### **12. List of appendices referred to:**

12.1 N/A

**13. Background papers used to compile this report:**

13.1 N/A

**14. List of Other Relevant Documents**

14.1 Appendix 1 – Progress Report

14.2 Appendix 2 – TfWM External Assurance Follow Up Report

14.3 Appendix 3 – Independent Training Providers Report

14.4 Private Appendix – Detailed Reports (TfWM External Assurance Follow Up Report and Independent Training Providers Report)



# West Midlands Combined Authority

## Internal Audit Progress Report – 3 February 2025

### 1. Introduction

The purpose of this report is to bring the Audit, Risk and Assurance Committee (ARAC) up to date with the work undertaken by Internal Audit since the previous update and the progress made against delivery of the Internal Audit Plan.

The Audit, Risk and Assurance Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements.

This update provides the committee with information on recent audit work that has been carried out since the previous update on 18 November 2024, and to assist them in discharging their responsibility by giving the necessary assurances on the system of internal control.

### 2. Progress Summary (2024/25 Internal Audit Plan)

The following internal audit reviews have been completed or are in progress in relation to the 2024/25 Internal Audit Plan:

Auditable area	Level of assurance obtained/Status
<b>Audit reviews previously reported</b>	
Core Growth Hub – Grant verification	N/A – Verification provided

Auditable area	Level of assurance obtained/Status
Commonwealth Games Legacy Enhancement Fund – Grant verification	N/A – Verification provided
West Midlands Innovation Programme - Phase 2 Q5	N/A – Verification provided
Multi Area Connected Automated Mobility – Grant verification	N/A – Verification provided
UK Shared Prosperity Fund	Reasonable Assurance
Information at Bus Stops and Shelters (Operator Charging)	Reasonable Assurance
Social Housing Decarbonisation Fund – Wave 2.1 – Grant verification	N/A – Verification provided
<b>Audit reviews completed this period</b>	
TfWM External Assurance Follow up - Governance and Capital Projects	Reasonable Assurance
Single Settlement - Readiness Check	Reasonable Assurance
Independent Training Providers	Reasonable Assurance
West Midlands Innovation Programme - Phase 2 Q6	N/A – Verification provided
<b>Audits/work in progress</b>	
<b>Status</b>	
Corporate Credit Cards	Final review
Procurement: Readiness for the Procurement Act 2023	Draft report issued
Digital Transport Systems	In progress – Testing
West Midlands Innovation Programme - Phase 2 Q7	In progress – Testing
Zero Emissions Vehicle Infrastructure	In Progress – Planning
Gifts and Hospitality Declarations – follow up	Final review
Careers Enterprise Company (CEC)	In progress – Testing
Change Control	In progress – Testing
KFS – Payroll	In progress – Testing
Annual Business Plan Performance Reporting	In Progress – Planning
Board Paper Governance	Final review
Brownfield Housing Fund	In Progress – Planning
KFS - Accounts Receivable	In Progress – Planning
KFS - Accounts Payable	In Progress – Planning

Auditable area	Level of assurance obtained/Status
External IT Vulnerabilities	In Progress – Planning

### 3. Progress Detail

One external grant certification (West Midlands Innovation Programme - Phase 2 Q6) has been carried out during this period to fulfil the requirement for periodic “Independent Reasonable Assurance Reports (“Accountant’s Report”)", as required by the external funding body. The Q7 certification of the same grant is currently underway and due to be issued by 31 January.

Three audits have been completed to final report stage during the period of this update. A summary of each audit is provided below including the assurance opinion provided and number/risk rating of recommendations made.

#### TfWM External Assurance Follow up - Governance and Capital Projects

A follow up review of TfWM External Assurance - Governance and Capital Projects has been carried out to seek assurance over the implementation of actions arising from the Nexus and Mazars external assurance reports previously carried out into TfWM, including evidence of the impact of delivery improvements.

An overall opinion of Reasonable assurance was provided. Overall, we have concluded that considerable progress has been made in the implementation of actions to satisfy the recommendations made within both the previous assurance reports. In total the majority of actions (55%) have been fully implemented across all recommendations made, with the remaining 45% (10) actions partially implemented. This is a substantial improvement in comparison to February 2024, where 43% of Nexus and 100% of Mazars recommendations were outstanding.

Further details are provided within the summary report at Appendix 2 and full report (including the summary of recommendations and agreed actions) within the private appendix.

#### Integrated Settlement - Readiness Check

An internal Readiness Check has been undertaken by Internal Audit to assess the organisation’s preparedness for the start of the Integrated Settlement, due on 1st April 2025, and in advance of an external readiness check being carried out by Deloitte as per paragraph 83 of the Single Settlement Memorandum of Understanding.

The final audit report has been issued with an audit opinion of Reasonable Assurance Provided. Internal Audit are currently liaising with management to agree alignment of the recommendations made within the report to the wider Integrated Settlement workstream and external assurance work by Deloitte. The final audit report will be reported to ARAC at the next meeting of the Committee.

#### Independent Training Providers

A review of Adult Skills independent training providers has been carried out to provide assurance over the management and performance of Independent Training Providers including allocation of funding, policies and procedures, monitoring, financial due diligence and procurement and delivery outcomes.

An overall opinion of Reasonable assurance was provided with one high, one medium and two low level recommendations being identified where improvements could be made and for action by the department. A further one advisory recommendation was made within the report. These included:

- A lack of supporting documents retained to demonstrate compliance with joining the Dynamic Purchasing System or commissioning Independent Training Providers
- Financial due diligence and financial health monitoring reviews of the management accounts for the Independent Training Providers not being completed in accordance with WMCAs internal process and the expected frequency, based on their financial RAG rating.

Further details are provided within the summary report at Appendix C and full report (including the summary of recommendations and agreed actions) within the private appendix.

#### Audits In Progress

A total of thirteen audits, one external grant certification and one follow up review are currently in progress from the 2024/25 Internal Audit Plan at various stages of completion. Audits are detailed within the summary table at section 2 of this report.

### **5. Changes to the Internal Audit Plan**

The nature of evolving risks and the allocation of Internal Audit resource makes it likely that the audit assignments included within the annual plan may be subject to change. Consequently, the Internal Audit Plan is reviewed regularly to reflect changing risks and/or objectives and resource of the Internal Audit team. In line with the Audit Charter any major proposed changes to the approved plan will be presented to ARAC for consideration.

Within the period of this update two corporate projects have been requested for completion within 24/25. These include additional audit work in relation to the external review of capital projects within TfWM. In addition, Internal Audit has seen an increase in the requirements for audit investigation work within the period due to a rise in the number of whistleblowing and corporate complaints. A full summary update on the whistleblowing and complaint investigation work undertaken will be provided at the next meeting of this Committee.

As a result of the additional work, the Internal Audit Management team continues to monitor its impact on the delivery of the approved Internal Audit Plan and regular reconciliations of resources to Audit Plan delivery are undertaken. To bring the 2024/25 Internal Audit Plan back into balance and having taken into account the additional work requested and carried out, as well as unforeseen staff absences a total

of four audits have been cancelled from the original audit plan. A further two audits are due to be deferred into 2025/26 due to individual project/area requirements. A summary of the cancelled and deferred audits is provided at figure 1 below.

Figure 1

Auditable area	Status Update
Asset Management	Cancelled. To be considered for inclusion within 25/26 plan.
Project Pipeline	Cancelled. Control elements considered as part of other audits.
Value Added Tax (VAT)	Cancelled. To be considered for inclusion within 25/26 plan.
Programme Cost Management (TfWM)	Cancelled. Assurance already provided through the external review of capital projects and additional audit work added to the 24/25 audit plan.
Integrated Settlement - Outcomes and Evaluation Framework	The Integrated Settlement Outcome and Evaluation Framework is yet to be agreed with Central Government and as such this audit is to be deferred into the 25/26 audit plan.
Bus Franchising	Internal Audit time had been scheduled pending decision on Future Bus Delivery Options. With a decision yet to be made this audit it to be deferred into the 25/26 audit plan.

Where possible, some elements of the cancelled audits are included in those reviews still going ahead. In other cases, the auditable area will be reconsidered as part of next year's annual audit planning process.

The above amendments to the Internal Audit Plan will not impair the Chief Audit Executive from making their annual audit opinion on the WMCA's control environment at the end of 2024/25.

## 6. Follow-up of previous audit recommendations

Progress and tracking of the implementation of agreed actions resulting from previously reported audits are detailed in the table below (as at 31 December 2024).

Recommendation Tracking Update								
Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Complete	Outstanding
				High	Medium	Low		
Procurement Exemptions	Limited	21/06/23	31/12/23 *31/01/25	1	2	2	4	1 low
IR35	Limited	19/06/23	31/09/23 *31/12/24	1	4	-	5	-

## Recommendation Tracking Update

Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Complete	Outstanding
				High	Medium	Low		
Accounts Payable	Satisfactory	11/03/24	31/07/24 *31/03/25	1	-	-	0	1 high
Accounts Receivable	Satisfactory	29/02/24	30/06/24 *31/03/25	-	1	2	1	1 medium 1 low
Investment Programme Monitoring & Evaluation	Satisfactory	05/04/24	31/12/24 **31/05/25	-	5	2	5	2 medium
National Fraud Initiative	Satisfactory	27/02/24	31/03/25	-	1	2	2	1 low
Business Continuity planning	Limited	05/08/24	31/08/26	14	1	-	1	14 high
Energy Efficiency Retrofit	Satisfactory	24/07/24	31/12/25	-	2	2	2	2 medium
Adult Education Procurement	Satisfactory	11/09/24	01/11/24 **28/02/25	-	1	2	2	1 medium
Longbridge P&R follow-up	Limited	09/09/24	01/10/24 *31/03/25 **31/05/25	1	2	-	1	1 high 1 medium
Information at Bus Stops (IBSS)	Reasonable	29/10/24	31/10/24 **28/02/25	-	4	3	6	1 low
UK Shared Prosperity Fund	Reasonable	17/10/24	15/11/24 **28/02/25	1	3	1	3	1 red 1 amber

\* Indicates a previous extension in last action completion date

\*\* Indicated new revised action dates

### **Recommendations outstanding**

Where audit recommendations have failed to be implemented by the agreed action date explanations have been sought from Officers responsible for their delivery. A summary of these is presented below:

**Investment Programme Monitoring & Evaluation** - Delivery of two medium recommendations relating to the establishment of an appropriate regime for the



monitoring of internal, Investment Programme projects, including the risk profiles in use, has been delayed as the team is working on broader timescales to enable an alignment with reporting arrangements in place with TfWM portfolio reporting. As a result, additional time is required to complete these recommendations, and a revised delivery date of May 2025 has been provided.

**Adult Education Procurement** – One recommendation remains outstanding against an expected delivery date of November 2024, with this relating to the due diligence arrangements of training providers with an ‘inadequate’ or ‘unsatisfactory’ rating and the control measures in place when awarding a contract to these suppliers. The recommendation has been absorbed into a detailed internal governance review currently in progress, ensuring the risks and impact is fully understood and appropriate plans and mitigation measures are put in place where required. It is anticipated this will be concluded by 28th February 2025 and the target delivery date has been revised accordingly.

**Longbridge P&R follow-up** – One high and one medium level recommendation remain outstanding. The high-level recommendation requiring final agreement of a supplier’s contract had a completion date of 30th September 2024 and currently remains outstanding. Internal Audit is now taking steps to assist the relevant departments in addressing the implementation gap.

The delivery date on the further medium recommendation regarding the formal approval arrangements needing to be developed for car park charging at the site was previously extended to March 2025 to enable a Study of all car parks to be undertaken. On review of timescales however, this is expected to take longer than initially thought and the delivery date has therefore been further revised until end of May 2025.

**Information at Bus Stops (IBSS)** - Delivery of all recommendations resulting from this audit were due for completion by October 2024, however one low rated recommendation continues to remain open. The recommendation is regarding the approaches being taken in receiving and managing customer feedback on the condition of bus poles and shelters, and a conclusion is now expected by end February 2025.

**UK Shared Prosperity Fund** - Two recommendations have passed the completion date with delivery remaining outstanding. Whilst these have been partially delivered, a holistic approach is being taken with consideration also being given to the implications of grants awarded through Integrated Settlement funding and any changes to procurement processes resulting from the Procurement Act 2023. This will result in a revised Employment, Skills, Health & Communities (ESHC) directorate governance process being rolled out, and will include regular risk reviews across all ESHC programmes, with an expected completion date of all audit recommendations by end February 2025.

Internal Audit has raised some concern regarding the number of audit recommendations that are not being completed within the timescales set out in audit reports and are considering approaches to support and address where delivery is not being achieved. This will include advising and supporting action owners where possible, the escalation of outstanding recommendations to the internal governance

panels when appropriate, and ensuring officers allow adequate time for delivery when agreeing timescales within audit reports.



# West Midlands Combined Authority

## External Assurance Follow Up - TfWM

### Final Internal Audit Report 2024/25

Report Status	
Draft Report Issued	<b>17 November 2024</b>
Final Report Issued	<b>13 January 2024</b>

Audit Team	
Matthew Dean	<b>Head of Internal Audit &amp; Information Governance</b>

Draft Report Distribution	
Anne Shaw	<b>Executive Director of TfWM</b>
Jo Shore	<b>Director of Delivery, Transport Portfolio</b>
Jenni MacKenzie	<b>Head of Transport Portfolio</b>

Final Report Distribution	
As above plus:	
Laura Shoaf	<b>Chief Executive WMCA</b>
Linda Horne	<b>Executive Director of Finance &amp; Business Hub</b>
Helen Edwards	<b>Director of Law and Governance</b>

## 1. EXECUTIVE SUMMARY

### INTRODUCTION

This report sets out the summarised findings of the follow up review into Governance and Capital Projects at Transport for West Midlands (TfWM), requested by statutory officers. The review was intended to follow up on the implementation of recommendations made within previous assurance reviews completed by independent external agencies. Of the three previous external assurance reviews, two were commissioned by WMCA and are the focus of this follow up audit. Although each of the reviews had their own separate terms of reference and objectives, in general the emphasis was on organisation and financial management, governance, and the management of business risks.

This Internal Audit Report follows on from two separate interim reports on the progress and implementation of actions issued in February 2024 and April 2024, respectively. The full findings and recommendations arising from each interim review will not be re-presented as part of this report, however have been considered within the follow up work undertaken and the outcomes provided below.

#### Background

The first review focused on within this report was a peer review carried out by the Head of Legal Services at Tyne and Wear PTE t/a Nexus, entitled 'A Review of Corporate Governance Arrangements for West Midlands Combined Authority'. The review was completed on 29 March 2022. The review focussed on the relationship between the WMCA and Midlands Metro Limited (MML) following an incident which involved the temporary cessation of Metro service, because of safety considerations involving the structure of the trams. The key objective of this review was *'To review the roles and responsibilities of each of the parties WMCA, MML and MMA under the Public Service Contract and the Programme Alliance Agreement and how those roles and responsibilities have been undertaken in relation to the day-to-day operation and maintenance of the Metro system and the procurement of new infrastructure'*. The Nexus report identified 7 key recommendations with no specific timeframe for implementation, but it was implicit that the actions carried significant urgency.

The second review was undertaken by Mazars, entitled 'Independent Investigation into Cost Controls, Financial Management and Programme Management Controls in Place at the Wolverhampton Exchange Programme. The review was completed in April 2023. This review was specifically commissioned to address financial overruns on a capital project required to facilitate the Wolverhampton interchange programme which involves multiple interfaces and dependencies with other projects including the delivery of a remodelled Wolverhampton rail station and regeneration of public realm improvements being delivered in conjunction with the City of Wolverhampton Council. The key objective of this review was *'To review the programme management and financial management control measures in place for the Wolverhampton City Centre Extension project to determine how the value of works have exceeded the project budget in advance of the appropriate governance arrangements being complied with'*. The report identified the three key themes, which broadly falls within the categories of financial management, risk management and corporate governance. A total of 15 recommendations were made, with no specific timeframe for implementation.

### AUDIT OBJECTIVE AND SCOPE

The objective of this audit was to provide assurance over the implementation of actions arising from the Nexus and Mazars external assurance reports, including evidence of the impact of delivery improvements where possible.

#### Scope Limitations

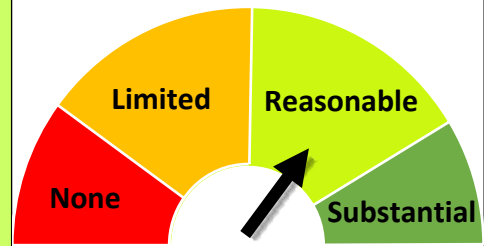
The reports focused on during this review have previously been considered by WMCA and TfWM Senior Management and the Audit, Risk and Assurance Committee (ARAC). Hence this review does not seek to reopen the issues surrounding the matters covered in the two reports. Rather it sought to assess the progress made in the implementation of the agreed recommendations and their resultant impact or effectiveness on service delivery, governance, risk management and financial management.

**ASSURANCE OPINION**

**Reasonable Assurance**

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

**REASONABLE ASSURANCE**



**BASIS OF AUDIT OPINION**

Audits are generally based on the scoring mechanism outlined in **section 2** of this report. However, as this review is a follow up of previously recommended actions the scoring mechanism does not apply. Professional judgement has instead been applied in providing an opinion on the overall assurance in the implementation of governance, risk management and control processes arising from the original recommendations.

**RECOMMENDATIONS**

Total	Implemented/ Superseded	Partially Implemented
22	12	10

**SUMMARY CONCLUSION**

Overall, we have concluded that considerable progress has been made in the implementation of actions to satisfy the recommendations made within both the Nexus and Mazars assurance reports. Whilst the February 2024 interim report noted slow progress, significant steps forward have been taken during the last eight months with subsequent improvements in the overall governance, risk management and control environment noted. This is largely due to the appointment of a new delivery directorate and TPO, which has contributed towards a dedicated resource and a more focused approach aimed at dealing with the issues presented within both reports. In total the majority of actions (55%) have been fully implemented across all recommendations made, with the remaining 45% (10) actions partially implemented. This is a substantial improvement in comparison to February 2024, where 43% of Nexus and 100% of Mazars recommendations were outstanding.

It must however be noted that some of the recommended actions subsequently taken, either occurred late into this review or are yet to be fully embedded. Therefore, whilst assurance can be provided that actions have been taken and implemented it has not been possible in many cases to provide considerable assurance regarding their impact.

For the majority of recommendations where actions are partially implemented, work is ongoing and is being overseen by the delivery directorate. Recommendations have been made within this report to facilitate the ongoing monitoring of action implementation and to recommend improvements where required.

Appendix 1 (Nexus) and Appendix 2 (Mazars) of this report provide a consolidated chart of recommendations from the two reports, including the actions agreed to date and a RAG rating signifying Internal Audits opinion on the implementation of actions. Recommendations rated Green have been adjudged to have been fully implemented and as such closed, with Amber and Red indicating the risk assigned to those recommendations in which actions are currently ongoing. General recommendations arising from this review have been provided below.

