



Audit, Risk & Assurance Committee

Date: Tuesday 14 July 2020

Time: 10.00 am **Public meeting** Yes

Venue: Virtual meeting held through Microsoft Teams
[Click here to access the meeting.](#)

Membership

David Lane (Chair)	
Councillor Ram Lakha OBE (Vice-Chair)	Coventry City Council
Councillor Ahmad Bostan	Sandwell Metropolitan Borough Council
Councillor Alan Butt	City of Wolverhampton Council
Sean Farnell	Coventry & Warwickshire LEP
Councillor Michael Gough	Solihull Metropolitan Borough Council
Councillor Fred Grindrod	Birmingham City Council
Councillor Christine Martin	Staffordshire Non-Constituent Authorities
Councillor Alexander Phillips	Shropshire Council
Councillor June Tandy	Nuneaton & Bedworth Borough Council
Councillor Alan Taylor	Dudley Metropolitan Borough Council
Councillor David Thain	Worcestershire Non-Constituent Local Authorities
Councillor Gurmeet Singh Sohal	Walsall Metropolitan Borough Council

Quorum for this meeting shall be nine members. Of those, at least one member must be in attendance from five different constituent councils.

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

Contact Tanya Patel, Governance Services Officer
Telephone 0121 214 7689
Email Tanya.Patel@wmca.org.uk

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	10:00
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	
3.	Minutes - 13 January 2020	Chair	1 - 6	
4.	Chair's Remarks	Chair	None	
5.	Matters Arising <ul style="list-style-type: none"> • Whistleblowing 	Tim Martin	None	
6.	Forward Plan	Tanya Patel	7 - 8	
Business Items for Noting/Approval				
7.	Equal Pay Audit & General Equalities Update	Anna Sirmoglou	9 - 12	10:05
8.	Internal Audit Annual Report 2019-2020	Peter Farrow	13 - 56	10:15
9.	Annual Accounts 2019/20 for West Midlands Combined Authority <ul style="list-style-type: none"> (a) Annual Accounts 2019/20 for West Midlands Combined Authority (Covering Report) (b) WMCA Accounts 2019/20 (c) Supplementary information – changes to the financial statements for inventory accounting (d) Audit Findings – West Midlands Combined Authority (e) Letter of Representation 	Linda Horne / Grant Thornton	57 - 188	10:30
10.	WMCA Strategic Risk Register	Tim Martin / Julia Goldsworthy	189 - 198	11:20
11.	Adoption of a Revised Single Assurance Framework	Julia Goldsworthy / Tim Martin	199 - 262	11:30
12.	Internal Audit Plan 2020-2021	Peter Farrow	263 - 268	11:40

Private Item of Business				
13.	Exclusion of the Public and Press To pass the following resolution: That in accordance with Section 100A (4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information relating to financial or business affairs of any particular person (including the authority holding the information)		None	
14.	Accessible Transport Services - Revised Final Internal Audit Report Confidential appendix relating to agenda item no. 8	Peter Farrow	269 - 290	11:50
Date of Next Meeting				
15.	Tuesday 8 September 2020 at 10.00am	Chair	None	

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**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Monday 13 January 2020 at 10.00 am

Minutes

Present

David Lane (Chair)

Councillor Ram Lakha (Vice-Chair)

Councillor Ahmad Bostan

Councillor Alan Butt

Sean Farnell

Councillor Michael Gough

Councillor Alan Taylor

Coventry City Council

Sandwell Metropolitan Borough Council

City of Wolverhampton Council

Coventry & Warwickshire LEP

Solihull Metropolitan Borough Council

Dudley Metropolitan Borough Council

In Attendance

Peter Farrow

Julia Goldsworthy

Jacqueline Homan

Linda Horne

Sandra Kaylan

Ian Martin

Tim Martin

Grant Patterson

Hardial Phull

Lorraine Quibell

City of Wolverhampton Council

West Midlands Combined Authority

West Midlands Combined Authority

West Midlands Combined Authority

City of Wolverhampton Council

West Midlands Combined Authority

West Midlands Combined Authority

Grant Thornton

West Midlands Combined Authority

West Midlands Combined Authority

Item No.

Title

195. Inquorate Meeting

The Monitoring Officer reported that in accordance with the WMCA's constitution, the meeting was inquorate. The recommendations contained within the minutes would be submitted to the WMCA Board on 14 February 2020 for formal approval and adoption.

196. Apologies for Absence

Apologies for absence were received from Councillor Fred Grindrod (Birmingham City Council), Councillor Alexander Phillips (Shropshire Council) and Councillor June Tandy (Nuneaton & Bedworth Borough Council).

197. Declarations of Interest

Councillor Alan Taylor reported that he was a member of Transport Delivery Committee.

198. Minutes - 12 November 2019

The minutes of the meeting held on the 12 November 2019 were agreed as a correct record.

199. Chair's Remarks

(a) Overview & Scrutiny Committee

The Chair reported that the Overview & Scrutiny Committee would be undertaking a review of governance and that he had been asked to give evidence to the group undertaking this review. He also reported that the Overview & Scrutiny Committee had raised questions over transparency and the public availability of performance data, and he had therefore shared the Performance Management and Reporting report with the chair of that committee for information.

(b) Commonwealth Games Assurance Forum

The Chair reported that Peter Farrow had received an invitation from the Department for Digital, Culture, Media & Sport to be a part of its assurance forum for the Commonwealth Games and would therefore be well placed to report back to this committee on any issues related to this at future meetings.

(c) CIPFA Treasury Management Guidance

The Chair informed the committee of changes relating to accounting recommendations whereby it would now have responsibility for review, commentary and consideration of the treasury management strategy before approval was sought at WMCA Board.

200. Matters Arising

(a) Whistleblowing

The Monitoring Officer advised the committee of a whistleblowing notification received since the last meeting. However, upon investigation, this was determined to be an internal matter and would be resolved through internal processes. The Chair confirmed he has been advised of this incident.

201. Forward Plan

The committee considered the plan of items to be reported to future meetings of the committee.

Resolved:

The items of business to be reported at future meetings be noted.

202. WMCA Assurance Overview January 2020

The committee considered a report updating it on project and programme assurance and Arms' Length Companies. The report sought a deferral of a summary of Arm's Length Companies compliance with a pre-agreed checklist until April 2020, due to the information requiring validation.

The committee also considered information on a newly develop toolkit to enable objective assessment of project performance throughout the project lifecycle. It was noted that the development of the new toolkit mean that the Programme Assurance team would in a transitional phase, and therefore an

implication of this would be that information previously held of project performance may not directly be translatable into the new assurance reporting. Therefore, the Chair requested that an update was provided on whether there might be any trend risks which might be missed because of the break in historical data at its meeting on 21 April. Sean Farnell suggested that during the transitional phase both systems should be run in parallel.

Recommended to the WMCA Board:

- (1) The reporting capability from a refreshed Programme Assurance toolkit be noted and the recommendations in the summary section relating to future trend analysis reporting of project/programme performance information be approved.
- (2) The capability an Integrated Assurance and Approval Plan would give the WMCA in focussing assurance activities across a 'three lines of defence' model, taking into consideration the spectrum of risk, be noted.
- (3) The report on the compliance of Arms' Length Companies with the WMCA's pre-agreed checklist be deferred until the meeting of the committee being held on 21 April 2020.

203. Internal Audit Update

The committee considered a report updating it on the work completed by Internal Audit and noted the amendments to the Internal Audit Plan 2019-20 related to an additional review being undertaken on Accessible Transport Group (Ring & Ride) and the Mayoral Election 2020 Preparedness. The committee was provided with a brief overview of the Governance Arrangements 2018-19 audit, appended to the report, and the recommendation relating to this committee producing an annual report detailing the work it had undertaken.

In relation to the follow up audit reports for both National Fraud Initiative 2017- 18 and IR35 2017-18, Sean Farnell highlighted his concern at the outstanding 'amber' recommendations and sought clarity as to when those recommendations would be implemented. The Director of Finance clarified the reasons for the delay in implementing these recommendations and stated, as the Responsible Officer for ensuring implementation, she was comfortable with the position of these recommendations. The Chair requested that a short briefing note be circulated to members to confirm that those 'amber' recommendations had been implemented ahead of the meeting on 21 April 2020.

Resolved:

The contents of the latest Internal Audit Update report be noted.

204. Draft Internal Audit Plan 2020-21

The committee considered the draft internal audit plan for 2020-21. The report outlined the methodology behind the proposals of the draft internal audit plan, being based on high risk areas to the organisation and ensuring

that coverage across all service areas of the organisation was considered. It was noted that the Senior Leadership Team had been consulted as part of the development of the draft risk-based internal audit plan, and the Monitoring Officer confirmed that good engagement had taken place with all the directors ensuring their requirements were considered within the proposals. The Chair also confirmed that he had been involved in the development of the draft internal audit plan.

The Chair noted that after the mayoral election in May, the draft internal plan 2020-21 would be reviewed due to any potential changes and to ensure it remained valid and appropriate. Any proposed changes would be brought back to committee for review, comment and consideration. To ensure that internal audit plan was kept current and up to date, the Head of Audit confirmed that the strategic risk register was regularly considered in relation to the internal audit plan which might be amended as appropriate.

Resolved:

The draft Internal Audit Plan for 2020-21 be noted prior to its approval at the meeting of this committee on 21 April 2020.

205. External Audit Plan and Informing the Audit Risk Assessment 2019/20 for West Midlands Combined Authority

The committee considered Grant Thornton's proposed external audit plan. The committee also received the Informing the Audit Risk Assessment report. Grant Patterson advised the committee of a change to the audit team in that Helen Lillington was taking over from Nicola Coombe as audit manager.

In relation to the external audit plan, ARAC were reminded that the West Midlands Integrated Transport Authority Pension Fund would no longer be audited separately, and therefore the 19/20 Plan presented focused on the combined authority and group accounts. The Chair requested that the Director of Finance include a narrative referencing the work undertaken to cover risk during the period of uncertainty within the annual accounts.

Grant Patterson indicated that the purpose of the report was to ensure that there was an effective two-way communication between the West Midlands Combined Authority's external auditors and its Audit, Risk & Assurance Committee. It was agreed that the Chair would take responsibility to go through the report in detail and sign it off, reporting back to committee on any issues that may arise.

Resolved:

- (1) The external audit plan for the year ending 31 March 2020 presented by Grant Thornton be noted.
- (2) The 'informing the audit risk assessment 2019/20' report presented by Grant Thornton be noted.

206. Performance Management and Reporting

The committee considered a report from the Director of Strategy providing an overview of the various elements of the performance management and reporting arrangement within the WMCA. She also highlighted factors impacting the WMCA, including Brexit, the Budget, Spending Review and Government changes. The report also referenced the various performance monitoring and reporting frameworks, along with planned improvements and potential developments to future reports.

Further to Sean Farnell's request, the Director of Strategy confirmed that it was still the intention to shared Key Performance Indicator scorecards with the committee at future meetings. In terms of upcoming opportunities for the WMCA, the committee raised questions as to whether resources were being made available to pursue these and to ensure that those opportunities being sought through the pre-election period would not be used by mayoral candidates to benefit their campaign. The Monitoring Officer assured the committee that any activity being sought through the pre-election period would be judged on appropriateness to move forward. The Chair requested that an updated accountability model be shared with the committee as its next meeting.

Resolved:

- (1) The contents of the reported be noted.
- (2) The proposed developments and improvements planned be noted.

207. Corporate Service Review

The Monitoring Officer provided the committee with an update on the position of the Corporate Service Review, which had now been completed. Various improvement plans had been implemented for key Corporate Service areas which Senior Leadership Team would continue to monitor to ensure that the improvement committed to was implemented. Two areas continue to be outstanding related to ICT service (which was due to an external review being undertaken) and the implementation of the establishment of a new Strategic Hub. However, both of these outstanding areas were being progressed appropriately.

Resolved:

That the update be noted.

208. Addressing the West Midlands Climate Crisis

The committee received a presentation from the Head of Environment, outlining the WMCA's proposals to achieve net zero CO2 emissions by 2041. A green paper would be submitted to the WMCA Board at its meeting on 17 January 2020 which would give further consideration as to how this target might be best achieved. The Chair asked the Head of Audit to propose how and when internal audit would review the delivery of the Combined Authority's plan objectives over what is a long period. ARAC should see these dates built into the long term Internal Audit plan amendable only with ARAC's agreement.

Resolved:

- (1) That the update be noted.
- (2) The Head of Audit would produce a review plan for this critical area.

209. WMCA's Investment and Commercial Activities Update

The committee received a presentation from the Director of Investment & Commercial Activities, outlining his role, responsibilities, accountability, initial thoughts of investment activity and the WMCA's investment and commercial capability.

Resolved:

That the update be noted.

210. 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 item of business as it was likely to involve the disclosure of exempt information relating to the financial or business affairs of any particular person (including the authority holding that information).

211. Audit Capacity

The committee considered a report from the Monitoring Officer providing it with an overview of Internal and External Audit activity and to provide assurance on the deliverability of the Internal Audit plan for 2020-21. The audit service provided to the WMCA was in accordance with the Local Government Act 1972, the Accounts and Audit Regulations Act and the Public Sector Internal Audit Standards. The report referenced the both internal and external audit activity and detailed the increase in the number of audit days between the financial years. The Chair noted that this resource allocation is unlikely to have reached a steady state yet and would almost certainly need to be reviewed for appropriateness in Spring 2021.