**AREAS OF POSITIVE ASSURANCE**

For a total of 11 out of the combined 22 recommendations made across both reports, actions have been considered to have been implemented satisfactorily (one recommendation has been superseded and is no longer relevant). In these instances, the review has determined that the implemented actions have improved the weaknesses identified within the governance, risk management or internal control environment. As per the executive summary, it should be noted that for some areas actions have only recently been implemented and as such whilst we have provided assurance over the progress made the full impact of change cannot be determined at this point.

Summary detail of the implemented actions can be found within the detailed findings tables within Appendix 1 (Nexus) and Appendix 2 (Mazars).

## GENERAL RECOMMENDATIONS

1. Both the Nexus and Mazars reports focused heavily on the financial management, risk management and corporate governance within the Metro programme and specifically the relationship of those key areas within MMA and TfWM/WMCA. However, the majority of actions implemented have a wider significance of attempting to create effective change across the TfWM portfolio. To provide assurance over the impact of this change a targeted review of a sample of high risk/concerning projects is recommended to be undertaken within the ensuing 12 months, including both Metro and the wider portfolio. The scope of this review would include estimation, financial management, risk management and corporate governance across the projects to ensure that the impact of actions resulting from the implementation of the wider change work has been effective.
2. It is recommended that progress of the actions detailed within this audit are maintained as a standard agenda item on TfWM SLT meetings, to ensure that the relevant issues are given the appropriate level of managerial scrutiny and direction.

### Management Comments

1. Agree and happy to support this. I would like to recommend Rail Package 2 for the next review. It would then be interesting to compare this to a project we have had early site of in the Delivery Directorate to reflect on the positive changes we have made in the last 18 months. Suggest Dudley Interchange would be a good one to start with. Additionally, to avoid any unnecessary duplication that and further audits are considered in line with the Mayors Transport Review and the asks from that report.
2. We will add audit update to Delivery Group agenda's from January 2025.

## 2. ASSURANCE OPINION CLASSIFICATION & DEFINITIONS

Assurance Rating	Classification Terminology	Definition
<b>No Assurance</b>	<ul style="list-style-type: none"> <li>• &gt; 5 High risk recommendations; and/or</li> <li>• Repeated breach of laws/regulations</li> <li>• Significant risk to the achievement of organisational objectives/ outcomes</li> <li>• Fundamental controls over key risks are not in place, are designed ineffectively or are routinely circumvented.</li> </ul>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
<b>Limited Assurance</b>	<ul style="list-style-type: none"> <li>• <math>\geq 2</math> High risk recommendations; or</li> <li>• &gt; 6 Medium risk recommendations</li> <li>• 10+ Low risk recommendations</li> </ul>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	<ul style="list-style-type: none"> <li>• <math>\leq 1</math> High risk recommendations; or</li> <li>• <math>\leq 6</math> Medium risk recommendations</li> <li>• <math>\leq 8</math> Low risk recommendations</li> </ul>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial Assurance</b>	<ul style="list-style-type: none"> <li>• No High level recommendations; and</li> <li>• <math>\leq 2</math> Medium risk recommendations</li> <li>• <math>\leq 6</math> Low risk recommendations</li> </ul>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

**Note:** Professional judgement can override the provisional opinion rating that is arrived at using the scoring guidance above. This judgement must be based on evidence obtained during the audit and be sufficient for the Head of Internal Audit and Information Governance to determine that the provisional rating is not an accurate reflection of the controls and arrangements that are present. Where professional judgement is applied, the rationale for deviation from the guidance must be provided.

### **Disclaimer**

The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a complete statement of all the weaknesses that exist or all the improvements that might be made. This report (including any enclosures and attachments) has been prepared for the exclusive use for the addressee(s) and solely for the purpose for which it is provided. This report should not be reproduced, distributed or communicated to any third party in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any other purpose. WMCA neither owes nor accepts any liability if this report is used for an alternative purpose from which it is intended, nor to any third party in respect of this report.

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# West Midlands Combined Authority

## Independent Training Providers

Final Internal Audit Report

2024/25

Report Status	
Draft Report Issued	<b>21 November 2024</b>
Final Draft Report Issued	<b>8 January 2025</b>
Final Report Issued	<b>10 January 2025</b>

Audit Team	
Matthew Dean	Head of Internal Audit & Information Governance
Karen Smith	Senior Internal Audit Officer
Susan Watts	Internal Audit Officer

Report Distribution	
Helene Dearn	Director of Employment Skills Health and Communities
John Hall	Interim Head of Service, Careers & Employment Support
Kate Taylor	Head of Financial Business Partnering and Strategic Planning

This audit has been undertaken in conformance with Public Sector Internal Audit Standards

Brad Benson	Head of Procurement
Kieran Stockley	Head of Legal Services
Miguel Silva	Senior Delivery Manager, Skills Delivery
Jo Galvin (Report Owner)	Delivery Manager, Quality and Standards
Angela Baskerville	Delivery Manager, Skills Operations
Lucy Bolton	Delivery Manager, Skills Outcomes
Ross Cadman	Delivery Manager, Funding Allocations
Phil Cole	Finance Business Partner - Employment Skills Health and Communities
Will Pemberton	Procurement Lead Officer
Bal Chahal	Principal Solicitor / Business Partner (Commercial/ESHC)

## 1. EXECUTIVE SUMMARY

### INTRODUCTION

From 1st August 2019, the West Midlands Combined Authority became responsible for certain adult education functions of the Secretary of State under the Apprenticeships, Skills, Children and Learning Act 2009. The transfer of Adult Education Budget functions was achieved by way of orders made under the Local Democracy, Economic Development and Construction Act 2009 and the West Midlands Combined Authority (Adult Education Functions) Order 2018 (SI 2018/1144). (Although, Free Courses for Jobs and Skills Bootcamp are Ring-Fenced, which WMCA has less control over)

WMCA funded provision, aims to engage adults, and provide the skills and learning they need to progress into, or within, work; or equip them for an apprenticeship or other learning through various streams - Adult Education Budget, the Free Courses for Jobs, Multiply, and the National Skills Fund Technical Bootcamps. It enables more flexible tailored programmes of learning to be made available, which may or may not require a qualification, to help eligible learners engage in learning, build confidence, and/or enhance their well-being.

An audit of the WMCA's Skills Programme Fund – Independent Training Providers has been conducted as part of the approved internal audit plan for 2024-2025.

Independent training providers are key and valued partners of the Department for Education and Education and Skills Funding Agency delivering vital education and skills training through public funding. Effective governance, operational and financial management is essential for Independent Training Providers to deliver training, enable them to manage their finances, report accurately and transparently to customers and funders, and to make informed business decisions for their future. Such arrangements protect delivery for learners and, therefore, help achieve the best outcomes.

The sector is diverse, ranging from private companies to public limited companies to charities to community groups to sole traders to employer providers and more. Independent Training Providers receive funding under contracts for services. These require providers to comply with funding rules, maintain individualised learner records and submit data and other returns to Department for Education and Education and Skills Funding Agency to support their funding claims.

### AUDIT OBJECTIVE AND SCOPE

The objective of this audit was to provide assurance over the management and performance of Independent Training Providers.

The scope of this review has covered the skills programme for the funding year 1 August 2023- 31 July 2024. The key aspects reviewed have included:

- Allocation of skills programme funding.
- Policies, operational procedures, and published guidance.
- Selection criteria for procuring Independent Training Providers and their contract agreements.
- Arrangements for monitoring Independent Training Providers and evidence of delivery.
- Arrangements for financial due diligence and financial health monitoring of Independent Training Providers.
- Payment arrangements for Independent Training Providers.
- Skills programme delivery outcomes.

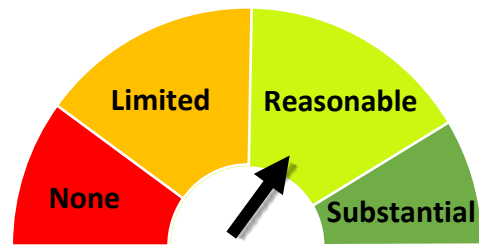
*The review has not examined the programmes delivered by grant awarded providers (Local Authorities and Further Education colleges).*

**ASSURANCE OPINION**

**Reasonable Assurance**

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

**REASONABLE ASSURANCE**



**BASIS OF AUDIT OPINION**

This is based on the scoring mechanism outlined in **Section 2** of this report.

**AUDIT RECOMMENDATIONS**

High	Medium	Low	Advisory	Total
1	1	2	1	5

**SUMMARY CONCLUSION**

Overall, we found that there are effective systems and controls in place for the management of Independent Training Providers. However, Internal Audit have identified some areas of non-compliance and areas for development relating to the Dynamic Purchasing System and the financial due diligence & financial health monitoring processes.

The main areas of weakness related to the following:

- Supporting documents retained to demonstrate compliance with joining the Dynamic Purchasing System or commissioning Independent Training Providers had failed to transfer over to the Procurements teams new SharePoint site on 5 occasions (2 occasions were copies of the providers accounts, and the other 3 related to the completed evaluation documents).
- The financial due diligence and financial health monitoring reviews of the management accounts for the Independent Training Providers are not being completed in accordance with WMCA's internal process and the expected frequency, based on their financial RAG rating.

We have provided several recommendations to support the directorate in managing risks as it continues to embed their new Quality and Standards Framework and supporting operational procedures.

We would like to highlight that we found good practice in many areas, and these have been driven by both the Employment Skills Health and Communities directorate, and the supporting enabling services. Areas of good practice have been provided in the section below.

**AREAS OF GOOD PRACTICE**

The following areas of good practice were identified:

- The different funding streams are received in accordance with the grant determination letters. Funds are allocated accordingly via the cost centres and project codes within the Business World system.
- The reporting requirements for each funding stream are met and supporting documentation is retained by the relevant officers.
- West Midlands Combined Authority reviews the Skills Programme funding rules annually, and they are published on its website, to ensure they are accessible for all Independent Training Providers.

- Detailed operational documents have been produced which outline the roles of the Skills Delivery, Monitoring & Evaluation and Quality & Standards teams, and the reviews they undertake on the Independent Training Providers.
- Copies of the contracts, extensions and deed of variations where applicable, were retained by; Finance, Employment Skills Health and Communities directorate and Legal for the ten Independent Training Providers sampled from the published 2023/24 Skill Programme allocation list as part of the audit. A review of the legal documents confirmed the Terms and Conditions the Independent Training Providers are expected to adhere to, are clearly outlined.
- The ten Independent Training Providers sampled, have been evaluated and monitored with appropriate action taken where necessary.
- The payments made during November 2023 in relation to the ten Independent Training Providers sampled as part of the audit, confirmed that all the internal data checks were undertaken in accordance with the payment process and the correct authorisation was sought by officers prior to making the payments.
- Annual Assurance Statements in relation to the 2023-24 financial year have been submitted and accepted by the Department for Education in accordance with the funding Requirements.
- The published Payment & Performance Management Framework provides Independent Training Providers with clear guidance on how WMCA will manage contract performance and compliance.

## 2. ASSURANCE OPINION CLASSIFICATION & DEFINITIONS

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<b>Limited Assurance</b>	<ul style="list-style-type: none"> <li>• ≥ 2 High risk recommendations; or</li> <li>• &gt; 6 Medium risk recommendations</li> <li>• 10+ Low risk recommendations</li> </ul>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>Reasonable Assurance</b>	<ul style="list-style-type: none"> <li>• ≤ 1 High risk recommendations; or</li> <li>• ≤ 6 Medium risk recommendations</li> <li>• ≤ 8 Low risk recommendations</li> </ul>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Substantial Assurance</b>	<ul style="list-style-type: none"> <li>• No High risk recommendations; and</li> <li>• ≤ 2 Medium risk recommendations</li> <li>• ≤ 6 Low risk recommendations</li> </ul>	A sound system of governance, risk management and control exist, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

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**This audit has been undertaken in conformance with Public Sector Internal Audit Standards**

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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**Name of meeting:** Audit Risk and Assurance Committee

**Meeting date:** 3 February 2025

**Report title:** Strategic Risk Update

**Responsible Director:** Linda Horne, Executive Director Finance & Business Hub  
Email: Linda.Horne@wmca.org.uk

**Report author:** Peter Astrella, Risk Manager  
Email: Peter.Astrella@wmca.org.uk

**Key Decision?** No

---

Is the ability for the Combined Authority to make a decision internally reliant on Constituent or Non-Constituent Councils making a formal decision first?

Yes       No

---

## Recommendations

The Audit, Risk and Assurance Committee is asked to:

(1) Note the key messages in the Strategic Risk Update and note the Strategic Risk Register.

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## Voting Requirements

A simple majority of the members appointed by the constituent councils, in attendance in the meeting room and indicating their preference, are required to vote in favour of any recommendation/proposition for it to become a decision of the board.

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## 1. Executive Summary

1.1 The Strategic Risk Register (SRR) (Appendix 1) supports the identification and management of the risks faced by the organisation in achieving its organisational or strategic objectives. The SRR captures only those high-level risks which are of such significance as to require oversight by the Executive Board (EXB). The EXB monitors WMCA's risk environment on a regular basis to ensure key risks are captured on the SRR and measures are in place to effectively manage or mitigate their effects.

1.2 The SRR provides the ARAC with visibility of the strategic risks currently faced by the WMCA, while the Strategic Risk Update (Appendix 2) provides details of the main changes to the SRR. This information is provided in support of the Committee's function in monitoring the operation of risk management at the WMCA.

**4. Matters for Consideration**

4.1 The latest review has seen the de-escalation of two strategic issues: *Metro 2GT Cracks*, and *TfWM Technical Breach*, which will now be managed at TfWM operational level.

4.2 One new risk has been identified (*Unspent Grant Expenditure*), three other risks have seen their assessment reduce (*Regional Stakeholder & Political Relationships*; *Local authority partners in financial difficulties or entering Section 114*; and *Investment Zones*) and one risk (*Maintenance of political support for devolution from HMG to WMCA*) has seen a slight increase.

4.3 As a result, there are now ten strategic risks rated High, two of which have the highest residual rating:

- Financial resilience of WMCA to absorb fiscal shocks.
- TfWM Programme Cost Management.

4.4 The eight other risks rated at High / Red are:

- Information and IT Systems Assurance & Security
- Capacity and capability
- Capital Delivery (Transport)
- WMCA Resilience
- Sustainable & Affordable Public Transport
- Commerciality
- Energy Efficient Homes
- Unspent Grant Expenditure

**5. What options have been considered and what is the evidence telling us about them?**

5.1 N/A

**6. Reasons for recommending preferred option**

6.1 N/A

**7. Implications and Considerations**

Priority:	Contribution:
Delivery of Strategic Transport Plan	N/A
Promote inclusive economic growth in every corner of the region	N/A
Ensure everyone has the opportunity to benefit	N/A
Connect our communities by delivering transport and unlocking housing and regeneration schemes	N/A

Priority:	Contribution:
Reduce carbon emissions to net zero and enhance the environment	N/A
Secure new powers and resources from central government	N/A
Develop our organisation and our role as a good regional partner	Management of the WMCA's strategic risks is fundamental to the delivery of its strategic priorities. Providing an update to the ARAC, to ensure they are sighted on the Executive's risk management considerations, activities and decisions enables the ARAC to provide assurance to the WMCA Board as to the application and effectiveness of the Executive's strategic risk management activity.

**8. Internal Consultation and Scrutiny:**

8.1 Paper was discussed by the Executive Board on 18 December 2025.

**9. External Consultation and Scrutiny:**

9.1 N/A

**10. Financial implications:**

10.1 N/A

**11. Legal implications:**

11.1 N/A

**12. Single Assurance Framework implications:**

12.1 N/A

**13. Risk implications, including Risk Appetite:**

13.1 N/A

**14. Procurement Implications:**

14.1 N/A

**15. Equality implications:**

15.1 N/A

**16. Inclusive Growth Implications:**

16.1 N/A

**17. Local Authority Impact:**

17.1 N/A

**18. List of appendices referred to:**

Appendix 1 Strategic Risk Register  
Appendix 2 WMCA Strategic Risk Update

**19. Background papers used to compile this report:**

19.1 N/A

**20. List of Other Relevant Documents**

20.1 N/A

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
<p><b>Information and IT Systems Assurance &amp; Security</b></p>	<p>1. Data protection requirements and/or proper protective security of all WMCA assets, information systems, premises and people, <b>require constant maintenance.</b></p> <p>2. Organised and Opportunistic Crime. <b>There has been an increase in the number of cyber incidents reported in the media over the past 18 months where UK public sector and transport related organisations have been targeted, including occurrences where vulnerabilities in globally used products, such as Microsoft applications, have been exploited.</b></p> <p>3. Security assurance is more limited in areas of the combined authority independent of Digital &amp; Data.</p> <p>4. Authorised user failures.</p> <p>5. 3rd Party Services failures.</p> <ul style="list-style-type: none"> <li>• Loss of information / access to information by unauthorised persons.</li> <li>• Loss of access to information and information systems.</li> <li>• Unable to use systems or significantly limited ability to process work</li> <li>• WMCA's inability to function effectively.</li> </ul> <p>As evidenced by recent (Autumn 23) cyber threat activity on transport infrastructure across the UK</p>	<ul style="list-style-type: none"> <li>• Information Assurance (IA) Framework supported by a suite of Protective Security and Data Protection policies.</li> <li>• The CA monitors and adheres to all standards, warnings, advice, guidance and best practice from relevant National Technical Authorities and other external experts.</li> <li>• In response to increasing cyber threat activity, D&amp;D have implemented additional mechanisms to further mitigate against this type of incident. These mitigations are applied to D&amp;D owned and governed systems.</li> <li>• <b>Cyber Essentials accreditation</b></li> <li>• <b>Cyber insurance now in place - in addition to financial protection, includes additional support to test our systems.</b></li> <li>• <b>WMCA is one of 20 'Councils' selected to support MHCLG pilot the new Cyber Assessment Framework (CAF).</b></li> <li>• The IA Framework requires risk owners to consider and manage Data Protection risk at strategic and operational levels.</li> <li>• All staff required to complete Information Security training, including GDPR, with regular staff awareness and monitoring in place.</li> <li>• <b>Significant progress has been made against our Cyber Treatment Plan with 40 of 48 recommendations having been met.</b></li> </ul>	<p>5</p>	<p>4</p>	<p>20</p>	<ul style="list-style-type: none"> <li>• Digital transformation work will help tackle issues around WMCA's IT requirements, its information systems, and how these needs are best managed.</li> <li>• Business Management Panel have approved a programme of continuous Information Processing Reviews, which will apply internal audit principles to reviewing data processing across WMCA teams. These reviews will address the IT being used by a business area, update Information Asset Registers, and enforce Information Asset Officer roles / responsibilities. A secondary outcome will be to help identify areas using 'shadow' IT – which is a matter of significant concern and was partially responsible for the recent increase in this risk assessment.</li> <li>• <b>The Technical Governance Panel (TGP) is being re-introduced and will have an important role to play in working with Information Governance Group to understand the prevalence of 'shadow' IT, to be clear about risks and mitigation, and to consider future IT solutions, in a way that provides protection to the WMCA while enabling innovation.</b></li> <li>• <b>Seven of the eight outstanding recommendations in our Cyber Treatment Plan are categorised as having a 'high' risk rating and need organisational support to overcome. Four of these recommendations are linked to business continuity activity in SRR-R012, while the other four relate to the implementation of a Security Operations Centre (SOC). A paper on the support needed to resolve the outstanding recommendations relating to Organisational Business</b></li> </ul>