Resolved:

The overview information on Internal and External Audit activity across financial years 2018/19, 2019/20 and 2020/21, and the resources available to the service, be noted.

212. Date of Next Meeting

Tuesday 21 April 2020 at 10.00am

The meeting ended at 12.05 pm.

WMCA Audit, Risk & Assurance Committee - Forward Plan

Title of Report	Date of Meeting	Lead Officer
Assurance report update	8 September 2020	Hardial Phull
Internal Audit Report	8 September 2020	Peter Farrow
WMCA Annual Audit Letter	8 September 2020	Grant Thornton
Treasury Management Strategy / Outturn report	8 September 2020	Carl Pearson
Data Protection & Data Processing	8 September 2020	Gurmit Sangha
Health & Safety Arrangements	8 September 2020	Pete Bond
Consideration of revised LGA Model Code of Conduct	8 September 2020	Tim Martin
West Midlands Pension Fund	8 September 2020	TBC
Strategic Risk Register	26 October 2020	Tim Martin / Julia Goldsworthy
Internal Audit Report	26 October 2020	Peter Farrow
Conflict of Interest Policy for Non- Elected Participants in Combined Authority Governance	18 January 2021	Tim Martin

Internal Audit Report	18 January 2021	Peter Farrow
Assurance report update	18 January 2021	Hardial Phull
Internal Audit Report	19 April 2021	Peter Farrow
Assurance report update	19 April 2021	Hardial Phull
Strategic Risk Register	28 June 2021	Tim Martin / Julia Goldsworthy
Internal Audit Report	28 June 2021	Peter Farrow
Internal Audit Plan 2021 – 2022	28 June 2021	Peter Farrow
WMCA Annual Accounts	28 June 2021	Linda Horne
WMCA Audit Findings	28 June 2021	Grant Thornton
Contingency – Approval of accounts	12 July 2021	Linda Horne



Audit, Risk & Assurance Committee

Date	14 July 2020
Report title	Equal Pay Audit & General Equalities Update
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tracy Walters, Head of Human Resources and Organisational Development Email: Tracy.Walters@wmca.org.uk Tel: (0121) 214 7007
Report has been considered by	Director of Productivity and Skills - Julie Nugent

Recommendation(s) for action or decision:

The Audit & Risk Committee is recommended to:

- (1) Consider and note the March 2020 WMCA Gender Pay Gap and workforce diversity data and the actions considered to bridge internal diversity gaps and promote inclusion.

1. Purpose

- 1.1 This report provides Members with a breakdown of the latest workforce and Gender Pay Gap Statistics. It also outlines current initiatives and identifies key areas of future focus to help bridge diversity gaps and promote inclusion.

2. Background

- 2.1 Promoting equality and inclusion is of paramount importance and a key internal and external WMCA driver. Narrowing diversity gaps is an organisational priority. We monitor our workforce and recruitment statistics on a regular basis to identify gaps and explore ways to address these gaps and challenges. Sections 3 and 4 of this report provide a summary of our workforce and gender pay gap statistics for March 2020. Section 5 briefly outlines current and proposed initiatives.

3. Gender Pay Gap

- 3.1 From April 2018 organisations with 250+ employees are legally required to report their median and mean gender pay gap. The 'mean' gender pay gap shows the difference in mean pay between female and male employees (that is the average of the total of all employees' pay) while the 'median' pay gap shows the difference in median pay (that is putting all male/female employees in a line and identifying the pay of the person in the middle).
- 3.2 The UK has a median pay gap of 8.9% for full-time employees. The WMCA's median gender pay gap (March 2020) is 8.5% and the mean gender pay gap is 6.91%. This compares to 16.3% for median and 10.1% for mean in 2019. There has been significant progress in the past year in terms of lowering the gender pay gap to levels below the national average. This has been our lowest pay gap figure since we first started reporting in 2018.

4. Workforce Diversity Statistics

- 4.1 The WMCA analyses its workforce statistics on an annual basis. The statistics are published as part of an annual inclusion review report on the WMCA website.
- 49.5% of our employees are female. The WMCA has never been as representative gender wise. Last year's figures were 46.1% and the figures were even lower the year before. The representation of women at the two highest salary level positions (43k-52k and 53k+) is lower at 38.5% but it is still higher than previous years.
 - The gender split by directorate shows that there are some differences within directorates – for example, TfWM is under-represented at higher salary levels, ICT is predominately make and the housing directorate also has a smaller percentage of female staff.
 - There has been an increase in the overall representation of ethnic minority employees in the organisation (28.7% in 2019/20 compared to 25.1% in 2018/19). The figures are higher than the national average of 19.5% (Census 2011) but lower than the figure of 34% in the 7 Metropolitan districts. However, the figures are going up on an annual basis. Ethnic minority employees are under-represented at senior levels.

- 13.5% of our workforce have declared that they have a disability, significantly higher than the previous year. The majority of disabled employees have got hidden disabilities.
- 9.3% of our workforce is under 25, an increase from 7.7% the previous year. The WMCA has seen an increase in representation of younger people over the past few years through programmes such as Building Our Future Workforce.

5. Equality Updates

- 5.1 The WMCA featured on the 2019/20 Inclusive Top 50 UK Employers list (33rd in the list). This is a definitive list of UK based organisations that promote inclusion across all protected characteristics throughout each level of employment.
- 5.2 The WMCA featured at number 24 in the National Centre for Diversity Grand Awards Top 100 Index 2020.
- 5.3 We are Disability Confident employers and are currently working towards attaining Disability Leaders recognition through a number of internal disability friendly initiatives.
- 5.4 Our 'Building our Future Workforce' Strategy is designed to provide underrepresented groups with a range of skills and opportunities. Since the scheme was launched the proportion of employees who are apprentices has increased to 6.2%, well above the target for the public sector (2.3%) and exceeding best practice benchmarks (5%). All posts under SP26 are advertised as apprenticeships and we target under-represented groups (care leavers, NEETs etc.) in our recruitment to work experience and entry level jobs/apprenticeships.
- 5.5 We finalised our accreditation with the Living Wage Foundation and are now Living Wage Employers. This will also have an impact on third party suppliers who will be required to pay employees the real living wage by a set milestone dependent on the length of contract.
- 5.6 Online Equality training is mandatory at induction level for all employees and it was rolled out to all employees in June 2020 for mandatory completion to refresh their equalities awareness.
- 5.7 We delivered unconscious bias training for recruiting managers and will be rolling out unconscious bias training for all employees
- 5.8 We introduced regular HR business partner recruitment conversations with senior and recruiting managers to identify team diversity gaps and highlight the importance of diversity in recruitment
- 5.9 We are running equality and inclusion focus groups with WMCA employees to engage and understand more about what will help us further support workplace inclusivity (i.e. networking groups, mentoring schemes etc.).

6. Financial Implications

- 6.1 N/A

7. Legal Implications

7.1 N/A

8. Equalities Implications

8.1 The initiatives are aimed at addressing diversity gaps and are therefore likely to have equality positive impact.

9. Inclusive Growth Implications

9.1 N/A

10. Geographical Area of Report's Implications

10.1 N/A

11. Other Implications

11.1 N/A

12. Schedule of Background Papers

12.1 N/A



Audit, Risk & Assurance Committee

Date	14 July 2020
Report title	Internal Audit Annual Report 2019-2020
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report has been considered by	Senior Leadership Team

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

- (1) Note the contents of the Internal Audit Annual Report 2019-2020.

1.0 Purpose

- 1.1 The purpose of this report is to provide the Audit, Risk and Assurance Committee with an annual internal audit opinion on the adequacy and effectiveness of the Combined Authority's governance, risk management and internal control processes.
- 1.2 To take account of the impact of the Covid-19 Pandemic, the remaining 2019-2020 audits have been reviewed through a prioritisation exercise in liaison with all Directors and the WMCA Leadership Team. This report incorporates the outcome of the exercise.

2.0 Background

- 2.1 The Annual Internal Audit Report summarises the work completed by Internal Audit during 2019-2020. It also provides an annual audit opinion that based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the Combined Authority has adequate and effective governance, risk management and internal control processes.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications.

5.0 Legal implications

- 5.1 There are no implications.

6.0 Equalities implications

- 6.1 There are no implications.

7.0 Other implications

- 7.1 Not applicable.

8.0 Schedule of background papers

- 8.1 None.

9.0 Appendices

None



West Midlands Combined Authority

Internal Audit Annual Report – 2019-2020

Delivered by City of Wolverhampton Council - Audit Services

Introduction

Our internal audit work for the period from 1 April 2019 to 31 March 2020 was carried out in accordance with the approved Internal Audit Plan. The plan was constructed in such a way as to allow us to make a statement on the adequacy and effectiveness of the Combined Authority's governance, risk management and control processes. In this way our annual report provides one element of the evidence that underpins the opinion of the Chief Audit Executive and the Annual Governance Statement the Combined Authority is required to make to accompany its annual financial statements. This is only one aspect of the assurances available to the Combined Authority as to the adequacy of governance, risk management and control processes. Other sources of assurance on which the Combined Authority may rely, could include:

- The work of the External Auditors (Grant Thornton)
- The work of the Combined Authority's Corporate Assurance Team
- The result of any quality accreditation
- The outcome of any visits by Her Majesty's Revenues and Customs (HMRC)
- Other pieces of consultancy or third-party work designed to alert the Combined Authority to areas of improvement

The definition of internal audit, as described in the Public Sector Internal Audit Standards, is "Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Internal audit activity is organisationally independent and further details behind the framework within which internal audit operates, can be found in the internal audit charter.

Overall Assurance

As the providers of internal audit to the Combined Authority, we are required to provide the Chief Executive and the Audit, Risk and Assurance Committee with an opinion on the adequacy and effectiveness of the Authority's governance, risk management and control processes. In giving our opinion, it should be noted that assurance can never be absolute. The most that Internal Audit can provide is reasonable assurance that there are no major weaknesses in the Combined Authority's governance, risk management and control processes. We have taken into account:

- All audits undertaken for the year ended 31 March 2020.
- Any follow-up action taken in respect of audits from previous periods.
- Any key recommendations not accepted by management and the consequent risks.
- Any limitations which may have been placed on the scope of internal audit.
- The extent to which any resource constraints may impinge on the ability to meet the full audit needs of the Combined Authority.

Internal Audit Opinion

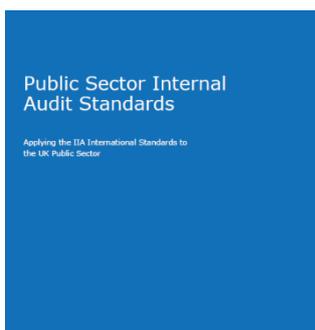
We have conducted our audits in accordance with the Public Sector Internal Audit Standards. Within the context of the parameters set out above, our opinion is as follows:

Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the Combined Authority by other providers as well as directly by Internal Audit, we can provide **reasonable assurance** that the Combined Authority has adequate and effective governance, risk management and internal control processes.

In reaching our opinion, the following factors were taken into particular consideration:

- The WMCA continued to experience a changing environment in 2019 - 2020 with development of arrangements for the devolution of Adult Education Budget funding and award of further funding as part of the Housing Deal and the 5G programme.
- The need for management to plan appropriate and timely action to implement our and other assurance providers' recommendations.
- Key areas of significance identified because of our audit work performed in year are included in a table at the end of this report.

Compliance with the Public Sector Internal Audit Standards



Internal Audit has a quality assurance and improvement programme. During the year, the internal audit activity has followed this programme and there have been no significant areas of non-conformance or deviations from the standards as set out in the Public Sector Internal Audit Standards.

Summary of work completed

A detailed written report and action plan is prepared and issued for every review where appropriate. The responsible officer will be asked to respond to the report by completing and returning the action plan. This response must show what actions have been taken or are planned in relation to each recommendation.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

13 pieces of audit work were completed in 2019-2020, where an audit opinion has been provided. A summary of the audit opinions given, with a comparison over previous years, is set out below:

Opinion	2018-2019	2019-2020
Substantial	9	9
Satisfactory	3	4
Limited	-	-

A summary for each completed audit review is detailed below.

Summary of audit reviews completed

The following internal audit reviews were completed during 2019-2020 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
Employment Support Pilot	Medium	-	-	1	1	1	Substantial
Transport Operator Data and Payment arrangements - managed service	Medium	-	-	-	-	-	Substantial
Employee Performance Management	High	-	1	1	2	2	Satisfactory
Homelessness taskforce	High	-	-	1	1	1	Substantial
Accounts payable	High	-	1	-	1	1	Satisfactory
Accounts receivable	High	-	-	2	2	2	Substantial
Payroll	High	-	-	-	-	-	Substantial
Budgetary control	High	-	-	-	-	-	Substantial
General Ledger	High	-	-	-	-	-	Substantial
Treasury management	High	-	-	1	1	1	Substantial
Construction retraining fund	Medium	-	-	1	1	1	Substantial