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						Continuity and SOC has been supported by the Business Management Panel.
<b>Regional Stakeholder &amp; Political Relationships</b>	<ul style="list-style-type: none"> <li>Positive stakeholder and political relations and strong CA-LA partnership working are needed across the region to deliver the collective ambitions of the organisation.</li> <li>Low trust and poor relations have the potential to impact our ability to deliver the funding, powers and priorities of WMCA and undermine our ability to take the right strategic decisions for the region.</li> <li>Failure to manage these political relations and expectations could result in gaps in delivery, missed opportunities for regional economic development and increased budgetary pressures.</li> <li>The West Midlands' long-term economic potential would remain untapped and residents' living standards would be lower as a result.</li> <li>External consequences: reputational damage, confusion among investors.</li> </ul>	<ul style="list-style-type: none"> <li>Development of the West Midlands Partnership Plan to seek a consensus on CA and LA respective roles, with key workstreams owned and led by CXs.</li> <li>Regularisation of the West Midlands Executive Board and collective leadership development work earlier this year.</li> <li>Development of Place-Based Strategies and emphasis within the WMCA Transformation Programme of the importance of place - both of which need to be delivered on to provide any form of risk mitigation.</li> <li>The Member Relationship Manager is working with the Mayoral office closely to increase engagement. This has now resulted in a fortnightly slot in the diary for the Mayor to spend time in each of the Constituent Councils on a rotating basis.</li> <li>Regular visits to LA Scrutiny Boards.</li> <li>We have moved to a leaner and more efficient meeting structure which has reduced the demand on leaders and senior officers' time and more efficient working practices.</li> <li>Shift in ways of working between the Mayor &amp; Leaders; and as part of the Mayor's commitment to bring the region together, the MML and WMCA Board meetings are now moving around the region to encourage a shared understanding of each LA and the role they play in the region.</li> <li>Further resource has been added to the Member Relationship Team.</li> </ul>	3	4	12	<ul style="list-style-type: none"> <li>Continue to develop and embed the Member Development Programme, Induction Process and communications with Councillors.</li> <li>WM Partnership Plan work is underway, with work due to intensify over the summer and into 2025. This is being coproduced between the LAs and CAs with the aim of bringing together a cohesive regional voice.</li> <li>Work is being carried out to better integrate the forward plans of the CA into the WM Executive Board to help ensure better and earlier engagement to take place on key regional projects and policy.</li> <li>Work is also underway to reform the meeting between the Mayor and Leaders, with a sharper focus on getting leaders input earlier to ensure maximum impact for the region.</li> <li>Work to assess the current picture in relation to CA/LA Officer Meetings.</li> </ul>
<b>Capacity and Capability</b>	<p>New organisational priorities will increase demands and pressures on staff, creating potential challenges in recruitment, retention, and skills gaps, with additional skills required for many of these new priorities: Single</p>	<p>Work on People &amp; Culture Strategy has been completed and is now being rolled out through a detailed engagement plan. The new fora (Senior Leadership/Leaders &amp; Managers) have jointly agreed a new Leadership Statement - setting out</p>	4	5	20	<p>Ongoing implementation of the People &amp; Culture Strategy will enable us to ensure that our Officers and Managers are equipped to deliver the CA's aims and objectives. Developing a workforce strategy that</p>



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	<p>settlement implementation; new procurement regs implementation; Investment Zones.</p> <p>Increased demands and pressures on staff could result in failure to implement or deliver these new priorities or could significantly impact the wellbeing of WMCA staff.</p>	<p>commitment to building leadership capability and development opportunities. Evidence-led framework to inform related organisational and people decision-making.</p>				<p>details the current workforce, what is required in the future and skills foresight. To support this:</p> <ul style="list-style-type: none"> <li>• Project – job descriptions to create consistency of roles and improve the clarity of responsibilities and accountabilities.</li> <li>• Project - job families to group the job role requirements and career pathways.</li> </ul> <p>Reviewing and actioning the outcomes of the employee engagement survey</p>
<p><b>Maintenance of political support for devolution from HMG to WMCA</b></p> <p style="text-align: center;">Page 63</p>	<p>Our resources and powers and consequently our ability to bring about positive changes for people and businesses across the West Midlands, depend on continued HMG support for English devolution and to the WMCA specifically.</p> <p>This Government is very supportive of devolution, and we continue to work closely with officials to ensure the West Midlands remains a focus for delivery.</p> <p>The increase in the number of Combined Authorities nationally may mean officials in the West Midlands have fewer meetings and less bilateral leverage with Government.</p>	<ul style="list-style-type: none"> <li>• Role of the Head of Policy &amp; Integration is to ensure we as a CA have robust, credible and innovative thinking underway across the CA, so that our propositions to government match our status and narrative as a trailblazing organisation and have the best chance of landing and securing favourable resources for the region.</li> <li>• Positive ways of working with the Mayor's office as the key conduit to influencing HMG policy where issues need to be addressed.</li> <li>• Maintaining our active contributions to national policy debates about the future of devolution to make sure the WMCA voice is heard and to position ourselves as a place where HMG can pilot things with established institutions - via Budget submissions, English Devolution White Paper and consultation responses.</li> <li>• Maintaining close relationships with central government at both political and civil service levels, including through the development of WMCA lobbying strategies, and thought leaders, to shape a positive and favourable climate towards devolution.</li> <li>• Onboard other regional stakeholders as champions for the maintenance and furthering of devolution to the region.</li> </ul>	2	3	6" style="background-color: green;">	<p>We will review existing control measures to ensure they remain effective and provide the right balance.</p>

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<b>Sustainable &amp; affordable public transport network</b>	<ul style="list-style-type: none"> <li>Increased costs of service operation.</li> <li>Continued uncertainty over longer term government funding beyond March 2025 (latest extension to funding deadline) and local funding sources are in focus.</li> </ul> <p>Bus</p> <ul style="list-style-type: none"> <li>Further reduction in commercial services across a region.</li> <li>Increased pressure on TfWM to provide financial support leading to increased budget pressures for WMCA of c.£30m-£50m p/a based on existing network.</li> </ul> <p>Metro - Difficult for MML to hit operating budgets, which has a knock-on impact on operations and elements of Metro expansion where borrowing against future revenue is involved.</p> <p>Rail - Increased pressure to reduce the Rail industry cost base by reducing services, changes to working practices and these could be harmful to the strategic objectives of TfWM &amp; WMCA.</p>	<p><b>Bus</b> - TfWM have some influence through partnership and joint working, but do not control the commercial decisions of bus operators. However, there has been devolution of some funding to better manage network stability changes.</p> <ul style="list-style-type: none"> <li>Reviewing the Bus Delivery Options to create an evidence led approach to assessing future delivery between the Enhanced Partnership and Bus Franchising which has now led to a decision to move to an audit of the FFA, which shows franchising to offer the best value for money on delivery of services.</li> <li>Putting performance requirements on bus operators to increase service performance in exchange for funding and to encourage patronage growth.</li> <li>Working with West Midlands Bus Alliance to attract new and additional bus drivers to the industry.</li> <li>Working with operators to improve journey and service availability information.</li> <li>Government support to April 2025, with all funding routed via TfWM to provide greater control and ensure funding focussed on the needs of the region.</li> <li>Future negotiation with Government on support beyond April 2025.</li> <li>CRSTS Programme Delivery: WMCA are in continual dialogue with DfT over the CRSTS programme delivery arrangements and change control processes.</li> </ul> <p><b>Metro</b> – Engaging with Government regarding the proposed recovery partnerships and seeking to influence the level of available funding - Light rail settlement combined with bus settlement, WMCA region allocation to be confirmed in due course.</p> <p><b>Rail</b> – Work with DfT, Rail industry partners to help inform decisions about</p>	3	5	15	<p><b>Bus</b> -</p> <ul style="list-style-type: none"> <li>Work with Government and WMCA, Leaders and LAs to identify funding options from January 2025 for sustaining and reviewing the existing bus network.</li> <li>Work with operators to identify opportunities to reduce overprovision on corridors, improved information, marketing of existing service, improved performance and passenger growth.</li> <li>Continue trial of alternatives including comingling of passengers / explore options for expanding WM on Demand service to help meet gaps in the fixed route bus network.</li> <li>Effectively repurpose BSIP funds to sustain the existing network.</li> <li>Promote revised ticketing products which have been massively simplified in July 2023.</li> <li>Maximise outputs from £19m ticketing incentive scheme plans through BSIP.</li> <li>Review options for long term sustainability of the network through Enhanced Partnership and Franchising assessment by Summer 2024.</li> </ul>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
		future service offering within the West Midlands.				
<b>Commerciality</b>	<p>Having chosen to use commercial company delivery models in some areas, challenging economic conditions and / or material loss of revenue from investments may result in these commercial models being unable to deliver expected benefits and commercial revenue targets. While the issues associated with Covid 19 have largely passed, a new issue of high inflation and the cost-of-living crisis is likely to have a significant effect on the economy.</p> <p>The Combined Authority may be exposed to greater financial risk, as well as reputational and delivery impacts. Examples being Underperformance of the Commercial Regeneration Fund and a drop in commercial revenue and future Fairbox revenues, which could affect the WBH extension</p>	<p>Formal governance structures in place between WMCA and commercial bodies. CA directors appointed to companies providing regular interface between parties.</p> <p>Compliance of all financial accounting arrangements. Assurance &amp; Governance checklist in place to review and confirm satisfactory arrangements are in place for all 'Arm's Length companies'</p> <p>Companies generally set up on a limited basis and therefore without a legal obligation to input more capital, however a reputational obligation may exist.</p> <p>Sources of capital input are generally sums that would otherwise have been input as grant i.e. they are from income streams to the WMCA that will not require repayment if losses occur.</p> <p>The Investment Director provides a commercial perspective on funding opportunities that are presented to WMCA.</p> <p>Adequate expertise brought into the Finance Team to ensure an appropriate amount of rigor and precision exists within all WMCA commercial financing models, reducing the risk of error.</p> <p>The statutory officers of WMCA are involved in the review of all commercial decisions and contracts/legal agreements to ensure that Covid risks/viability and costs have been assessed and where possible, controlled at the present time.</p>	3	5	15	<p>For new commercial models sensitivity analysis will determine the probability of meeting any borrowing commitments and an appropriate mix of grant and borrowing will be applied having first obtained relevant approvals for any investment.</p> <p>For existing models we will continue to monitor our risk exposure and where recommended and appropriate we will seek to add additional grant money or exit in part or whole subject to our ability to do so.</p>
<b>Governance Failures</b>	<p>Failure to adopt and embed adequate formal governance arrangements.</p> <p>As the WMCA is going through a period of growth with absorption of new and emerging priorities there is a risk that existing governance arrangements do not support the</p>	<ul style="list-style-type: none"> <li>Comprehensive governance arrangements are in place, regularly reviewed and contained in the WMCA constitution, approved by the Board.</li> <li>The Director of Law, <b>Governance &amp; Audit</b> and Monitoring officer is a member of the Strategic Leadership Team and WMCA Board, and <b>has</b> responsibility for</li> </ul>	3	4	12	<p>Ensuring that governance arrangements are appropriate, properly resourced, agreed, understood and embedded across the Organisation to allow the new requirements and responsibilities contained in the DDD to be implemented and embedded</p>

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	<p>delivery of the organisation's objectives.</p> <p>With new devolved budgets, different government departments have specified different assurance requirements which are adding to pressures to develop bespoke governance arrangements.</p> <p>Inadequate governance could result in:</p> <ul style="list-style-type: none"> <li>• Ineffective decision-making arrangements</li> <li>• Unsuccessful delivery of WMCA objectives,</li> <li>• Legal challenge,</li> <li>• Negative Financial impact</li> <li>• WMCA being unable to meet its obligations and future aspirations.</li> <li>• Reputational damage</li> </ul>	<p>oversight of all assurance activities, including Internal Audit.</p> <ul style="list-style-type: none"> <li>• Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements.</li> <li>• Statutory Officers Group meets to moderate and review compliance of governance arrangements.</li> <li>• A WMCA single assurance framework is in place. Governance requirements for Adult Education Budget, Housing and 5G have been established to ensure the adoption of streamlined approaches where required.</li> <li>• Ongoing programme of risk based Internal audits undertaken to provide an independent review that governance arrangements and internal policies are adhered to and remain effective.</li> <li>• A governance review was undertaken and reported in November 2021 and continues to be implemented.</li> <li>• Executive Directors and their respective departments to <b>take active steps to</b> ensure good governance is embedded within their departments and activities</li> </ul>				<p>successfully, this will include governance and monitoring and evaluation arrangements for the single settlement and the new accountability and scrutiny arrangements detailed in the Deal and the English Devolution Accountability Framework (the Scrutiny Protocol and the scrutiny of the Mayor and portfolio leads by regional MPs). <b>This will require pro-active involvement of all Exec Directors to ensure their departments / officers are fully trained and complying with processes.</b></p>
<b>WMCA Resilience</b>	<p>WMCA should ensure the continuation of essential business functions and services whilst protecting the wellbeing and safety of our employees, visitors and tenants across all our assets. Unexpected or irregular events and circumstances may affect WMCA services, buildings and facilities, disrupting operations and activities.</p> <p>WMCA may be unable to respond in an effective and timely manner to events that have the potential to disrupt operations and activities, causing service outages, incl. those</p>	<ul style="list-style-type: none"> <li>• Draft Business continuity framework in place.</li> <li>• Hybrid working arrangements and increased resilience from newer communication methods, incl. 'all staff updates' messaging service established in Teams.</li> <li>• Incident management team and out of hours On Call arrangements in place with some alternative workspace locations identified.</li> </ul> <p>Establishment of multi-agency partnerships with monthly progress updates and review of risk exposure e.g. TfWM &amp; Blue Light Services.</p>	4	4	16	<ul style="list-style-type: none"> <li>• Business Impact Assessments currently being updated</li> <li>• Internal Audit into WMCA's Business Continuity arrangements identified that the systems and controls in place were inadequate and was, therefore, only able to provide Limited assurance over the adequacy of the controls reviewed.</li> <li>• A new Business Continuity team to support BC activity has been approved. Action plan in response to IA findings has been agreed and will be instigated and delivered before we look to reduce our risk assessment.</li> </ul> <p><b>ARAC will receive regular reports on</b></p>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	relating to the disruption of the transport network.	<ul style="list-style-type: none"> <li>New Governance process agreed July 2024.</li> </ul>				<p><b>progress.</b> The high-level findings relate to action on:</p> <ol style="list-style-type: none"> <li>Business Continuity Plan</li> <li>Communications plan</li> <li>Business Continuity Policy</li> <li>Business Continuity on the Strategic Risk Register</li> <li>Business Continuity governance and resources</li> <li>Business Continuity Testing</li> <li>Disaster Recovery Plan</li> </ol>
<p><b>Failure to deliver the collective regional commitment to reducing the carbon budget to net-zero CO2 by 2041</b></p>	<p>A variety of challenging and uncertain structural and operational factors, including the pace of transition within key industries and sectors, and the scale of government investment and legislation.</p> <p>WMCA, its members and partners, do not meet the region's carbon budget reduction net-zero CO2 by 2041 aims and attendant interim targets. There are profound implications for the region as part of a headline global risk of severe warming which evidence suggests will be hugely significant and costly in both human and economic terms.</p>	<ul style="list-style-type: none"> <li>A climate change strategy has been developed and priorities identified through a paper presented to the CA Board in June 2020; WM2041: a programme for implementing an environmental recovery. Actions from this paper are being taken forward and the CA Board agreed a Five-Year Plan.</li> <li>As part of the approval of the Five-Year Plan, budget was provided to create 5 new roles for the Environment Team and five new roles for Energy Capital; significantly enhancing our ability to deliver against the programme's targets.</li> <li>The Environment Team are working with other parts of the CA (TfWM, Housing and Land and Productivity and Skills) to ensure that net zero is embedded across the CA's work. TfWM continues work to affect a modal shift to clean and efficient public transport and active travel addresses medium term carbon reduction goals as well as shorter term concerns over clean air and congestion. The new Movement for Growth strategy will have carbon as a key consideration in future transport measures.</li> <li>Supporting progress with sustainability partners in aligning the five-year budget cycles required under the UK Climate Change Act.</li> <li>Annual monitoring of progress by the WMCA Environment Team is in place, as</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>Implement the first 5-year action plan; there is concern that it is currently only fully resourced for 2-years, and we are now over halfway through. In addition, several milestones for HLDs relating to our carbon neutral objective have seen activities delayed this year.</li> <li>Successful delivery of our objective will be very challenging without additional resourcing of both the team and the work,</li> <li>The scale of the renewed commitment of WMCA alongside that of its members and partners requires a step change in our behaviour, this includes a particular need for focus on climate change across the whole of the CA's portfolio of activity.</li> <li>We continue to press the Government for additional funding for the work on energy and environment in connection with any review of public spending.</li> </ul>