Auditable area	AAN Rating	Recommendations					Level of assurance
		Red	Amber	Green	Total	Number accepted	
2019-2020 Internal Audit Reviews completed in Quarter 4							
West Midlands Rail	High	-	3	-	3	3	Satisfactory (Appendix 1)
Programme and Project Management Framework	High	-	3	-	3	3	Satisfactory (Appendix 2)
Accessible Transport Group - Ring and Ride Review	N/A	-	4	2	6	6	N/A – Consultancy Review (Private Item)
Single Commissioning Framework	High	Fieldwork complete – report being prepared, no major issues arising					
WMCA 5G programme	High	Fieldwork complete – report being prepared, no major issues arising					
Third Generation Tram Procurement Project	high	Fieldwork in progress					

Revisions to the WMCA Internal Audit Plan 2019-2020

The following revisions have been proposed and will be incorporated within future audit plans as stated:

Auditable area	Update
Local Industrial Strategy	Deferred to 2020-2021 with widened scope to cover the Local Industrial and Economic Strategy to reflect the wider remit of the Local Industrial Strategy and the economic impact of the Covid-19 pandemic.
Adult Education Budget	At the time this report was produced WMCA was awaiting the outcome of an independent investigation that had been commissioned into concerns raised regarding the internal procedures within an organisation receiving funding through the Adult Education Budget.

Auditable area	Update
	Once the outcome of this is known, it will be used to help inform our planned internal audit review of the Adult Education Budget. We have provided advice and support to WMCA throughout this issue.
Housing and Regeneration Programme and Project management arrangements	Deferred to 2021-2022 planning cycle in light of WMCA Programme and Project Management Framework Audit which recommends an organisational wide project management framework within which directorates would operate / undertake localised project management arrangements.
Commissioning and funding arrangements for externally led projects	Deferred to 2021-2022 planning cycle due to prioritisation of audits in plan and focus on project management arrangements in operation for a specific project, and internal audit coverage of the Environment Management System as a requirement of ISO 14001 external accreditation in 2020-2021.
Bid Management	Deferred to 2020-2021 due to prioritisation and timescale of audits in plan as well as development of arrangements currently being undertaken by the Strategic Hub.

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Summary of follow-up reviews completed

The following reviews were completed during 2019-2020 and have been presented to the Audit, Risk and Assurance Committee at various points throughout the year.

Auditable area	Total Number of Original Recommendations			Implemented			Outstanding		
	Red	Amber	Green	Red	Amber	Green	Red	Amber	Green
National Fraud Initiative (2017-2018)	-	2	4	-	1	3	-	1	1
Management of IR35 (2017-2018)	-	4	3	-	2	2	-	2	1
Business Continuity (2018-2019)	-	-	3	-	-	1	-	-	2
Data Insight Service (2018-2019)	-	-	3	-	-	-	-	-	3

Summary of individual audits

No reviews were categorised as Limited Assurance.

The following reviews were categorised as either Satisfactory or Substantial Assurance. A summary of our observations has been included, or the full report appended where appropriate.

Employment Support Pilot

The West Midlands Combined Authority (WMCA) had been awarded £4.7m by the Department for Works and Pensions as part of the Devolution Deal to undertake a three-year Employment Support Pilot to engage with individuals within communities to provide support to help move them into employment opportunities that are sustainable and to support the progression of those in low pay. The Pilot included commissioning of providers to support individuals within nine key wards from within the Constituent and non-Constituent areas of the WMCA.

The Pilot commenced in June 2018 and is due to run until June 2021, aiming to engage with 4500 individuals over that period. The outcome of the Pilot will help inform and potentially secure future provision of employment support.

The objective of our audit was to seek assurance that effective mechanisms have been established to support achievement of the strategic aims and objectives of the Employment Support Pilot including performance monitoring and reporting. We found processes to be operating effectively and that there were no major issues.

Transport Operator Data and Payment arrangements - managed service

The Swift Team completes operator data returns for 15 small operators regarding the nBus, nNetwork and Concessions Schemes, as part of a contracted managed service arrangement. These returns along with those directly submitted by the larger operators are then used to calculate payments to be made to each of the operators. The objective of the audit was to seek assurance that effective mechanisms had been established to support data and payment arrangements regarding transport operators via managed services.

We identified no major issues and found that suitable processes were in operation for delivery of the managed service to operators, services had been provided by the WMCA in accordance with contracts established, bus operators had been correctly invoiced for services provided and sample testing found that data processing and payment of income collected to operators was undertaken accurately and completely.

Employee Performance Management

We reviewed the WMCA's performance management and support arrangements for maintaining and improving employee performance that ensured alignment and delivery of the WMCA's strategic objectives.

We found that the performance management process had been in place for several years and pre-dated the establishment of the WMCA and supporting documentation required completion by employees and managers in several instances as well as enhancement of the employee-manager one to one meeting arrangements. However, at the time of review an approved documented policy was in the process of being implemented with greater management information being provided to Senior Management. The policy and associated arrangements were due to be implemented within the organisation for August 2019 onwards.

Action was agreed to develop an action plan containing several key activities that would be undertaken to ensure the above issues were resolved as part of the roll out and embedment of the new policy and supporting arrangements.

Homelessness Taskforce

The WMCA Homeless Taskforce was launched in May 2017, comprising of senior officers from each of the constituent members of the WMCA as well as representation from non-constituent members, other public bodies, voluntary sector agencies and the business community. In addition to the Taskforce, a Members' Advisory Group (MAG), consisting of elected Members from the seven constituent Local Authorities and representation from non-constituent members was also established, with the aim to provide political support, oversight and scrutiny regarding the work of the Taskforce.

The purpose of the Taskforce is to ensure that the WMCA and its partners draw on collective resources and partnerships, working as collaboratively as possible across the region, across sectors and disciplines to tackle systemic issues which contribute to homelessness and replace with approaches and processes which prevent and design out homelessness.

Associated priorities defined by the Taskforce were included in the WMCA Annual Plan 2019-2020 as key deliverables and support delivery of five key objectives: accessible, affordable accommodation; tackling welfare related poverty; access to good employment; information advice and guidance, and integrated prevention. Our review of governance and partnership arrangements as operated by WMCA Public Service Reform in support of the Taskforce identified no major issues. Suitable arrangements were in place to support the work of the Taskforce and monitor and review progress regards achievement of key priorities.

Key Financial Systems Audits

Our review sought assurance on the core controls in operation for the WMCA's Accounts Payable system. We found that the majority of core controls were operating effectively with no major issues identified. We made one amber rated recommendation regarding authorisation and processing of payment requests generated by service areas via CHAPS and cheque / BACS requisitions and the use of the sundry creditor facility for one-off or infrequently used suppliers. Finance have agreed actions that will address these issues immediately and in the short term as well as system changes to work flow such transactions through Business World and limit the use of the sundry creditor facility to exceptional instances. No major issues were identified within the other Key Financial Systems reviewed.

Construction retraining fund

The West Midlands Combined Authority (WMCA) has secured £5m funding from the DfE's National Retraining Scheme and is expected to benefit 2,280 residents across the region through delivery of construction skills courses based on needs articulated by local employers, with certification and a guaranteed interview upon completion. Our review sought assurance that effective mechanisms had been established to support achievement of the strategic aims and objectives of the Construction Retraining Fund including performance monitoring and reporting. We found no major issues regarding the arrangements in place for the administration of the Construction Retraining Fund within Productivity and Skills.

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West Midlands Combined Authority

**Final Internal Audit Report
West Midlands Rail Limited – WMCA Governance and Management
Arrangements 2019 - 2020
5 May 2020**

Delivered by City of Wolverhampton Council – Audit Services

1. Executive summary

Introduction

An audit of the governance and management arrangements established by the West Midlands Combined Authority (WMCA) regarding its ownership of the West Midlands Rail (WMR) Limited company has been undertaken as part of the approved internal audit plan for 2019-2020.

WMR is an arms-length company partly owned by the WMCA in partnership with several authorities, created with the purpose of specifying and managing rail franchising for the West Midlands. WMR reports into the West Midlands Rail Executive (WMRE) Board comprising of Leaders or senior cabinet members appointed by each partner authority, providing strategic and policy guidance towards developing a new, local passenger rail franchise for the West Midlands, as well as gaining influence over other key routes across the region. Partner authorities and therefore the geographical area covered by the Executive and WMR extend beyond the seven constituent Local Authorities of the WMCA.

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that appropriate arrangements have been established regarding WMCA governance and management of its relationship and ownership of the West Midlands Rail company to ensure the company continues to contribute to and support the strategic aims of the WMCA regarding provision of passenger transport and associated benefits.

Scope	Potential risks
<p>The scope of the review included the following regarding the WMCA's relationship and ownership of WMR:</p> <ul style="list-style-type: none">• WMCA / Transport for West Midlands (TfWM) Governance arrangements.• Partnership / relationship management arrangements between the WMCA and WMR.• WMCA roles and responsibilities.• WMCA financial monitoring and reporting.• WMCA performance management arrangements including monitoring and reporting.• WMCA Risk management arrangements.	<ul style="list-style-type: none">• Lack of effective ownership and relationship management may lead to a failure to provide assurance that services will be delivered in accordance with the WMCA's strategic aims and objectives.• Poor governance, management and operational arrangements may lead to a failure to achieve the strategic and financial objectives expected by the WMCA.• Perceived lack of separation of duties or conflicts of interest may occur leading to reputational damage or failure to demonstrate protecting the interests of the WMCA.

Limitations to the scope of our audit

The audit review was limited to the above scope and focused on the ownership and relationship in place between the WMCA and WMR as a partly owned company. Any reference to the West Midlands Rail Executive was made within this context.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide **satisfactory assurance** as part of the process to mitigate risks to an acceptable level.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Key issues identified

We have identified three **amber** issues where improvements could be made, arising from the following:

- Governance arrangements, roles and responsibilities and formalised reporting lines within the WMCA covering its role as part owner of WMR had not been clearly defined and documented.
- Formal agreements were required for delivery of services by the WMCA to WMR detailing the level and standard of services required by WMR and terms and conditions that protect the interests of the WMCA.
- Performance management reports covering the KPIs had not been routinely obtained from WMR and reviewed by WMCA designated officers and the governance board(s) responsible.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

Examples of good practice identified

During our work we identified the following examples of good practice in the management of risk, as achieved through the effective design and application of controls:

- The WMCA in its capacity as part owner and host organisation for WMR had influenced delivery of rail services to support achievement of the transport objectives of the WMCA.
- The Company's objectives set out in the Articles of Association aligned with the strategic transport objectives of the WMCA.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

2. Issues arising

2.1 Governance arrangements

Whilst Articles of Association included activities to be undertaken by WMR as a company, governance arrangements and formalised reporting lines within the WMCA covering its role as part owner of WMR were yet to be clearly defined and documented. Currently, reporting was not routinely undertaken through WMCA governance for their consideration and scrutiny. Further an overarching document detailing the WMCA's requirements to be met by WMR in delivery of the WMCA's strategic objectives was not in place.

In addition, roles and responsibilities within the WMCA regarding governance and management of the part owner relationship in place with WMR, were yet to be clearly defined and assigned to specific WMCA officers. Also, distinction between representing the WMCA as part of governance and management arrangements and acting as a support service provider to WMR, had not been explicitly set out. Whilst the WMCA Constitution clearly includes a Code of Conduct, there is a need to specifically clarify the level of conduct required and reiteration of the duty to protect the interests of the WMCA in the context of providing services to an external body as an WMCA employee.

We also noted that although there had been some attendance by a WMCA representative (other than the WMCA Director of Rail in their capacity as WMRE Executive Director) at WMRE Board meetings, this was not consistently undertaken.

As the WMCA Director of Rail also has a duty to WMR as the Executive Director of that company, without representation by another WMCA officer independent of the company, there is a risk of a perceived conflict of interest regarding protecting the interests of the WMCA that may be difficult to refute in the event of challenge.

However, we noted from minutes of the WMRE Board meeting on 18 June 2019 that the Board and TfWM recognised this issue that the WMCA had limited opportunity to scrutinise the work of the WMRE and therefore WMR.

We further noted that although a risk relating to rail service industrial action was included in the WMCA Strategic Risk Register and TfWM Risk Register, arrangements for escalation against defined thresholds regarding risks as well as financial aspects was also required.

See recommendation and agreed actions at item 2.1 in Section 3.

2.2 WMCA service delivery and procedural arrangements

We understand that several services were provided by the WMCA to WMR including financial, legal and procurement services.

However, a formal agreement for delivery of these services was not in place. As WMR is a separate legal entity, WMR has not provided a document that sets out the level and standard of services to be delivered to the Company by the WMCA.

In addition, absence of such a document may make it difficult for the WMCA to demonstrate effective and efficient delivery of services to the Company within time, cost and quality.

We further noted from the WMCA Risk and Assurance Arm's Length Organisation Health Check undertaken by Corporate Assurance that in response to the legal section regarding the

legal interface and legal agreements in place between the WMR and WMCA, reference was made to the Collaboration Agreement (between the Secretary of State and WMR) and the Articles of Association (setting the objectives of WMR). Whilst it is recognised that the WMCA would be party to these as a part owner, these do not constitute a formal agreement i.e. service level agreements between the WMCA and WMR regarding delivery of support services.

Also, within the Health Check, WMR stated in several areas that WMR would follow the Constitutional procedures and regulations of the WMCA. A service level agreement would allow WMR to clearly stipulate that WMR expects WMCA employees involved in delivering commissioned services to do so according to WMCA standards and procedures, if WMR deems the latter appropriate and robust, thereby negating the need for WMR to develop its own procedures.