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		is annual reporting to the Carbon Disclosure Project.				
<b>Health &amp; Safety</b>	<p>Failure of the WMCA to implement and embed suitable and sufficient Health and Safety arrangements across its activities via a defined Safety Management System (SMS) which as a minimum ensures compliance with all relevant legislative requirements.</p> <ul style="list-style-type: none"> <li>• Risk to persons and/or infrastructure, including safe delivery of Metro Operations and Programme Delivery construction activity.</li> <li>• Breach of legislative requirements, with potential for enforcement action by regulatory bodies, legal action (both criminal and civil).</li> </ul>	<ul style="list-style-type: none"> <li>• SMS certified to ISO 45001 standard with ongoing compliance externally assessed annually.</li> <li>• Assessment of internal and external issues relevant to the SMS undertaken to allow the organisation to understand the H&amp;S challenges and risks inherent to its activities, as well as any interested internal and external parties.</li> <li>• WMCA Health and Safety Policy signed by Chief Executive containing statement of intent, roles and responsibilities and arrangements for implementation.</li> <li>• Comprehensive H&amp;S Legislation Register maintained by H&amp;S Dept.</li> <li>• WMCA Health and Safety Strategy 2023-26 (and associated Annual Delivery Plan) endorsed by Exec Board on 10th May 2023.</li> <li>• Strategic and Operational Health &amp; Safety Committees established.</li> <li>• Audit and Inspections of all operational assets undertaken against set schedule to ensure H&amp;S compliance is maintained.</li> <li>• Monthly Health and Safety Report produced to provide regular update of performance and activity.</li> <li>• Annual Health and Safety Performance Report produced to provide a summary of principal activities relating to the promotion and management of health and safety and outcomes during the past year.</li> <li>• H&amp;S obligations are considered in the development of all projects and programmes.</li> <li>• Provision of relevant instruction, training, and supervision.</li> <li>• Robust procedures in place for the reporting and investigation of accidents, incidents, and near misses.</li> </ul>	2	3	6	<ul style="list-style-type: none"> <li>• Development of policies, procedures, and guidance to ensure suitable and sufficient H&amp;S implemented for all areas of the WMCA portfolio.</li> <li>• Implementation of SMS Compliance Audit Tool to assess the application, understanding and maturity of health and safety policies and procedures within each WMCA directorate.</li> <li>• Enhanced Visible Felt Leadership Programme to engage and motivate employees, whilst demonstrating commitment and support to the overall Health and Safety Policy.</li> <li>• Development and delivery of H&amp;S culture campaign to increase employee engagement.</li> <li>• Continued development of the Health and Safety Training Programme.</li> <li>• Immediate engagement with emergency services and/or regulatory body (HSE, ORR) in response to serious H&amp;S incidents.</li> </ul>



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<b>Investment Programme Delivery</b>	<ul style="list-style-type: none"> <li>Through circumstances beyond their control, delivery partners / bodies may fail to deliver the full agreed scope of a WMCA Investment Programme funded Project or Programme. This may not be identified early on if monitoring mechanisms are not robust.</li> <li>HMG are demonstrating increased interest in the benefits from the Investment Programme and increased scrutiny is placed on all CA's. Many Business Cases approved in early days of the WMCA are light on monitoring and evaluation requirements when reviewed against current HMG expectations.</li> <li>Delays to the delivery of programmes, and failure to deliver elements of the WMCAs devolution commitments.</li> <li>Increased demand on resources to meet HMG expectations on information gathering and analysis.</li> <li>Revised monitoring requirements now implemented revealed 10 projects of 82 total in July 2023 report more than 6 months delay in completion date with Change Requests to notifying Approvers where extensions are sought.</li> </ul>	<ul style="list-style-type: none"> <li>Mitigating actions are limited by robustness of Funding Agreements and desire to enact clawback.</li> <li>Monitoring Arrangements in place with Delivery Partners to ensure timely monitoring and reporting.</li> <li>WMCA assurance framework is in place and resources bolstered.</li> <li>Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges.</li> <li>Investment Programme Monitoring and Evaluation team in place and a new Monitoring Framework rolled-out.</li> <li>Single Assurance Framework (SAF) has been rolled out.</li> <li>Funding agreements now in place with most Delivery Partners although many reflect Business Case requirements set historically and could be bolstered.</li> <li>Local Evaluation Framework to be put in place to HMG accepted standards this year and draft has been submitted to MHCLG. <b>A final draft is with MHCLG. Investment Board now paying closer attention to red risk flagged projects and recent presentations to Board from SMBC and CCC have helped reinforce the need for Change Requests.</b></li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>Deliver Local Evaluation Framework (LEF); The LEF is still being debated with <b>MHCLG</b>, who have yet to advise us whether it is an acceptable form of evaluation. <b>A final draft is with them and seems to be acceptable.</b></li> <li>Process all relevant Change Requests for the 31 projects with delays and gain approval plus put in place revised Funding Agreements. <b>Draft Change requests for 21 projects now received and being processed.</b></li> <li>Ensure adoption and compliance with enhanced monitoring by Delivery Partners. <b>This is being reinforced by withholding payments to delivery partners until monitoring information is received.</b></li> </ul>
<b>Financial resilience of WMCA to absorb fiscal shocks</b>	<p>Reduced levels of reserves / resources available to deal with fiscal shocks. The most evident causes of such fiscal shocks currently being the ongoing effect of:</p> <ol style="list-style-type: none"> <li>Financial sustainability issues on public transport services particularly in relation to bus (see SRR R007), and</li> <li>Inflation and global supply chain issues affecting our capital delivery projects (see SRR R037 and 38)</li> <li>Government spending cuts proposed by the Chancellor to</li> </ol>	<ul style="list-style-type: none"> <li>The Finance Business Partner model ensures finance professionals embedded within functions can proactively raise risks and issues as they emerge so that appropriate strategies can be put in place. A good example being the ongoing emerging bus industry risks (initially raised 2-3 years ago).</li> <li>WMCA currently has a funding agreement in place with bus operators that secures the current network levels until 31 December 2024 <b>and is working to extend this to 31 March 2025.</b> This has</li> </ul>	5	5	25	<ul style="list-style-type: none"> <li><b>HMG confirmed its commitment to the Integrated Settlement in Autumn budget with WMCA receiving it's first settlement from 1 Apr 25 as a Trailblazer. It also committed to the roll out of Integrated Settlement arrangements across more MCA from 2026/27.</b> Although not all fiscal asks within the Trailblazer Devolution Deal (TDD) were landed there remains scope to expand the scope and functions of the Integrated Settlement which could build flexibility (and</li> </ul>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	<p>departmental budgets</p> <p>The revenue budget in recent years has been supported by reserves and other one-off resources which is the case for the 24/25 budget and will be the case for 25/26.</p> <ul style="list-style-type: none"> <li>• WMCA's general reserves balance is below the recommended 3 – 5% of current expenditure level.</li> <li>• This approach limits the degree to which the WMCA can direct funding quickly towards specific, or changing, priorities and reduces the extent to which WMCA has the financial capacity to effectively deal with fiscal shocks.</li> <li>• The Autumn budget announced a number of funds for 25/26, details of which are still being discussed with HMG.</li> </ul>	<p>been funded through a combination of one-off reserves and grant funding due to end on 31 March 2025. WMCA is also discussing the terms of an agreement that would secure the network through to 25/26 which once again be supported by one off resources.</p> <ul style="list-style-type: none"> <li>• WMCA will continue to work with and lobby Government to identify and secure a long term financially sustainable plan for public transport that can be put in place. WMCA is continuing with the Full Franchising Assessment process with a decision on whether to franchise to be made in 2025 and had a depot strategy approved at November WMCA Board.</li> <li>• WMCA continues to work with and lobby government to put in place further local investment levers for MCAs that will provide financial flexibilities and sustainability.</li> </ul>				<p>longevity) into how WMCA funds its functions. Financial flexibilities within the MoU also provides some opportunity to target money to areas of most need provided outcomes framework can still be delivered.</p> <ul style="list-style-type: none"> <li>• While the Autumn 2024 budget announcement has bought some short term funding into the authority for transport pressures, further options for increased funding on a long-term sustainable basis continue to be explored including a Council Tax Precept, Levy uplift, subject to discussions with Exec, WM Finance Directors, Leaders.</li> <li>• The English Devolution white paper is expected to be published by the end of the calendar year with the paper to be laid before parliament in 2025. It is expected that this will seek to give further powers and flexibilities to devolved local institutions. WMCA continue to actively engage with these discussions to ensure that the needs of the region are represented and with a view to increasing financial resilience.</li> </ul>
<p><b>Financial Sustainability of the Mayoral-led CA Model</b></p>	<p>There are multiple risks around the various funding streams for Combined Authorities including. but not limited to the lack of multi-year funding models, delays to business rate reform, political support for a Council Tax Precept, real terms reduction in transport funding. By contrast, cost bases continue to encounter upward pressure driven by various macro-economic factors.</p> <p>WMCA is legally obliged to present a balanced budget each year i.e. one where costs do not exceed incomes. In a scenario where a deficit remains, WMCA could be required to scale</p>	<ul style="list-style-type: none"> <li>• A balanced 2024/25 budget was approved by WMCA Board.</li> <li>• The TDD provides medium-term financial sustainability for Portfolio activity but there remains a gap on Transport.</li> <li>• Regular and proactive presentation of the MTFP to Exec, Local Authority Finance Directors, Leaders and the Mayor together with potential financial strategies to address likely budget deficits.</li> <li>• Close working relationship with Government with respect to the use of Government funding, particularly for areas of greatest potential exposure (i.e. the bus industry matters).</li> <li>• Risk of cost escalation transferred to</li> </ul>	2	5	10	<ul style="list-style-type: none"> <li>• The Single Settlement provides some options for longer term budget certainty and these need to be worked through in due course with WM Finance Directors, specifically in relation to the Business Rates Retention values which will feature in the budget plans.</li> <li>• The current government has stated their commitment to Single Settlement with intentions to roll out to all MCAs in due course. It is still expected that those arrangements will come into play for WMCA in April 2025, although initially with a 1-year financial settlement until the full</li> </ul>



Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	down or delete specific functions to balance the budget.	Local Authorities via funding agreements where budgets are double devolved.				<p>Spending Review process is completed in Spring 2025 which will deliver a multi-year financial settlement. While this may not impact the quantum of the funding available, it should give local leaders more flexibility over how funds are used while providing some longer-term certainty over capital and revenue allocations.</p> <ul style="list-style-type: none"> <li>• The MTFP for 5 years commencing April 2025 suggests a potential deficit of c.£86.4m in year one (rising to £135.3m in year five) which includes an estimated £50m per annum risk in relation to the bus network assuming no further government funding – as reflected in <i>R007 - Sustainable and affordable public transport network</i>.</li> <li>• WMCA continues to work with Mayor and Leaders to develop a long-term sustainable solution coupled with use of one off funding solutions in the form of Network North revenue support of £250m to balance the budget in the short term.</li> <li>• As noted above the current government is also developing the English Devolution bill which WMCA continues to actively engage on to seek financial sustainability for the MCA model.</li> </ul>
<b>TfWM Programme Cost Management</b>	<p>Inconsistent visibility of dependable financial and management information at programme level, incl: forecast outturn costs; the impact of change and cost over-runs, and the visibility of programme whole-life costs. <b>Business cases often include black cost allowances in key areas e.g. risk allocation and do not benefit from robust bottom-up assessments.</b></p> <p>Any lack of visibility or consistency</p>	<p>Integration of cost / commercial and finance management and reporting for projects that can be rolled up to programme level in TfWM's Delivery Portfolio to support management of the whole life budget per programme, maximising opportunities and minimising risk.</p> <p>TfWM maturing its Delivery Function via implementation of the Delivery Directorate, ensuring cost / commercial function and capability is adequate for all</p>	5	5	25	<p>Increasing commercial capability and capacity across programmes and projects. Introduction of a suite of programme &amp; project controls, with defined ways of working, determining risk contingency draw down and mechanism for containing cost exposure, schedule methodology and effective document control.</p> <p>Intelligent client procurement – improving the contract models approach across delivery across the</p>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	could result in over-ambitious budgets being set for programmes / projects, leading to possible cost-over runs and an inability to provide reliable cost-certainty. This could result in reputational damage and reduced confidence in our ability to deliver future schemes.	programmes and projects. <b>Implementation of a robust approach to cost categorisation, programme appraisal and implementation of lessons learned to inform the programme / project budget setting process.</b>				lifecycle. Investment in people: training and development for delivery teams (investment in client-side capability) and integration to progressing people and culture strategy.
<b>Integrated Settlement Implementation</b>	<p>The Integrated Settlement is a complex programme of reform that is novel, with multiple interdependent components, all of which could give rise to a risk of underperformance or failure.</p> <p>Unsuccessful implementation would result in missed opportunities to bring about positive regional change, reputational risk and material consequences for the region. Under a worst-case scenario we could have the Integrated Settlement removed from us or funding flexibilities reduced, which could have wider repercussions for the furthering of devolution to the region.</p>	<ul style="list-style-type: none"> <li>• Completion of several lessons learned/reflective exercises to highlight challenges to successful implementation.</li> <li>• Development of an implementation programme plan with delegated leadership over delivery across all parts of the CA to address challenges, that is regularly reviewed to ensure it remains up-to-date and relevant and with distinctions between must do/could do activities.</li> <li>• Regular 'core group' and 'functional pillar/directorate' meetings to enable the flow of information between teams across the organisation, to mitigate coordination and transparency issues, and an increase in cross-organisational communications.</li> <li>• Regular updates to and oversight of the work programme by WMCA Executive Board, LA officer groups and teams/directorates across the CA, to open up our work to comments, criticism and challenge from others.</li> <li>• Maintenance of a risk register with owners identified to respond to key issues.</li> <li>• On-going lobbying with HMG to ensure the resources we receive are on the best terms possible.</li> </ul>	3	4	12	<p>Review of existing control measures to ensure they remain effective and provide the right balance.</p> <p>Strengthening of cross-organisational communications to increase visibility and awareness.</p> <p>Lessons learned exercise in May 2025 to review how we want to approach the multi-year Settlement (linked to the WMCA Transformation Programme).</p>
<b>Local authority partners in financial difficulties or entering Section 114</b>	Local Authority uncertainty of long-term funding and the relatively small growth in funding has put sustained pressure on Local Authority finances, this has been exacerbated by the increasing demand for services and low levels of general reserves to	Engagement with LA Partners, finance Directors and leaders, in respect of finances, budgets, and fiscal pressures. The majority of capital payments and investment programme activity with local authority partners are paid in arrears, thereby limiting our exposure.	4	3	12	We continue to work closely with Constituent authorities to understand the impacts of financial difficulties and S114.

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	<p>withstand fiscal shocks.</p> <p>The WMCA works in close partnership with its Constituent authorities and this inter-dependency means that if there are any financial shocks or pressures, it will impact on the wider partnership. The varied effects on WMCA would not be known at the outset, but they would be specific to each particular case and local authority partner. The general risks to the WMCA would likely extend to reputation, delivery and policy consequences.</p>	<p>When an issue does emerge, we will monitor it and assess the potential impact on WMCA.</p> <p>Looking specifically at BCC, a letter was issued by their S151 Officer stating the commitment to deliver all funds under live agreements.</p>				
<p><b>Energy Efficient Homes</b></p>	<p>The cost-of-living crisis has been primarily driven by increases in the cost of electricity, gas, cost of food, and cost of transport and there is therefore a direct link with SRR-R024 - Inflation &amp; global supply chain pressures.</p> <p>In 2021, the WMCA area had some 238,449 fuel poor homes, contributing to wider housing related costs. The overall rate of fuel poverty, at 17.5% is amongst the highest in the UK – with some areas experiencing far higher rates of over 40%</p>	<p>Retrofitting existing homes is essential to help citizens reduce their energy bills and move out of energy poverty, while at the same time helping us achieve our Net Zero ambitions.</p>	5	3	15	<ul style="list-style-type: none"> <li>• Deliver Net Zero Neighbourhood demonstrator in Brockmoor, Dudley</li> <li>• Develop second tranche of Net Zero Neighbourhoods through Local Net Zero Accelerator</li> <li>• Develop regional net zero fund through Local Net Zero Accelerator</li> <li>• Design and implement framework for delivering retrofit activity and building regional capacity through single settlement</li> <li>• Energy Advice in support of local groups</li> <li>• Deliver activity in respect of SHDF Wave 2.1 and HUG Wave 2 , completion by 30th September 2025 and 31 March 2025, respectively - noting that restrictive milestones and adjustments to timescales by MNZH/DESNZ, capital grant has been reduced, which may affect our ability to deliver to scale.</li> </ul>
<p><b>Capital Delivery (Homes &amp; Regeneration)</b></p>	<p>Macro-economic events creating significant cost pressures and changing market conditions impacting on housebuilding and investment in infrastructure.</p> <p>Current WMCA Housing &amp; Land funds are restricted by terms and conditions agreed with HMG prior to significant</p>	<p>The WMCA focus on encouraging the redevelopment of brownfield sites and requirements around meeting local affordable housing have improved overall new housing supply.</p> <p>The region remains on course to achieve its target for 215,000 new homes by 2031. Increased housing supply should play a</p>	3	4	12	<p>Negotiations ongoing with MHCLG to provide greater flexibility for the use of existing WMCA Brownfield funds (most of which were agreed prior to the Pandemic and subsequent economic disruption) to unlock key sites. Securing these flexibilities will be key to enabling WMCA to invest</p>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	<p>market changes.</p> <p>The West Midlands is an expensive place to rent or own a home. From April 2022 to March 2023, the average renter in the West Midlands paid 4.3% more in rent; compared to an average increase in England of 3.8%. In addition, homeowners have seen rising interest rates make mortgage repayments become more costly. Between December 2021 and December 2022, the indicative monthly mortgage payment in the West Midlands has increased by some £428 for the average semi-detached house. In 2023, some 5,600 households across the West Midlands were living in temporary accommodation, that is one in every 200 households, with the number of households in temporary accommodation continuing to grow.</p>	<p>part in reducing pressure on rising rents and mortgages and addressing the rise in the use of temporary accommodation. WMCA investments require developers to make a minimum 20% of the new homes affordable and WMCA evidence indicates around 25% of homes invested in are defined as affordable (exceeding the target).</p> <p>The WMCA aims to design out homelessness in the West Midlands through prevention by design including ensuring a supply of affordable homes. From 2026 the West Midlands Affordable Homes Programme will be devolved to the WMCA, giving the region more influence and direction over the use of significant additional grant funding specifically for new affordable homes.</p>				<p>funds into key regional priority schemes, which have significant market failure issues to land viability and remediation requirements. <b>Recent dialogue with MHCLG indicates willingness to provide further flexibility for our existing funds and we are seeking to agree these with HM Treasury asap.</b></p> <p>Continue to work in partnership with Homes England (who currently deliver the Affordable Homes Programme) to expand the pipeline for new schemes and support further new affordable homes being delivered in the region</p> <p>Continue to develop our regional approach to the AHP post 2026 (whereby accountability for programme delivery will be devolved to WMCA) using a detailed evidence base of the impacts &amp; implications of affordability to inform our strategy &amp; delivery requirements for more affordable homes. <b>Joint working with Homes England, other MCAs and the affordable housing sector is taking this programme forward.</b></p> <p>Continue to develop innovative approaches to unlock more affordable homes, building on the <b>previous</b> pilots and the collaboration with Housing Associations in the region.</p>
<b>Investment Zones</b>	<p><b>All BRR MOUs signed and legal agreements advancing. Government has confirmed 10-year IZ funding is in MHCLG baseline as commitment. However, this is still subject to CSR.</b></p> <p><b>All funding passed on to LAs / providers will have to take account of CSR cycles.</b></p>	<p><b>All funding agreements / contracts will include appropriate terminology which avoids WMCA being over-committed or exposed whilst also enabling extensions for future years.</b></p>	2	4	8	<p><b>WMCA staff, LAs and contracted providers all to be made clear on implications of CSR rounds on future year funding and the need for appropriate inclusions in agreements / contracts.</b></p>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
<b>Capital Delivery (Transport)</b>	<p>Macro-economic events creating significant cost pressures.</p> <p>Impact our ability to deliver Transport delivery activity on time and in budget across the portfolio (including CRSTS 1) and an increase in requirements to deliver in parallel across the region in the remaining timeframe. We may need to identify additional funding to complete the schemes and or/ scope reduction/ deferment of delivery projects. Reputational damage with regional stakeholders, impacted scheme BCRs and potential impacts to future funding.</p>	<p>The Delivery Directorate (Rail, Metro and Sustainable Transport) has bolstered delivery expertise (snr mgmt., commercial, project, engineering, risk) across programmes to ensure adequate capability and capacity for delivery management on the client side. TfWM re-imagined has taken account of the need to ensure adequate expertise is available and steps are underway to strengthen the control, monitoring and escalation of issues/risks with mitigation strategies and actions for approval.</p> <p>Where additional costs (and descope/deferment or termination) are unavoidable, WMCA will need to meet / mitigate these costs. WMCA have undertaken an exercise to provide early warnings to WMCA Board. The report included a strategy for how additional costs may be met using CRSTS or Levy. Implementation of a dependency roadmap and register identifying all critical level 0 &amp; 1 milestones</p>	4	5		<p>CRSTS Programme Delivery &amp; Capital Transport Delivery: WMCA Board has approved the strategy for TfWM to mitigate identified budget pressures for their projects at this point in the programme. Further work is required cross-programme (TfWM and LA progress) to ensure it remains deliverable to time, cost and budget. Once the DfT change control requirements are known, the programme will be re-prioritised / mitigated to cater for any unavoidable overspends in line with the report to Board.</p> <p>Identify and agree appropriate mitigation strategies to allow the programme to manage remaining deliverables in an agile way, minimising the risk of failure to deliver maximum benefits for the region. Establish cross-programme level view of planning and delivery milestones to enable visibility to any concurrent activity (particularly in the same local boundary/corridor) to minimise impacts on the network during the build phases. Establish adequate programme management resources for CRSTS 1 to ensure robust management of the remainder of the programme and adequate preparations for CRSTS 2. Implementation and consideration of the findings and recommendations identified by Arup during the 2024 Mayoral Capital Transport review.</p>
<b>Unspent Grant Expenditure</b>	<p>Underperformance against activities where there are specific, defined terms (including back stop dates)</p> <p>1. Loss of funding; we are unable to drawdown the full amount allocated to the region, or we are required to return</p>	<ul style="list-style-type: none"> <li>• Full monthly financial close &amp; quarterly forecast process is run to ensure there is regular monitoring of the financial spend, both actual and expected.</li> <li>• Month end pack includes detail on all grants ending in next 6 months and accounting risks.</li> </ul>	3	5		<ul style="list-style-type: none"> <li>• Discussions with funding partners (Government) where opportunities exist to extend timelines and remove / explain what the barriers to deployment of funds may be (e.g. overly restrictive conditions)</li> <li>• Continuing to work with Directorates</li> </ul>