See recommendation and agreed actions at item 2.2 in Section 3.

2.3 Performance management and reporting

Whilst Key Performance Indicators (KPIs) had been included in the WMR Business Plan 2018-2022, we understand that no formal reporting was currently undertaken of performance against these KPIs through to the WMCA.

We further noted from minutes of WMRE meetings during the period September 2018 to September 2019 that these did not evidence such reporting to the WMRE Board.

A review of meeting records during the period April 2019 to October 2019 for Transport Delivery Committee, TfWM Board and Transport Operations Delivery Board did not include reference to KPI reporting regarding WMR.

See recommendation and agreed actions at item 2.3 in Section 3.

3. Action Plan

Priority rating for issues identified:

Red Action is imperative to ensure that the objectives for the area under review are met	Amber Action is required to avoid exposure to significant risks in achieving objectives	Green Action is advised to enhance risk control or operational efficiency
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Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Recommendation	Agreed action	Responsible Officer	Target Date
2.1 Governance arrangements				
Page 30	Governance arrangements and formalised reporting lines within the WMCA covering its role as part owner of WMR should be clearly defined and documented.	Agreed	Tim Martin, Head of Governance Malcolm Holmes - Director of Rail (TfWM)	30 June 2020
	(ii) Roles and responsibilities (both strategic and operational) within the WMCA regarding governance and management of the part owner relationship in place with WMR should be clearly defined and assigned to appropriate WMCA officers.	Agreed	Tim Martin, Head of Governance	30 June 2020
	(iii) Clarification should be established through written guidance regarding the level of conduct required and reiteration of the duty to protect the interests of the WMCA when providing services to an external body as an WMCA employee.	Agreed	Tim Martin, Head of Governance	30 June 2020

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Recommendation	Agreed action	Responsible Officer	Target Date
(iv)	An overarching document detailing the WMCA's requirements to be met by WMR in delivery of the WMCA's strategic objectives should be established to facilitate effective governance as well as to communicate the WMCA's requirements and expectations to WMR.	Agreed	Malcolm Holmes - Director of Rail (TfWM)	30 June 2020
(v)	Regular reporting on company activity regarding progress with achievement of the WMCA's strategic objectives should be requested from WMR.	Agreed	Malcolm Holmes - Director of Rail (TfWM)	30 June 2020
(vi)	As the WMCA's representative, a Senior WMCA officer who is independent of WMR and therefore the WMRE, should as a minimum attend each WMRE Board meeting in their capacity to protect the interests of the WMCA and provide a separation of duty from the Director of Rail as Executive Director.	Agreed- Managing Director, TfWM now attending WMRE Board meetings.	Malcolm Holmes - Director of Rail (TfWM)	Director of Rail (TfWM) advised implemented.
(vii)	Escalation with appropriate thresholds and reporting lines through to the WMCA should be established regarding (but not limited to) risk and finance issues relating to WMR.	Agreed	Tim Martin, Head of Governance	30 June 2020

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Recommendation	Agreed action	Responsible Officer	Target Date
2.2 WMCA service delivery and procedural arrangements				
(i)	<p>The WMCA should make a request to WMR to issue a Service Level Agreement to the WMCA covering the services, level and standards WMR expects to be delivered.</p> <p>The WMCA should seek written confirmation from WMR within the Service Level Agreement, that WMR expects and places reliance on WMCA employees complying with the WMCA Constitutional Procedures when delivering commissioned services to WMR.</p>	Agreed	<p>Tim Martin, Head of Governance</p> <p>Malcolm Holmes - Director of Rail (TfWM)</p>	30 June 2020
2.3 Performance management and reporting				
(i)	<p>The WMCA should as part of its governance and management arrangements ensure that performance management reports covering the KPIs is routinely obtained from WMR and reviewed by WMCA designated officers and the governance board(s) responsible.</p>	Agreed	Malcolm Holmes - Director of Rail (TfWM)	30 June 2020

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Report distribution:

Laura Shoaf – Managing Director, TfWM
Malcolm Holmes – Director of Rail (TfWM)
Tim Martin – Head of Governance

Date Issued:

5 May 2020



West Midlands Combined Authority

Final Internal Audit Report WMCA Programme and Project Management Framework 2019-2020

26 May 2020

Delivered by City of Wolverhampton Council – Audit Services

2. Executive summary

Introduction

An audit of the West Midlands Combined Authority's arrangements for programme and project management was undertaken as part of the approved internal audit plan for 2019-2020.

The WMCA leads on delivery of a substantial and varied array of programmes and projects across the organisation that fundamentally contribute to the achievement of its strategic aims and objectives and therefore underpin delivery of its core strategies for the West Midland.

Programme and project management arrangements currently operated are largely based on those that pre-existed the constitution of the WMCA and were historically tailored on delivery of major transport capital initiatives, with newer Directorates subsequently developing their own approaches to programme and project management to meet the requirements of new funding deals awarded to the WMCA.

Programmes and projects are often delivered on the basis of complex funding arrangements ranging from the WMCA's own budgetary commitments, successful bids for Central Government funding, major transport capital grants, Local Enterprise Partnerships funding to the WMCA's own Investment Programme. Programme and project arrangements consequently are subject to varied funding terms and conditions, and the appraisal and assurance requirements of each funding body and in fact the WMCA's own under the Investment Programme.

An added complexity arises from the WMCA's dual role as both a programme and project delivery body and as a grant funding body. Whilst the latter role inevitably requires assurance processes in place to confirm compliance by grant recipients, the former role requires assurance processes as a second line of defence and internal project management controls as first line of defence where the WMCA delivers a project (regardless of funding sources).

This review focuses on the underpinning project managements arrangements in operation and the standards and compliance expected to be achieved by individual projects, as the first line of defence within the WMCA regarding internal controls that ensure effective and efficient use of resources to achieve strategic objectives through project delivery.

Scope and objectives of audit work

Our audit was conducted in conformance with the Public Sector Internal Audit Standards and considered the following objectives, and the potential risks to the achievement of those objectives:

- To seek assurance that a robust programme and project management framework has been established for the effective governance, risk management, project management and application of project controls for programmes and projects delivered by the WMCA to ensure achievement of strategic objectives.

Scope	Potential risks
<p>The scope of the audit included high level review of the following areas:</p> <ul style="list-style-type: none">• Organisational Governance• Management Control• Benefits Management	<ul style="list-style-type: none">• Poor organisational management of programmes and projects may lead to a failure to realise outcomes / benefits of strategic relevance according to agreed measures of success.

- Risk Management
- Stakeholder Management
- Finance Management
- Resource Management

- Programmes and projects fail to be completed to the required standards, on time, within budget and in accordance with stakeholder's expectations.
- Inadequately defined or ineffective programme and project management, and governance arrangements may result in poor management of deliverables, inefficient working and poor communications.