Title	Cause & Effect	Controls Measures in Place	Likelihood	Impact	Score	Further Actions Required to Mitigate Risk
	<p>unspent funds to Government.</p> <p>2. Reputation; we are no longer seen as a trusted delivery partner in the eyes of Government and West Midlands residents.</p> <p>3. Weakened negotiating position; future funding discussions particularly as we move towards a delivery &amp; outcomes mode of assessment under Integrated Settlement, where we will be judged entirely on our ability to achieve outcomes.</p> <p>4. Future funding; region is allocated less funding (proportionally) in future settlements, meaning smaller grant settlements being provided to directorates, resulting in fewer transport, housing and skills interventions.</p>	<ul style="list-style-type: none"> <li>Financial risks and opportunities are reviewed as part of month end closedown and reported to Executive Board and WMCA Board as appropriate.</li> <li>Embedded business partner model. includes a process for capturing, assessing and reporting financial risk.</li> <li>The monthly reporting pact to EXB, triangulates, performance, finance and HR data, with responsibility for taking appropriate action lying with the Executive team collectively and individually.</li> <li>Working with Directorates to ensure performance dashboards are fit for purpose and project pipelines are as robust and realistic as can be expected.</li> <li>Finance Team continue to raise potential problems as early as possible, (with a particular focus on: Transport, Housing, and Skills (UKSPF)) allowing the organisation sufficient time to undertake / implement mitigating actions.</li> </ul>				<p>on dashboard development and ideally, work towards a standard format across the organisation.</p> <ul style="list-style-type: none"> <li>Development and improvement of our outcomes monitoring as part of Integrated Settlement.</li> </ul>

# ARAC

# Strategic Risk Update

# February 2025

**Peter Astrella – Risk Manager**  
**Finance & Business Hub**

# WMCA Strategic Risk Update Contents

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7	New Risks
8 – 9	High Risks
10	Other Risk Activity



# WMCA Strategic Risks and Owners

There are now 10 strategic risks rated High / Red, two of which have the highest residual rating:

Risk ID	Risk Title	Risk Owner 1	Dec-24
SRR-R021	Financial resilience of WMCA to absorb fiscal shocks	Exec Dir Finance Business Hub	25
SRR-R030	TfWM Programme Cost Management	Exec Dir TfWM	25
SRR-R003	Information and IT Systems Assurance & Security	EXB	20
SRR-R005	Capacity and Capability	Head of HR	20
SRR-R037	Capital Delivery (Transport)	Exec Dir TfWM	20
SRR-R012	WMCA Resilience	Exec Dir Finance Business Hub	16
SRR-R007	Sustainable & affordable public transport network	Exec Dir TfWM	15
SRR-R008	Commerciality	Exec Dir Finance Business Hub	15
SRR-R034	Energy Efficient Homes	Exec Dir Strategy, Economy & Net Zero	15
SRR-R039	Unspent Grant Expenditure	EXB	15
SRR-R004	Regional Stakeholder & Political Relations	Exec Dir Strategy, Economy & Net Zero	12
SRR-R010	Governance Failures	Head of Governance	12
SRR-R031	Single Settlement - Negotiations	Exec Dir Strategy, Economy & Net Zero	12
SRR-R033	Local authority partners in financial difficulties or entering Section 114	Exec Dir Finance Business Hub	12
SRR-R035	Capital Delivery (Homes & Regeneration)	Exec Dir HPR	12
SRR-R015	Failure to deliver the collective regional commitment to reducing the carbon budget to net-zero CO2 by 2041	Exec Dir Strategy, Economy & Net Zero	10
SRR-R019	Investment Programme Delivery	Exec Dir Finance Business Hub	10
SRR-R027	Financial Sustainability of the Mayoral-led CA Model	Exec Dir Finance Business Hub	10
SRR-R036	Investment Zones	Exec Dir Strategy, Economy & Net Zero / Exec Dir Finance Business Hub	8
SRR-R006	Maintenance of political support for devolution from HMG to WMCA	Exec Dir Strategy, Economy & Net Zero	6
SRR-R018	Health & Safety	Exec Dir TfWM	6

# WMCA Strategic Risk Heat Map

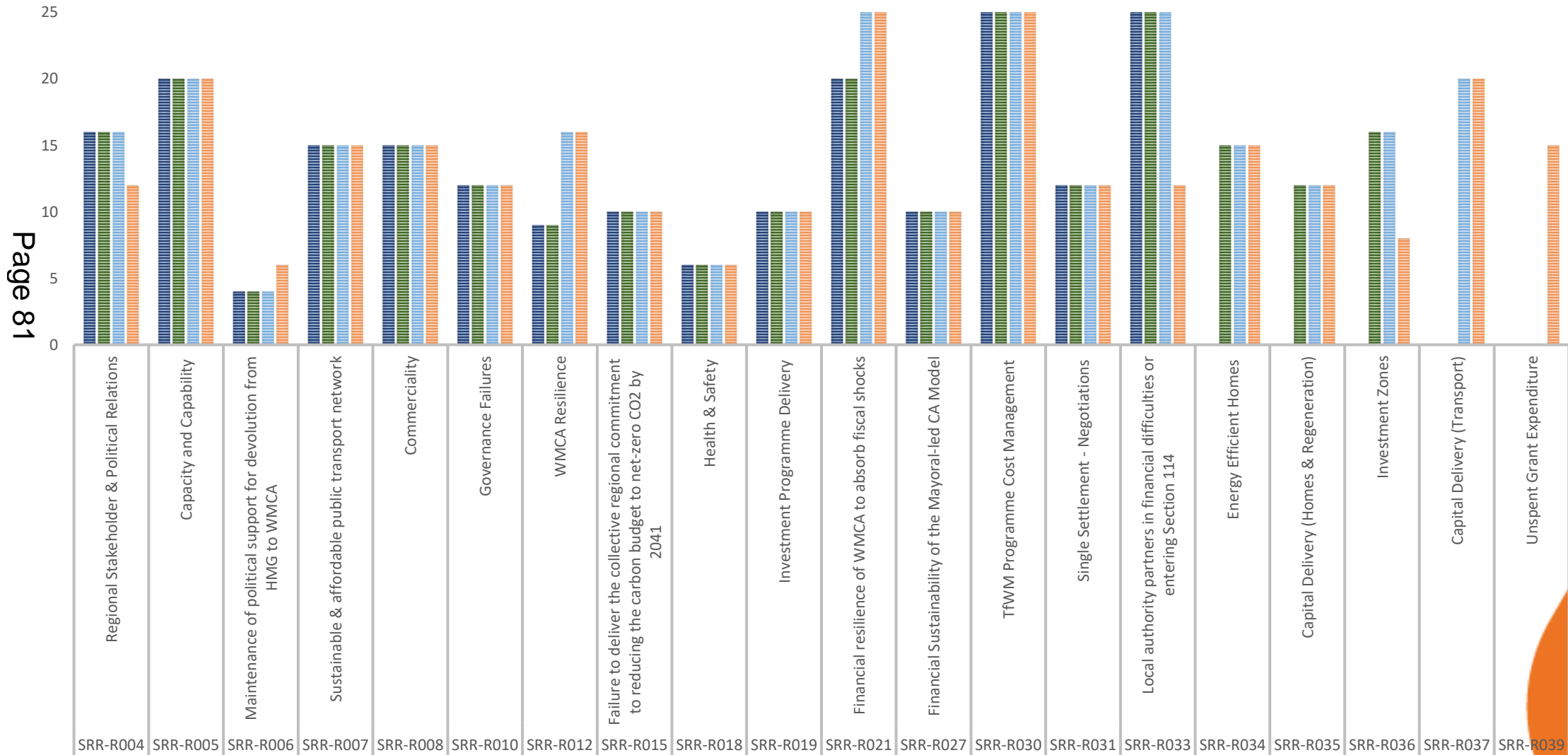
The latest review of strategic risks has seen the identification of one new risk, a slight increase in another, and a reduction in three more.

Likelihood	5	Very high			SRR-R034 ⇄	SRR-R003 ⇄	SRR-R021 ⇄ SRR-R030 ⇄
	4	High			SRR-R033 ↓	SRR-R016 ⇄	SRR-R005 ⇄ SRR-R037 ⇄
	3	Medium				SRR-R004 ↓ SRR-R010 ⇄ SRR-R031 ⇄ SRR-R035 ⇄	SRR-R007 ⇄ SRR-R008 ⇄ SRR-R038 NEW
	2	Low			SRR-R006 ↑ SRR-R018 ⇄	SRR-R036 ↓	SRR-R015 ⇄ SRR-R019 ⇄ SRR-R027 ⇄
	1	Very low					
			1	2	3	4	5
			Minimal	Minor	Significant	Major	Critical
			Impact				

# WMCA Strategic Risk 12 Month Trend

## RISK TREND

■ Dec-23 ■ Mar-24 ■ Aug-24 ■ Dec-24



# Key Messages for ARAC – Issues

The Executive Board have agreed that both remaining issues:

- *Metro 2GT Cracks*, and
- *TfWM Technical Breach*

were to be de-escalated to TfWM operational risk and issue management.

Accordingly, both have been closed and removed from the Strategic Issues Log.

## Key Messages for ARAC – New Risks

*Unspent Grant Expenditure* – This new strategic risk reflects several concerns regarding the possibility that we do not perform against activities where there are specific, defined terms, resulting in grant underspend.

Transport and Housing concerns are referenced elsewhere in the strategic risk register, but the possible effect on future funding is such that we consider it appropriate to include as a standalone risk.

# Key Messages for ARAC – High Risks

**Capital Delivery (Transport)** – Mayoral transport capital delivery review, conducted by Arup, offers a clear view of delivery challenges and opportunities across key transport programmes such as the investment programme, CRSTS, Active Travel, Transforming Cities Fund and other legacy funding regimes. The review made eight core recommendations, including:

- Strengthening leadership of projects
- Improving governance
- Standardising information
- Rationalising processes
- Advocating for long-term funding
- Implementing a project reset and programme management approach

The WMCA Executive team supports these recommendations, many of which align with work already underway through TfWM Reimagined, the Transformation Programme, and the Integrated Settlement.

# Key Messages for ARAC – High Risks

*Financial resilience of WMCA to absorb fiscal shocks* – The risk now recognises HMG’s commitment to the Integrated Settlement through the Autumn budget announcement, although the risk also recognises several concerns, including: the continued use of reserves to support the revenue budget in 2025/26, and long-term issues around securing the bus network.

*Information and IT Systems Assurance & Security* – Technical Governance Panel will work with the Information Governance Panel on issues highlighted in previous risk updates. While the Business Management Panel have discussed a paper on the support needed to resolve the outstanding recommendations of the Cyber Treatment Plan.

# Key Messages for ARAC – Other Risks

*Capital Delivery (Affordable Homes)* – Mitigating action focusses on the need for flexibility in the use of existing WMCA brownfield funds, with recent discussions with Ministry of Housing, Communities and Local Government (MHCLG) indicating a willingness to provide further flexibility, which we are now seeking to agree with Treasury.

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Three risks have seen a decrease in their assessment over the last quarter:

- *Regional Stakeholder & Political Relationships*
- *Local authority partners in financial difficulties or entering Section 114*
- *Investment Zones*

One risk has seen a slight increase in the last quarter:

- *Maintenance of political support for devolution from HMG to WMCA*





**Name of meeting:** Audit, Risk & Assurance Committee

**Meeting date:** 03 February 2025

**Report title:** Assurance Performance Report – Q2 2024/25  
(Jul-Sep 2024)

**Responsible Director:** Linda Horne, Executive Director of Finance & Business Hub  
Email: Linda.Horne@wmca.org.uk

**Report author:** Joti Sharma, Head of Programme Assurance & Appraisal  
Email: Joti.Sharma@wmca.org.uk

**Key Decision?** No

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Is the ability for the Combined Authority to make a decision internally reliant on Constituent or Non-Constituent Councils making a formal decision first?

Yes       No

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## Recommendations

The Audit, Risk and Assurance Committee is asked to:

(1) Note the contents of the report which has been considered by WMCA's Executive Board.

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## Voting Requirements

A simple majority of the members appointed by the constituent councils, in attendance in the meeting room and indicating their preference, are required to vote in favour of any recommendations/proposition for it to become a decision of the board.

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### 1. Executive Summary

- 1.1 The report provides reassurance that the WMCA continues to support embedding the Single Assurance Framework (SAF) arrangements at WMCA (this is to support an increase in project management capability within the organisation).
- 1.2 This report details thematic programme assurance information from WMCA projects that have been assured through the Single Assurance Framework (SAF) – this applies to projects funded through devolved investment funds only. This report will help demonstrate that projects are being delivered and are demonstrating compliance to devolved assurance arrangement standards as requested by Central Government.

**2. Matters for Consideration**

2.1 N/A

**3. What options have been considered and what is the evidence telling us about them?**

3.1 N/A

**4. Reasons for recommending preferred option**

4.1 N/A

**5. Implications and Considerations**

Priority:	Contribution:
Delivery of Strategic Transport Plan	n/a
Promote inclusive economic growth in every corner of the region	n/a
Ensure everyone has the opportunity to benefit	n/a
Connect our communities by delivering transport and unlocking housing and regeneration schemes	n/a
Reduce carbon emissions to net zero and enhance the environment	n/a
Secure new powers and resources from central government	n/a
Develop our organisation and our role as a good regional partner	n/a

**6. Consultation and Scrutiny:**

6.1 Executive Board

**7. Financial implications:**

7.1 N/A

**8. Legal implications:**

8.1 This report will provide the Audit, Risk and Assurance Committee with assurance that it is fulfilling its functions as set out in WMCA Single Assurance Framework which is a mandated Mayoral Combined Authority requirement when utilising devolved public funding to deliver major investment projects and programmes.

**9. Implications:**

**Programme Assurance and Appraisal Implications:**

9.1.1 The table below summarises Programme Assurance and Appraisal Team activity between **Oct 2023 - Sep 2024** It demonstrates SAF engagement and compliance across all WMCA Directorates and an overall continued increase in activity over time.

REPORTING PERIOD	DIRECTORATE/ EXTERNAL ORG.	Business Case Assessment (BCAT)	Health Checks	Risk & Investment Appraisal	Change Requests
Oct – Dec 2023	TfW/M	6	1	6	10

(Q3)	Strategy, Economy & Net Zero (SENZ)	3	0	4	0
	Economy, Skills, Health & Communities (ESHC)	1	1	0	2
	Housing, Property & Regeneration (HPR)	1	0	1	2
	Investment Programme	1	0	1	2
<b>Q3 TOTAL</b>		<b>12</b>	<b>2</b>	<b>12</b>	<b>16</b>
<b>Jan - Mar 2024 (Q4)</b>	TfWM	9	1	6	8
	Strategy, Economy & Net Zero (SENZ)	8	0	5	3
	Economy, Skills, Health & Communities (ESHC)	0	1	1	0
	Housing, Property & Regeneration (HPR)	4	0	4	1
	Investment Programme	0	0	0	3
<b>Q4 TOTAL</b>		<b>21</b>	<b>2</b>	<b>17</b>	<b>15</b>
<b>Apr - Jun 2024 (Q1)</b>	TfWM	5	0	3	6
	Strategy, Economy & Net Zero (SENZ)	6	0	7	1
	Economy, Skills, Health & Communities (ESHC)	1	0	1	1
	Housing, Property & Regeneration (HPR)	5	0	5	0
	Investment Programme	0	0	0	2
<b>Q1 TOTAL</b>		<b>17</b>	<b>0</b>	<b>17</b>	<b>10</b>
<b>Jul - Sep 2024 (Q2)</b>	TfWM	6	0	7	8
	Strategy, Economy & Net Zero (SENZ)	5*	1	4	1
	Economy, Skills, Health & Communities (ESHC)	1	1	0	0
	Housing, Property & Regeneration (HPR)	3	0	2	1
	Investment Programme	0	0	0	1
<b>Q2 TOTAL</b>		<b>15</b>	<b>2</b>	<b>13</b>	<b>11</b>

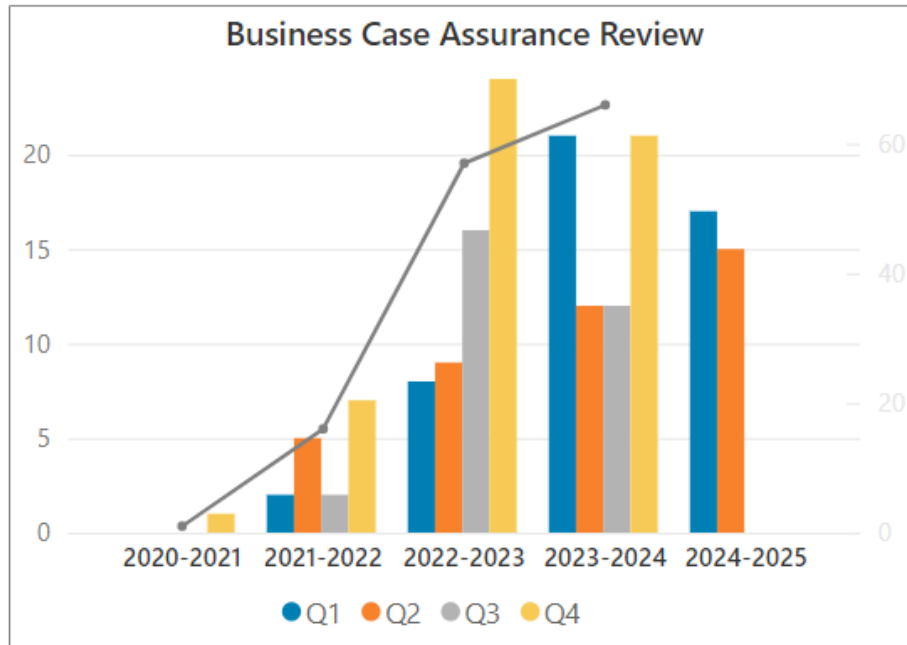
\* Two of these reviews were compressed Programme Assurance and Appraisal reviews

### 9.1.2 High Level SAF Trend Observations

9.1.3 Whilst the number of Business Case Assurance Reviews (BCATs) completed in this reporting period (Q2) decreased by **12%** compared to the previous quarter (Q1), the general direction of travel in terms of business case review activity is increasing. The total number of assurance reviews completed in Q2 2024-2025 has increased by **25%** compared to the assurance reviews completed in Q2 2023-2024 (*refer to chart below*).

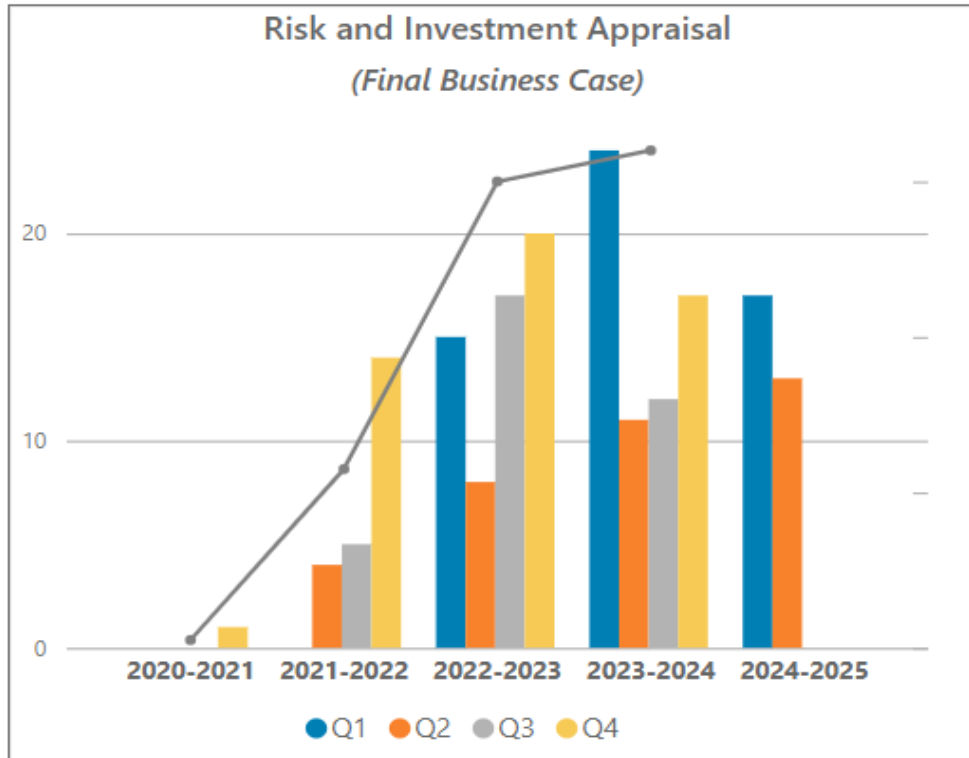
9.1.4 During this period two compressed Programme Assurance and Appraisal reviews were conducted on draft business cases from the SENZ Directorate. This proportionate approach was agreed due to the low value/low risk of each business case/project (both business cases were valued at £250k or less).

For the financial year to date this compressed approach has been adopted to review a total of seven business cases. This is used in exceptional circumstances when risk exposures are reduced. The reviews continued to be independent assessments undertaken by the Programme Assurance & Appraisal team and is a permissible approach in the WMCA SAF Framework.

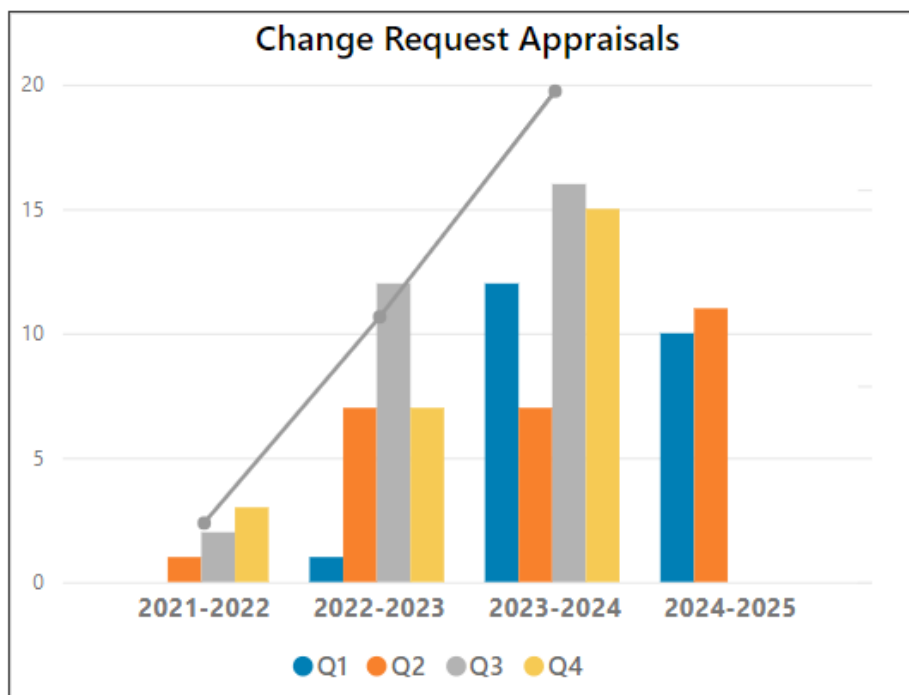


9.1.5 Assurance reviews of draft business cases, and the subsequent improvement activity undertaken by project leads, continues to drive improvements to the maturity of business cases and helps to drive organisation-wide improvements to processes and controls. Any improvement recommendations not addressed by project leads following assurance reviews form part of the Programme Risk & Investment Appraisal assessment of ongoing project/programme risks.

9.1.6 The number of Risk & Investment Appraisals undertaken by the team in this reporting period (Q2) decreased by 24% (13) compared to the previous quarter (Q1). Yet, the total number of Risk & Investment Appraisals undertaken by the team in Q1 2024-2025 has increased by 18% when compared to those undertaken in Q2 2023-2024(refer to chart below).



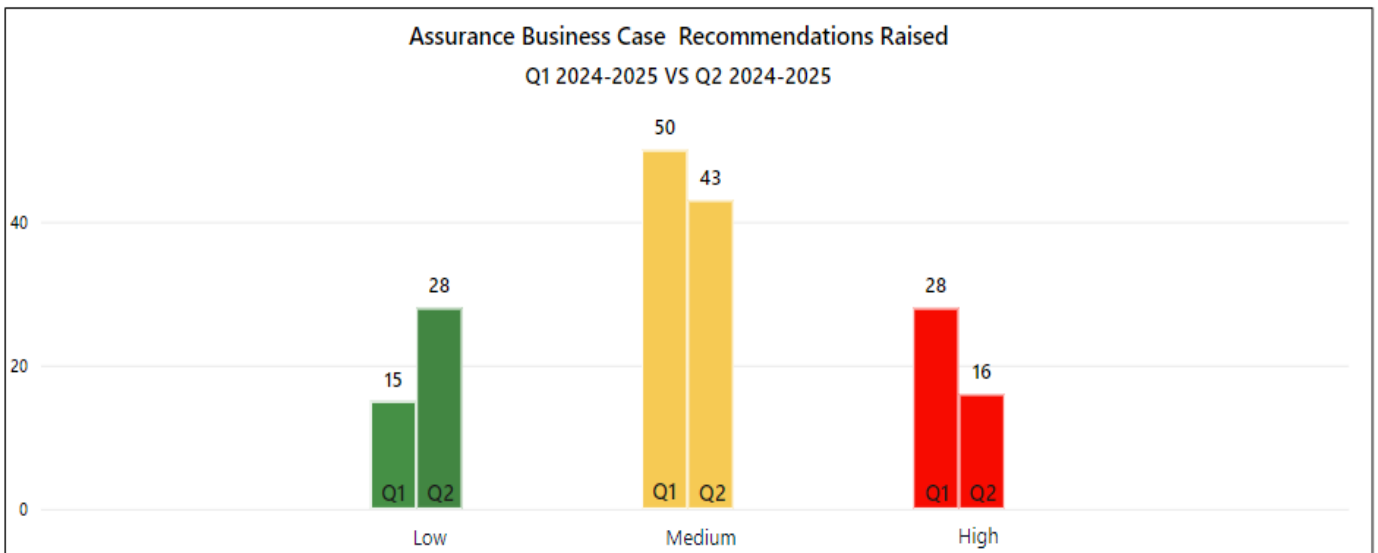
9.1.7 The number of Change Requests undergoing formal independent Risk & Investment Appraisal completed in this reporting period (Q2) increased by **10%** compared to the previous quarter (Q1). In addition, the total number of change requests received in Q2 2024-2025 has increased by **57%** compared to the change requests received in Q2 2023-2024 (refer to chart below).



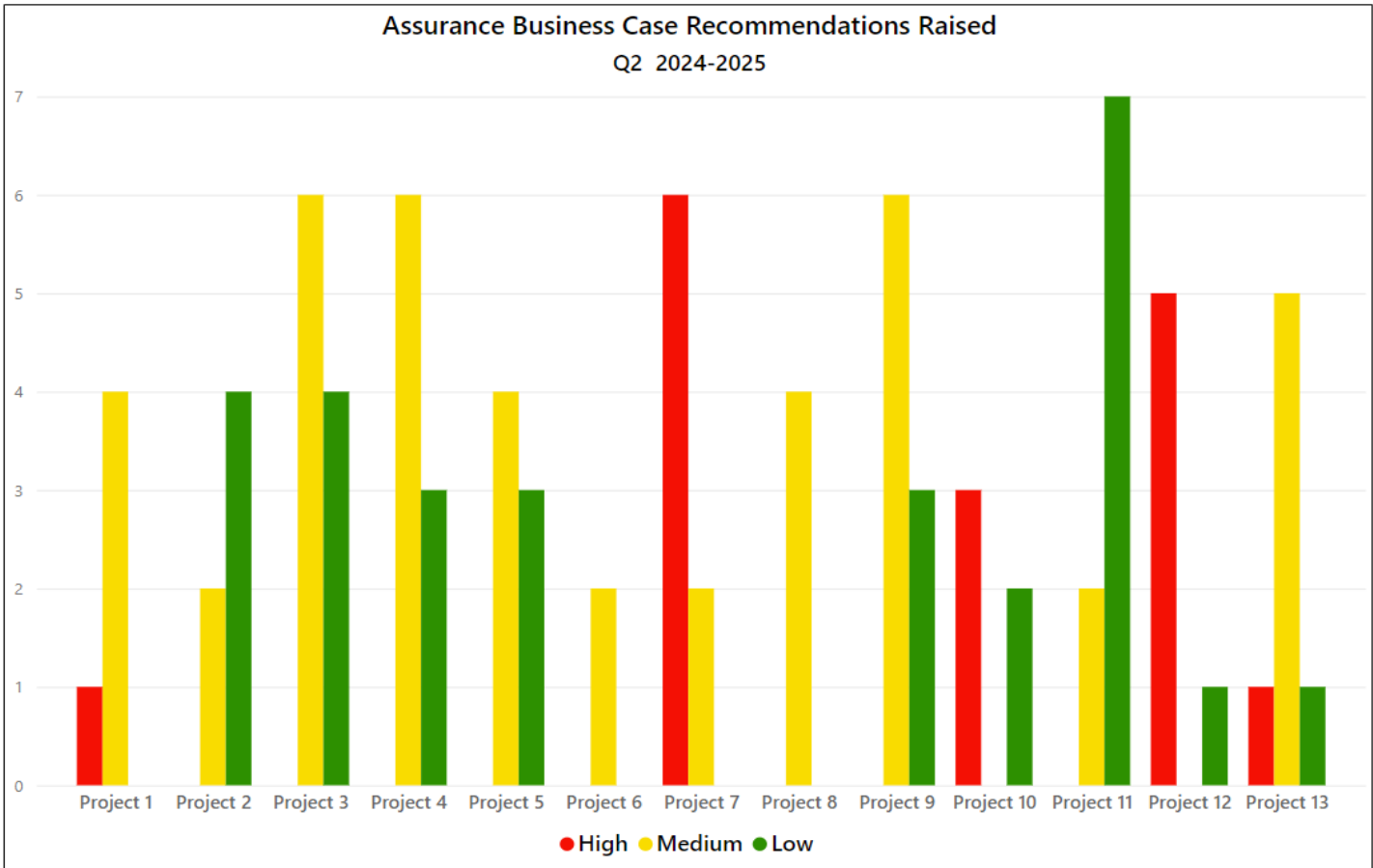
**9.1.8 Business Case Maturity Assessments/Reviews (BCAT) & Assurance Performance Analytical Insights**

9.1.9 A total of **15** Business Cases were assessed in the reporting period, **2** of these were joint Assurance and Appraisal assessments, undertaken on low risk/low value business cases to provide a proportionate approach and meet SAF requirements. A total of **16** high priority recommendations were raised.

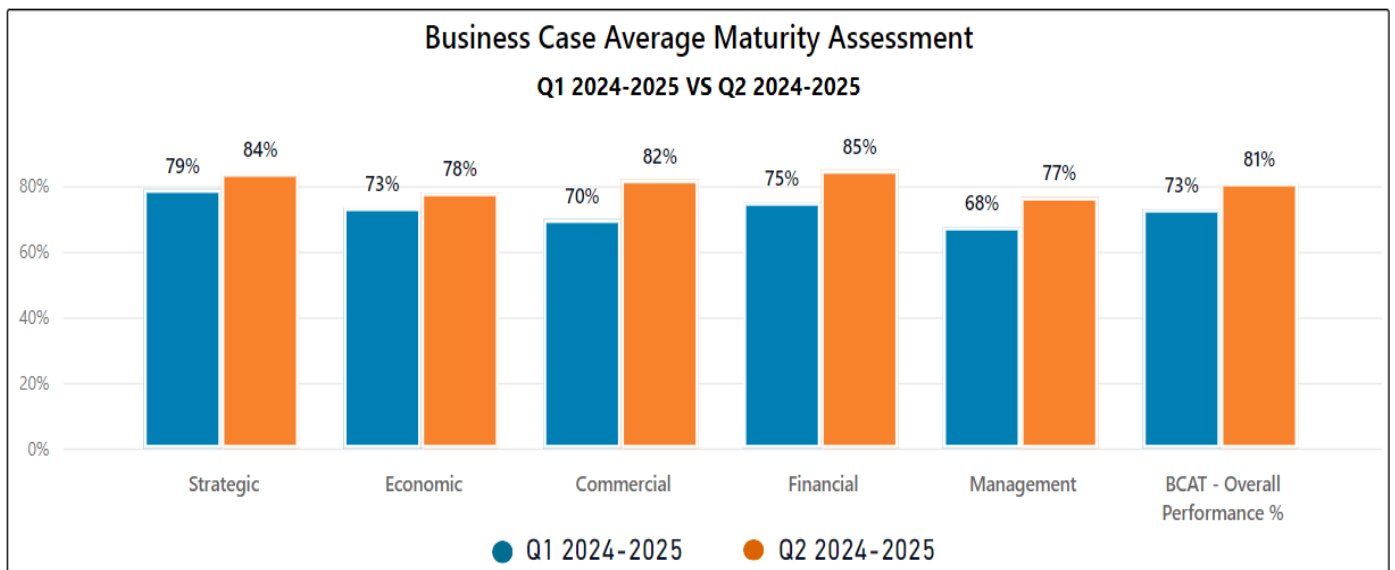
9.1.10 The following graph provides a comparison of total recommendations raised for the current and previous quarters (Q2 Jul-Sep vs Q1 Apr-Jun). It is encouraging to note the total number of medium and high priority recommendations raised has dropped since the previous quarter, reflecting the increase in overall business case maturity across all five dimensions since the previous quarter.



9.1.11 The graph below provides a detailed overview by project, of the number and priority of recommendations raised following assurance reviews during Q2. As a reminder, recommendations are raised on draft business cases submitted to the Programme Assurance & Appraisal Team and it is expected that these will be addressed prior to the business case progressing to Risk & Investment Appraisal and Approval. Any recommendations that have not been addressed prior to approval will be highlighted as a risk to inform the decision-making process. The graph demonstrates the general trend, since the previous quarter, of improved business case maturity and fewer high and medium priority recommendations.

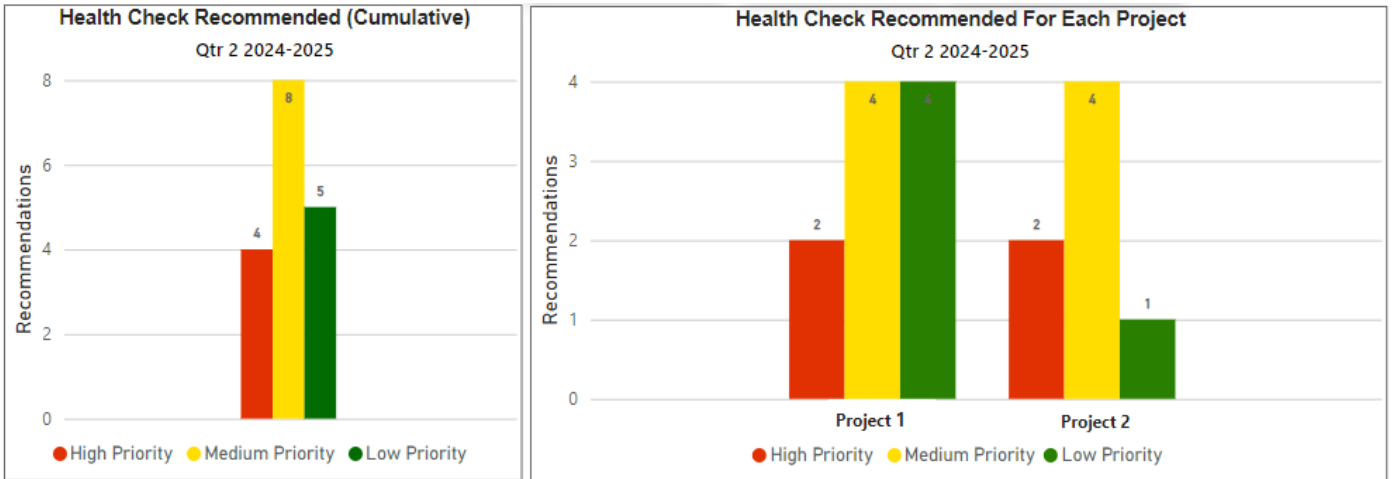


(a) The following chart compares business case maturity across each of the five dimensions for the current and previous quarters (Q2 & Q1). It is encouraging to note an improvement in maturity across all business case dimensions.



## 9.1.12 Project & Programme Health Check Reviews

- (a) Two Programme Health Checks were completed during Q2 (Jul- Sep) with a total of 20 recommendations for improvement raised.
- (b) Follow-up activity will be scheduled with Programme leads at an appropriate time in the future to review progress made with these recommendations. This follow-up activity provides an opportunity for escalation, where appropriate, if expected progress and improvement has not been evidenced.



- (c) The table below details each Health Check assessment across each of its eleven themes. Finance, Performance and Risk Management are the themes providing the greatest opportunity for improvement. Detailed Health Check reports have been shared with relevant enabling services leads to help ensure organisation-wide learning and improvement can be implemented, where appropriate.

RAG Rating  
Qtr 2 2024-2025

Project	Client & Scope	Finance	Governance	Organisation Capability & Culture	Performance	Planning & Scheduling	Risks	Social Responsibility & Sustainability	Solution	Stakeholder Engagement & Communication	Supply Chain	Overall Rating
Project 1	Green/Amber	Amber	Green/Amber	Green	Amber	Green/Amber	Amber	Green	Green	Green	Green	Green/Amber
Project 2	Green	Amber	Green/Amber	Green/Amber	Amber	Green	Green/Amber	Green/Amber	Green/Amber	Green/Amber	Amber	Green/Amber

**9.1.13 Risk & Investment Appraisal Reviews**

9.1.14 A total of **13** Risk & Investment Appraisals were completed by the Appraisal team during the period, in comparison to the **16** undertaken in the last reporting period. A summary of the funding sources of the business cases reviewed is detailed in the table below:

Funding Source	Business Cases Appraised
Active Travel Fund 4	2
Brownfield Housing Fund	2
City Region Sustainable Transport Settlement (CRSTS)	4



MHCLG	2
Revenue, DfT, DBT, ERTICO, ITS UK	1
Innovate UK	2
<b>Total</b>	<b>13</b>

### 9.1.15 Change Request Reviews

9.1.16 A total of **11** Change Request appraisals were processed by the Programme Risk & Investment Appraisal team during the period. The change trends remain stable, the main driver for types of change this quarter is evenly distributed across the three areas. This is considerably different from the previous quarter where schedule and predominantly time extensions was the main driver.

9.1.17 The impact of the City Regional Sustainable Transport Settlement (CRSTS) rebasing activity, is still evident in the transport changes where 7 of the 8 contain schedule extensions.

9.1.18 A summary of these changes is detailed in the table below:

Funding Source	Change Requests Appraised
City Region Sustainable Transport Settlement (CRSTS)	5
Brownfield Infrastructure Land Fund	1
Investment Programme	2
Other	2
UKSPF	1

Change Request Type	Change Requests by Type (NB some changes fall into multiple change types)
Scope (Objective Changes)	8
Value (Cost)	8
Schedule (Time)	8

Change Request Root Cause	Change Requests by Root Cause (NB some changes fall into multiple root causes)
Governance	0
Economic	2
Financial	1
Opportunity	3
Operations	0
Delivery	4
Reputational	1

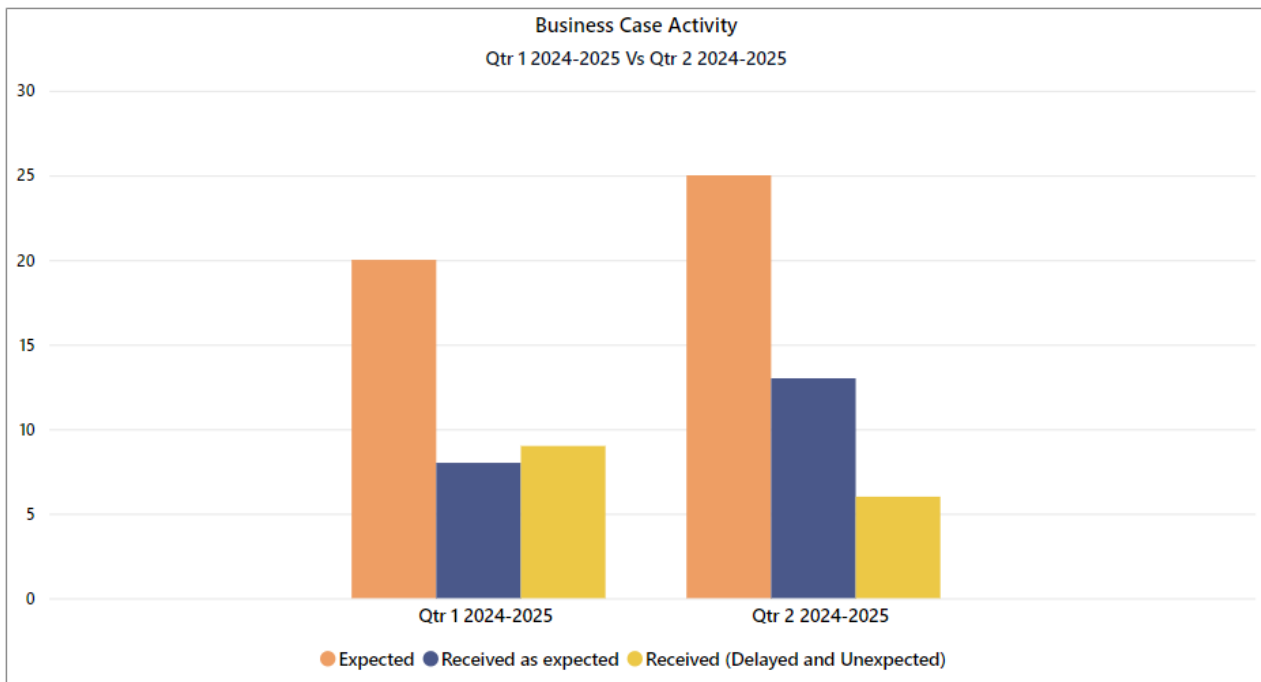
Change Requests Appraised		Time	Cost	Scope
Q3 – Oct- Dec 2023	<b>16</b>	11	12	8
Q4 – Jan – Mar 2024	<b>15</b>	6	9	8
Q1- Apr-Jun 2024	<b>10</b>	4	5	9
Q2 Jul-Sep 2024	<b>11</b>	8	8	8

**9.1.19 Business Case Submission Trends & Themes Identified**

(a) The overall business case submissions through WMCA Single Assurance Framework in Q2 (Jul-Sep) was **19** compared to 17 in Q1 (Apr-Jun) which is encouraging to demonstrate compliance and that these projects are developing plans for delivery. The breakdown of the business cases submitted this quarter is in the table and chart below:

Status	Number of business cases
Received as expected (in the quarter)	13
Received delayed (from the previous quarters)	1
Received Unexpectedly	5
<b>Total</b>	<b>19</b>

(b) However, the data also demonstrated that the number of Business Cases received of the expected (25) is **48%** (**12** received in the quarter) indicating that project planning in some areas is less mature. Five of the expected business cases were withdrawn, 2 of which were withdrawn after going through the PAA process and 3 were withdrawn before submission to the PAA.



**9.1.20 Report Summary SAF Activity in Q2 2024**

- a. The report continues to provide a strong evidence base that the WMCA Single Assurance Framework is embedded within the organisation and is supporting the Combined Authority to gain greater confidence in project delivery plans.
- b. Although there is some decrease in % terms in the number of assurance and appraisal reviews in this period in comparison to the previous quarter, the number is not that significant and the summer period could have had an impact too.

- c. Encouragingly, the business case maturity levels have seen a considerable increase in maturity against all dimensions. This can be attributed to the fact that the Programme Assurance & Appraisal team have introduced a partnering approach to delivery teams to utilise the team as a sounding board to construct business cases. The PAA team is also actively connecting with Local Authority delivery teams.
- d. To further strengthen support provided to all Delivery Teams internally and externally several workshops have been held with Local Authority partners to promote a better understanding of the Single Assurance Framework. In addition, Business Case Guidance material and training materials have also been improved and shared with all teams.

**9.2 Procurement Implications:**

9.3 N/A

**9.4 Equality Implications:**

9.5 N/A

**9.6 Equality Implications:**

9.7 N/A

**9.8 Inclusive Growth Implications:**

9.9 N/A

**10. Risk implications, including Risk Appetite:**

10.1 N/A

**11. Local Authority Impact:**

11.1 N/A

**12. List of appendices referred to:**

12.1 N/A

**13. Background papers used to compile this report:**

13.1 N/A

**14. List of Other Relevant Documents**

14.1 N/A

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**West Midlands  
Combined Authority**

**Name of meeting:** Audit Risk and Assurance Committee

**Meeting date:** 03 February 2025

**Report title:** 2025/26 Treasury Management Policy, Strategy and Practices

**Responsible Director:** Linda Horne, Executive Director of Finance and Business Hub  
Email: Linda.Horne@wmca.org.uk

**Report author:** Mark Finnegan, Lead Treasury Accountant  
Email: Mark.Finnegan@wmca.org.uk

**Key Decision?** No

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Is the ability for the Combined Authority to make a decision internally reliant on Constituent or Non-Constituent Councils making a formal decision first?

Yes       No

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### **Recommendations**

The Audit, Risk and Assurance Committee is asked to:

- (1) Review and endorse the draft 2025/26 Treasury Management Policy Statement (TMPS) (Section 2 of this report) for onward approval by WMCA Board in February/March 2025.
  - (2) Review and endorse the Draft 2025/26 Treasury Management Strategy (TMS) (Appendix 1) including the 2025/26 Investment Strategy and criteria for specified and non-specified investments (Appendix 2) for onward approval by WMCA Board in February/March 2025.
  - (3) Note and agree the arrangements for ensuring Treasury Management Practices are adequately maintained (Section 4).
- 

### **Voting Requirements**

A simple majority of the members appointed by the constituent councils, in attendance in the meeting room and indicating their preference, are required to vote in favour of any recommendations/proposition for it to become a decision of the board.

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**1. Executive Summary**

1.1 WMCA as a public body is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) in discharging all its financial responsibilities. This report and accompanying Treasury Management Practices are fully compliant with the Code.

**2. Matters for Consideration**

2.1 See Report

**3. What options have been considered and what is the evidence telling us about them?**

3.1 See Report

**4. Reasons for recommending preferred option**

4.1 Not applicable

**5. Implications and Considerations**

Priority:	Contribution:
Delivery of Strategic Transport Plan	N/A
Promote inclusive economic growth in every corner of the region	N/A
Ensure everyone has the opportunity to benefit	N/A
Connect our communities by delivering transport and unlocking housing and regeneration schemes	N/A
Reduce carbon emissions to net zero and enhance the environment	N/A
Secure new powers and resources from central government	N/A
Develop our organisation and our role as a good regional partner	N/A

**6. Consultation and Scrutiny:**

6.1 Not applicable

**7. Financial implications:**

7.1 As detailed within report

**8. Legal implications:**

8.1 Not applicable

**9. Implications:**

**Programme Assurance and Appraisal Implications:**

9.1 Not applicable

**Procurement Implications:**

9.2 Not applicable

**Equality Implications:**

9.3 Not applicable

**Inclusive Growth Implications:**

9.4 Not applicable

**10. Risk implications, including Risk Appetite:**

10.1 Not applicable

**11. Local Authority Impact:**

11.1 Not applicable

**12. List of appendices referred to:**

12.1 Only include appendices if they are essential to the understanding of the report. List titles here and ensure that appendices have proper titles, and are numbered appropriately, both in the report and in the title of the appendix. Please keep size of appendices proportionate. If there are none, say so.

**13. Background papers used to compile this report:**

Not applicable

**14. List of Other Relevant Documents**

14.1 Not applicable

## **1. Purpose**

- 1.2 WMCA as a public body is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) in discharging all its financial responsibilities. This report and accompanying Treasury Management Practices are fully compliant with the Code.
- 1.3 In relation to Treasury Management, the Code states that an organisation should delegate responsibility for the implementation and regular monitoring of its Treasury Management Policies to an independent scrutiny function. At WMCA that function is carried out by Audit, Risk & Assurance Committee. Officers are subsequently obliged to operate within the Treasury Management Strategy parameters as set and monitored by the scrutiny function.
- 1.4 ARAC members receive an annual overview of the regulatory environment and WMCA's Treasury Management Practices by our external advisors, Link Group. A refreshed training session has been arranged to coincide with the publication of the 2025/26 Treasury Management Strategy.
- 1.5 The report sets out WMCA's Treasury Management Policy Statement (below) and Treasury Management Strategy (Appendix 1) for review and endorsement by ARAC prior to submission to WMCA Board in February 2025.

## **2 Treasury Management Policy Statement**

- 2.1 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was revised in December 2021. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Code recommends the creation and maintenance of:
  - A Treasury Management Policy Statement (TMPS), stating the policies and objectives of its treasury management activities; and
  - Suitable Treasury Management Practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.
- 2.2 The 2021 CIPFA Code recommends that authorities should:
  - Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
  - Policies and practices make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.



- Acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

2.3 In order to achieve the above, the Authority will do the following:

- WMCA will create and maintain:
  - A Treasury Management Policy Statement, stating policies, objectives and approach to risk management of its treasury management activities.
  - Suitable Treasury Management Practices (TMPs), setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.
  - The contents of the policy statement and TMPs by following the recommendations contained in section 6 and 7 of the Code, subject only to amendment where necessary to reflect the WMCA's particular circumstances.
- WMCA Board will receive, as a minimum, an Annual Treasury Management Strategy, a mid-year review and an annual outturn report after its close, in the form prescribed in its TMPs.
- WMCA delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Treasury Management Group (TMG), and for the execution and administration of treasury management decisions to the Executive Director of Finance and Business Hub, who will act in accordance with the WMCA's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

2.4 The draft 2025/26 Treasury Management Policy Statement (TMPS) is shown below for review and endorsement by ARAC. There have been no changes to the TMPS from the 2024/25 statement.

### **2025 /2026 Treasury Management Policy Statement**

WMCA's Treasury Management Policy Statement defines the policies and objectives of its treasury management activities, as follows:

- (1) Treasury management activities are defined as the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of optimum performance consistent with those risks.
- (2) WMCA regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their implications for WMCA, and any financial instruments entered into to manage these risks.

- (3) WMCA acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employ suitable comprehensive performance measurement techniques, within the context of effective risk management.
- (4) The Authority’s high-level policies for borrowing, borrowing in advance and investments:
- a. The Authority’s borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Authority transparency and control over its debt.
  - b. This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
  - c. The Authority’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority’s investments followed by the yield earned on investments remain important but are secondary considerations.

### 3. WMCA 2025/26 Treasury Management Strategy

- 3.1 Following on from the Treasury Management Policy Statement above, the Treasury Management Strategy defines how the policy will be adhered to and provides a framework for WMCA treasury practitioners to operate within.
- 3.2 ARAC are requested to review and endorse the Draft 2025/26 Treasury Management Strategy which features as Appendix 1 to this report; for onward approval by WMCA Board in February/March 2025.
- 3.3 The table below summarises the principal changes between the current (2024/25) strategy and that for financial year 2025/26:

Investment Criteria	2025/26	2024/25
Registered Providers (unsecured)	£30m per sector	£20m per sector

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed. Exposure to any individual entity is capped at £5m with a minimum credit rating criteria of A-. Registered providers are typically bidding for funds in

tenors of 12 months or longer which will facilitate opportunities for investment in longer term durations subject to WMCA overall long term criteria limits (£25m) and assessment of yield curve in 2025/26 (see Investment Policy.)

3.4 **Local Authority Counterparties:** WMCA criteria in respect of investments with other local authorities are set out in the Investment Strategy within Appendix 1 of this report As at 23/01/2025 WMCA holds no investments with authorities that have issued Section 114 notices.

#### 4. Treasury Management Practices

4.1 Finally, recommendation 3 within this report requests that ARAC note and agree the arrangements for ensuring Treasury Management Practices (TMPs) are adequately maintained. The revised 2021 CIPFA Code recommends that authorities should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

4.2 WMCA maintain TMPs in line with the relevant guidance. These practices set out the manner in which the organisation will seek to achieve the policies and objectives and documents how it will manage and control those activities.

4.3 There are currently twelve individual practices which cover:

- Risk management;
- Performance measurement;
- Decision-making and analysis;
- Approved instruments, methods and techniques;
- Organisation, clarity and segregation of responsibilities and dealing;
- Reporting requirements and management information arrangements;
- Budgeting, accounting and audit arrangements;
- Cash and cash flow management;
- Money laundering;
- Training and qualifications;
- Use of external service providers;
- Corporate governance.

4.4 CIPFA's 2021 Code also requires Authority's to address **Environmental, Social, and Governance (ESG)** issues within their treasury management policies and practices (TMP1). WMCA's ESG risk management policy document is included at Appendix 3 for reference.

4.5 Other schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling WMCA treasury functions (Treasury Management Operational Procedures).

4.6 ARAC are requested to note and agree the approach:

- Which delegates responsibility for the implementation and monitoring of its treasury management policies and practices to TMG (consisting of the WMCA Executive Director of Finance and Business Hub, the WMCA Head of Financial Management, the WMCA Head of Major Funding, the Lead Treasury Accountant and other WMCA technical experts as required)
- Which delegates the execution and administration of treasury management decisions to the Executive Director of Finance and Business Hub, who will act in accordance with

the WMCA's policy statement and TMPs and CIPFA's Standard of Professional Practice on Treasury Management.

- 4.7 ARAC will receive independent assurance that the TMPs are fit for purpose and operating effectively from the annual Internal Audit of key financial systems. However, the actual TMPs are also available for ARAC review upon request.

## **APPENDIX 1**

### **Treasury Management Strategy 2025/26**

#### **Introduction**

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

Treasury risk management at WMCA is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires WMCA to approve a treasury management strategy before the start of each financial year.

This report fulfils WMCA's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

The strategy for 2025/26 covers the following main areas:

- the current treasury position;
- prospects for interest rates;
- the borrowing strategy;
- debt rescheduling;
- policy on borrowing in advance of need;
- the investment strategy and creditworthiness policy;
- the policy on use of external service providers; and
- treasury indicators which limit the treasury risk and activities of the Authority.

These elements cover the requirements of the Local Government Act 2003, MHCLG Investment Guidance, and the CIPFA Treasury Management Code.

The Authority is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The key function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested with counterparties or instruments commensurate with the Authority's risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the WMCA's capital plans. These capital plans provide a guide to the borrowing need of the authority, essentially the longer-term cash flow planning, to ensure that the authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as *non-treasury* activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

**Current Treasury Position**

The overall treasury management portfolio as at 31<sup>st</sup> March 2024 and for the position as at 31<sup>st</sup> December 2024 are shown below for both borrowing and investments.

**Table 1 Treasury Management Portfolio**

	<u>Actual</u> <u>Mar 24</u> <u>£m</u>	<u>Actual</u> <u>Mar 24</u> <u>%</u>	<u>Current</u> <u>Dec 24</u> <u>£m</u>	<u>Current</u> <u>Dec 24</u> <u>%</u>
<b>Treasury Investments</b>				
Call Accounts - Banks	1	-	1	-
Local Authorities / Housing Associations / DMADF	653	82	663	86
Banks / Financial Institutions	75	9	70	9
Money Market Funds	60	8	37	4
<b>Total Managed In House</b>	<b>789</b>		<b>771</b>	
Property Funds / REITs	4	1	4	1
<b>Total Managed Externally</b>			<b>4</b>	
<b>Total Treasury Investments</b>	<b>793</b>		<b>775</b>	
<b>Treasury External Borrowing</b>				
PWLB	472	79	463	79
Banks/Financial Institutions	119	20	119	20
Transferred Debt	3	1	3	1
<b>Total External Borrowing</b>	<b>594</b>		<b>585</b>	
<b>Net treasury investments/(borrowing)</b>	<b>199</b>		<b>190</b>	

The Authority’s central forward projections for borrowing are summarised below. The table shows the actual external debt forecast against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

**Table 2: WMCA Gross External Debt vs. CFR**

£M	2024/25	2025/26	2026/27	2027/28	2028/29
Opening External Debt	594	580	566	553	540
New Borrowing	-	-	-	-	-

Repayments	14	14	13	13	13
<b>Forecast Closing External Debt</b>	<b>580</b>	<b>566</b>	<b>553</b>	<b>540</b>	<b>527</b>
Capital Financing Requirement (CFR)	846	976	955	937	913
Under Borrowing	266	410	402	397	386

WMCA has an increasing CFR – rising from a forecast £846m at the end of 2024/25 to £976m at the end of 2025/26 - due to its capital programme, mostly driven by the delivery of the Investment Programme. The Authority is currently ‘under borrowed,’ meaning that internal cash-backed resources such as balances, reserves, and working capital (predominantly capital grants received in advance) can be deployed to offset external borrowing.

CIPFA’s Prudential Code for Capital Finance in Local Authorities recommends that WMCA’s total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that WMCA expects to comply with this recommendation during 2025/26 to 2028/29.

**Limits to Borrowing Activities**

**The Operational Boundary** - This is the limit beyond which external debt is not normally expected to exceed. This figure has been set to mirror the CFR – and therefore higher than the forecast debt levels in Table 2 - for risk mitigation in case interest rates were to rise faster than currently forecast.

**Table 3 WMCA Operational Boundary 2025/26 – 2028/29**

£M	2025/26	2026/27	2027/28	2028/29
Operational Boundary	976	955	937	913

**The Authorised Limit for external debt** - This is a key prudential indicator and represents a control on the *maximum* level of borrowing. This represents a *legal limit* beyond which external debt is prohibited, and this limit needs to be set or revised by the Board. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority.

**Table 4 WMCA Authorised Limit 2025/26 – 2028/29**

£M	2025/26	2026/27	2027/28	2028/29
Authorised Limit	1,006	985	967	943

**Prospects for Interest Rates**

WMCA has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 11th November 2024. PWLB forecasts are for certainty rates, 20 basis points below PWLB standard rates, to which WMCA has agreed access.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>BANK RATE</b>	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Link expect the MPC will lower Bank Rate from 4.75% to 3.75% during the course of financial year 2025/26.,

Their central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. Link forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank’s Quarterly Monetary Policy Reports (February, May, August and November).

**The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is even.

**Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far recently, and subsequently requires quicker monetary loosening policy.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

**Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- **Government policy:** systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.
- **The pound weakens** because of a lack of confidence in the UK Government’s fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Continued **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.





## **Borrowing Strategy**

As at 31 December 2024 WMCA held £585m of long-term loans (including transferred debt from the former West Midlands County Council), a decrease of £11m on the previous year.

**Objectives:** WMCA's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should WMCA's long term plans change is a secondary objective.

**Strategy:** The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Executive Director of Finance and Business Hub will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then any further borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.*

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Additionally, WMCA will look to identify suitable forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period and may help to de-risk commercial borrowing models.

WMCA may also borrow using short-term loans to cover unplanned cash flow shortages.

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

- HM Treasury's lending facility (i.e., Public Works Loan Board)
- National Wealth Fund (formerly UK Infrastructure Bank)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK and other sovereign public and private sector pension and insurance funds (except West Midlands Local Government Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- leasing
- hire purchase

- Private Finance Initiative
- sale and leaseback

**Short-term and variable rate loans:** These loans leave WMCA exposed to the risk of short-term interest rate rises and are therefore will be subject to the interest rate exposure assessment prior to utilisation. Consequently, financial derivatives may be used to manage this interest rate risk (see section below).

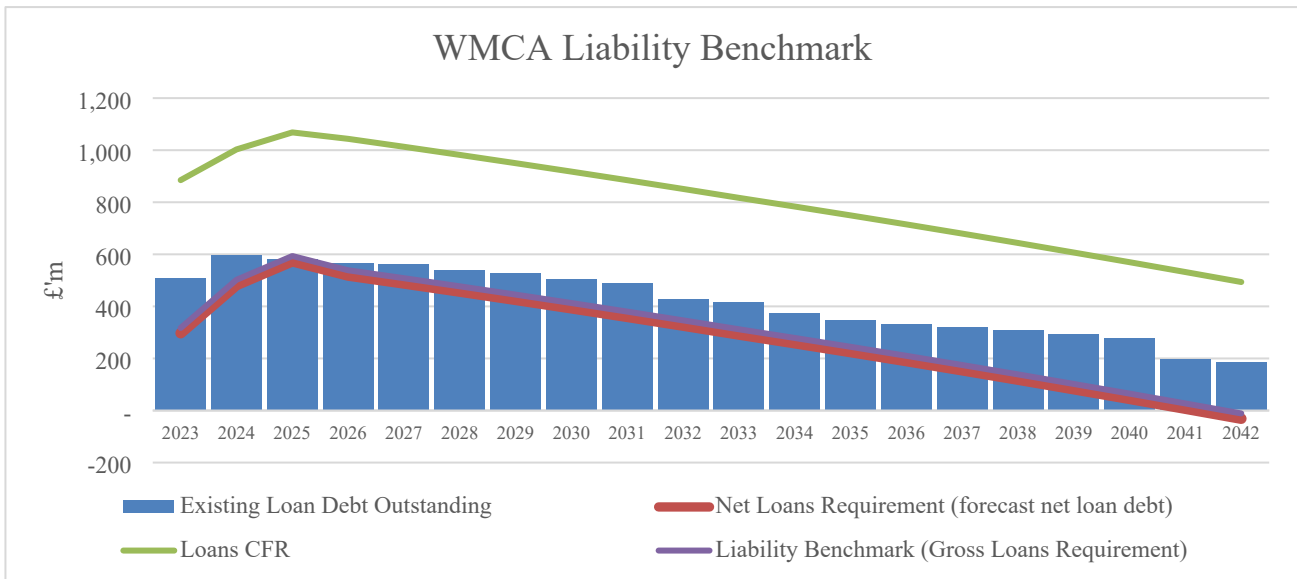
### **Liability Benchmarking**

In accordance with the Code of Practice, the Authority is required to estimate and measure its Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. WMCA's benchmark (see below) includes measurements up to 2045 (20 years)

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. In practice this means that for WMCA our Loans CFR peaks after two years based on the timelines within WMCA's approved capital programme. This creates an anomaly given all other inputs are projected forward for 20 years+.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance. Short-term liquidity allowance means an adequate allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed. For WMCA this is set at £50m.

The outcome of the above produces a benchmark for new borrowing/refinancing which can be assessed against interest rate forecasts for sensitivity. The chart below shows WMCA's revised benchmark for 2025/26 onwards which is heavily influenced by the borrowing need arising from the WMCA Investment Programme as per the first devolution deal in 2016:



**Debt rescheduling**

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms or structural amendments to loan terms. WMCA may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

**Policy on Borrowing in Advance of Need**

WMCA will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within the forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

## **Annual Investment Strategy**

### **Investment policy – management of risk**

The Ministry for Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

The Authority’s investment policy has regard to the following: -

- a) MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- c) CIPFA Treasury Management Guidance Notes 2021.

The Authority’s investment priorities will be security first, portfolio liquidity second and then yield, (return). The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Authority’s risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Authority will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as a wider range of fund options.

The above guidance from MHCLG and CIPFA places a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.

c) Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

d) This Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. See Appendix 2.

i. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year *or* have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

ii. Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

e) The Authority has determined that it will limit the use of non-specified investments for periods in excess of one year to £25m.

f) Lending limits and transaction limits (amounts and maturity) for each counterparty and type of investment will be set through applying the matrix shown at Table 5.

g) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

h) This Authority has engaged external consultants, Link Group, to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

i) All investments will be denominated in sterling.

j) As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

#### Creditworthiness Policy

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that: -

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Executive Director of Finance and Business Hub will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Board for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

**Table 5: Approved investment counterparties and limits**

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Supranational and Multilateral Development Bank bonds (SSAR Bonds)	50 years	£30m	Unlimited
Local authorities & other government entities	50 years	£30m	Unlimited
Secured investments *	25 years	£20m	Unlimited
Banks and Building Societies (unsecured) *	13 months	£20m	50% of portfolio
Registered providers (unsecured) *	5 years	£5m	£30m
Money market funds *	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other investments	5 years	£2m	£10m

**This table must be read in conjunction with the following notes.**

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

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Government / Supranational and Multilateral Development Bank bonds (SSAR Bonds):**

Loans, bonds and bills issued or guaranteed by national governments, regional authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Full regard will therefore be given to other available information on the credit and environmental, social, and governance (ESG) quality of the organisations in which it invests. No investments will be made with an organisation if there are substantive doubts about its credit or ESG qualities, even though it may otherwise meet the above criteria.

Investments with the UK Government are *deemed* to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Local authorities and other government entities:** Although most UK local authorities have not opted to obtain a formal credit rating from either Moodys, Standard and Poors, or Fitch, they are considered as quasi-governmental by advisors and therefore assigned a AA- rating for the purposes of establishing credit criteria. No local authority has ever defaulted on its loan arrangements. The above notwithstanding, WMCA will apply the following criteria when selecting UK Local Authority counterparties:

- No deposits (or further deposits) with authorities that have issued a S114 notice that is yet to be rescinded;
- No forward dated trades beyond 1 month ahead; and
- No trades with authorities where audited accounts are not available for the preceding financial year

In addition to the above WMCA will assess a range of benchmark metrics (debt servicing/income, balance of reserves/net expenditure, etc.) to monitor counterparty financial performance prior to trade agreements taking place.

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

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

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

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

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

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

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



**Operational bank accounts:** WMCA may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed in than made insolvent, increasing the chance of WMCA maintaining operational continuity.

Investment Strategy

WMCA holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2024/25 year to date WMCA’s treasury average monthly investment balance has ranged between £954m and £782m. Levels are expected to fall in overall terms in 2025/26 but this is subject to the timing of government grant receipts and/or delays in capital expenditure profiling.

**Objectives:** The CIPFA Code requires WMCA to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. WMCA’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, WMCA will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Strategy:** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England’s Monetary Policy Committee two to three years forward.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow (amend as appropriate), where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

**Investment returns expectations:** Based on the current prospects for interest rates appraisal by Link Group and amended for risk appetite the suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	%
2025/26	4.1
2026/27	3.7
2027/28	3.5
2028/29	3.5

Long term later years	3.5
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For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

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

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by WMCA’s treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

**Other information on the security of investments:** WMCA understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, WMCA will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security.

**Investment limits:** In order that WMCA’s reserves will not be put at significant risk in the case of a single default, the maximum that will be lent to any one organisation (other than UK Government – see Investment Criteria) will be £30 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

**Table 6: Additional Investment limits**

	Cash Limit
Any group of pooled funds under the same management	£30m per manager
Non UK Sovereigns (AA- minimum)	Up to 25% of portfolio (maximum 15% AA+ or below)

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

**Use of External Providers**

£5m of WMCA funds is externally managed on a pooled basis by CCLA Local Authority Property Fund and Fundamentum Social Housing Real Estate Investment Trust (REIT) The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager(s). In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager(s). This includes:

- Monthly valuation updates and factsheets;
- Quarterly dividend statements;
- Annual reports / conference places; and
- Access to online fund reporting sites.

In addition to formal reports, the Authority also meets with representatives of the fund managers on a semi-annual basis. These meetings allow for additional scrutiny of the manager’s activity as well as discussions on the outlook for the fund as well as wider markets.

**Treasury Management Indicators**

WMCA measures and manages its exposures to treasury management risks using the following indicators.

**Security:** WMCA has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

<b>Credit risk indicator</b>	<b>Target</b>
Portfolio average credit	A minus

**Liquidity:** WMCA has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

<b>Liquidity risk indicator</b>	<b>Target</b>
Total cash available within 3 months	£50m (min)

**Maturity structure of borrowing:** This mandatory indicator is set to control WMCA’s exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

<b>Refinancing rate risk indicator</b>	<b>Upper Limit</b>	<b>Lower limit</b>
Under 12 months	75%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	70%	0%
5 years and within 10 years	70%	0%
10 years and above	70%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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

<b>Price Risk Indicator</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
Limit on principal invested longer than a year	£25m	£25m	£25m

### **Related Matters**

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

#### **Financial Derivatives**

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g., interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g., LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

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

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

#### **Markets in Financial Instruments Directive**

WMCA has retained professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of WMCA's treasury management activities, the Section 151 Officer considers this to be the most appropriate status.

#### **Investment Training**

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

The needs of the Authority's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Group and CIPFA. Relevant staff are

also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

As noted in the cover report (1.4) ARAC members receive an annual overview of the regulatory environment and WMCA's Treasury Management Practices with our treasury advisors, Link Group, to coincide with the publication of the Treasury Management Strategy.

### **Treasury Management Consultants**

WMCA uses Link Group as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

## APPENDIX 2

### TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

DLUHC (now MHCLG) issued Investment Guidance in 2018, and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the Guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. In accordance with the Code, the Executive Director of Finance and Business Hub has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

**Annual Investment Strategy** - The key requirements of both the Code and the investment guidance are for the Authority to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of the following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

**STRATEGY GUIDELINES:** The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account Deposit Facility (DMADF), UK Treasury Bills or a Gilt with less than one year to maturity).
- Supranational Bonds of less than one year's duration.
- A Local Authority, Housing Association, Parish Council or Community Council.
- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by a credit rating agency e.g., Standard and Poor's, Moody's and/or Fitch rating agencies.
- A body that is considered of a high credit quality (such as a bank or building society) This category covers bodies with a minimum Short-Term rating of F-1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

**NON-SPECIFIED INVESTMENTS:** Investments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

Any investment not meeting the definition of a specified investment is classed as non-specified. Due care will be taken to consider the exposure of the Authority’s total investment portfolio to non-specified investments, countries, groups, and sectors. WMCA has determined that it will limit the maximum total exposure to non-specified investments as follows:

	<b>Non-Specified Investment Category</b>	<b>Limit (£ or %)</b>
a.	<p><b>Supranational Bonds greater than 1 year to maturity</b></p> <p><b>(a) Multilateral Development Bank bonds</b> - These are bonds defined as an international financial institution having as one of its objectives economic development, either generally or in any region of the world (e.g., European Reconstruction and Development Bank etc).</p> <p><b>(b) A financial institution that is guaranteed by the United Kingdom Government</b></p> <p>The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt-edged securities. However, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	£25m
b.	<p><b>Gilt edged securities</b> with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.</p>	£25m
c.	<p><b>The Authority’s own banker</b> if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.</p>	£20m
d.	<p>Any <b>Bank or Building Society</b> that has a minimum long-term credit rating of A-, for deposits with a maturity of greater than one year</p>	£20m
e.	<p><b>Other fund:</b> The use of these instruments <i>can</i> be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.</p>	£5m

## Appendix 3

### Environmental, Social and Governance (ESG) Risk Management

## WMCA ESG Policy

Key Message:

**Environmental, Social and Governance (ESG) considerations are important considerations when selecting investment counterparties: however, Security of public funds, followed by Liquidity and then Yield remain our primary drivers in line with CIPFA Guidance.**

WMCA treasury operation focuses on managing all categories of risk that may impact first and foremost the security of any given investment product. From that perspective ESG considerations are about understanding what ESG risks a counterparty is exposed to and what they may mean for the Authority's risk in choosing to make a particular investment.

In line with the Authority's declaration of a Climate Emergency, we will therefore aim to assess and monitor ESG factors when selecting investment options. Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark all specific counterparty ESG metrics. Until this market data gap is fully resolved, our Policy is as follows:

We continue to prioritise Security, Liquidity and Yield (in that order) as required by CIPFA's Treasury Management Code of Practice.

As large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change and other ESG considerations are rightly an increasingly important and heavily scrutinised part of their overall business.

Recognising this, the Ratings Agencies (Moody's, Fitch, Standard and Poor's) existing headline ratings on our counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust.

Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification. The Authority does not have any identified long-term surplus balances with which to consider specific 'impact' or 'sustainable' investments, so Supra-national counterparties who offer access to high-quality (typically AAA-rated) ESG exposure will continue to proportionately form part of our investment portfolio where bonds or other permitted structures matching our liquidity requirement can be sourced.





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