Limitations to the scope of our audit

The above areas were reviewed at an organisational level using the P3M3 Maturity Model for projects. The review focused on first line of defence operational and management controls at project level as the basis of a management framework upon which programme (and portfolio) arrangements would depend and build upon, as well as underpin WMCA assurance arrangements.

The above was considered in relation to projects delivered and led by the WMCA as a delivery body whether funded from WMCA budgets and / or external funding that the WMCA bid for. External funding could include monies granted by the WMCA itself as funding body (i.e. from the Single Pot) to its own projects in the same way monies are granted by the WMCA to external organisations.

During the review reference was made to the following frameworks, standards and best practice:

- AXELOS Best Practice publication: Introduction to P3M3 (Portfolio, Programme, and Project Management Maturity Models) (P3M3) – July 2019
- National Local Growth Assurance Framework – January 2019
- Government Functional Standard for Project delivery (GovS 002) - August 2018
- HM Treasury Green Book - 2018

P3M3 Maturity Model

The P3M3 is designed to assess the organisation's overall capability regarding delivery of projects, programmes and portfolios. The P3M3 cites a key benefit as providing a publicly available set of independent benchmarks against which an organisation can assess the maturity of its project management arrangements and utilise the outcome to develop an improvement plan or feed into existing continuous improvement arrangements to address any highlighted weaknesses and prioritise required attention.

The P3M3 structure is made up of three models:

- Portfolio Management Maturity Model (PfM3)
- Programme Management Maturity Model (PgM3)
- Project Management Maturity Model (PjM3)

P3M3 is described by a five-level maturity framework that applies to each model:

- Level 1: Awareness of process
- Level 2: Repeatable process
- Level 3: Defined process
- Level 4: Managed process
- Level 5: Optimised process

Appendix 1a within this report provides further details and descriptions for each maturity level.

Within P3M3, determination of an organisation’s overall maturity level as above is arrived at through assessment against seven perspectives which exist across all three models and are assessed at all five maturity levels:

- Organisational governance
- Management control
- Benefits management
- Risk management
- Stakeholder management
- Finance management
- Resource management

Appendix 1b within this report provides further details and descriptions for each perspective.

Whilst an organisation can be assessed against any of the three models and against one or more of the perspectives, assessment against all the perspectives helps provide a better understanding of the organisation’s overall effectiveness in a particular model.

This review has focused on a high-level review against all seven perspectives within the Project Management (PjM3) model as project management provides a key foundation for effective programme and portfolio management arrangements as well as underpins appraisal and assurance arrangements.

Overall conclusion

Taking account of the issues identified in this report, in our opinion the controls operating within the system, provide **satisfactory assurance** as part of the process to mitigate risks to an acceptable level.

Limited	Satisfactory	Substantial
There is a risk of objectives not being met due to serious control failings.	A framework of controls is in place, but controls need to be strengthened further.	There is a robust framework of controls which are applied continuously.

Based on a high-level review using the P3M3 Project Management Maturity Model we found that the current maturity level for the WMCA regarding its project management arrangements at an organisational level aligns to the following:

Level 2

Repeatable process

Organisation ensures that each project is run with its own processes and procedures to a minimum specified standard. (There may be limited consistency or coordination between projects.)

The P3M3 Maturity Model notes that an organisation at Level 2 will be able to demonstrate by reference to particular programmes or projects, that basic management practices have been established and that processes are developing and is capable of repeating earlier successes on similar programmes and projects in the future.

In such an organisation whilst process may exist, process discipline may not be entirely rigorous in all cases, but project status and delivery should be visible to management at defined points i.e. upon reaching major milestones. However, the Maturity Model does associate a number of issues with this level regarding level of risk of exceeding cost and time budgets due to key factors such as inadequate measures of success, unclear responsibilities for achievement, ambiguity and inconsistency in business objectives, lack of integrated risk management process, limited change management and potential inadequacies in communications strategy.

Appendices 2 and 3 within this report provide further details regarding the outcome of the assessment against the PjM3 Model and seven perspectives.

Current Arrangements

We noted from review that the current arrangements for project management were largely based on legacy methodology in operation before the WMCA was constituted with newer Portfolios developing their own arrangements to meet urgent delivery needs regarding newly devolved funding. However, Portfolios were in the process of developing or embedding revised arrangements at a local level. In addition, the establishment of the new Strategic Hub resulted in changes to the allocation of project manager resource placing these at a local level within Portfolios and also to programme management office functions. We understand the Strategic Hub was in the process of further developing and embedding revised arrangements.

Whilst historic practices may have been effective previously in relation to supporting the strategic aims and organisational structure at that time, we found that the WMCA's project management arrangements in terms of first line of defence operational and management controls were yet to fully evolve and ensure effectively support and align with the WMCA's wider strategic objectives and organisational structure according to centrally defined standards and expectations within an organisational framework.

During the audit the WMCA continued to develop the Single Assurance Framework (in response to the requirements of the National Local Growth Assurance Framework – January 2019) which recognised and will now specifically address the issues highlighted in this report, through the further developmental and implementation work currently being undertaken by the newly established Strategic Hub. We understand that this will involve a series of tranches over the medium term to bring about organisational change. This aligns with the P3M3 Maturity Model regards timescales often associated with an organisation addressing the seven perspectives and progression through the maturity levels.

Key issues identified

We have identified three **amber** issues where improvements could be made, arising from the following:

- An organisational level Project Management Framework covering the project lifecycle, project controls and tools / templates as well as standards that WMCA led projects should comply with was yet to be established.

- A single system approach to the monitoring and reporting arrangements for project delivery and progress across the organisation as well as a single record of all WMCA led projects were yet to be established.
- Current organisational level appraisal and assurance arrangements may not ensure that all WMCA led projects are fully subject to such arrangements.

A copy of this report will be presented to the Audit, Risk and Assurance Committee.

Acknowledgement

Several employees gave their time and co-operation during this review. We would like to record our thanks to all the individuals concerned.

3. Issues arising

Priority rating for issues identified:

Red Action is imperative to ensure that the objectives for the area under review are met	Amber Action is required to avoid exposure to significant risks in achieving objectives	Green Action is advised to enhance risk control or operational efficiency
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Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
2.1 Page 40	<p>Project Management Framework We found that an organisational wide project management framework for WMCA led projects (regardless of funding sources) was yet to be defined and communicated. Whilst localised arrangements may be in place and operated within individual projects or groups of projects, a centrally defined approach was yet to be developed. In addition, minimum standards appeared to have been established locally rather than at an organisational level.</p> <p>We found that historic practices as well as those developed by newer service areas may not fully or consistently utilise the Green Book Five Case approach to development of business cases as expected and / or recommended by the National Local Growth Assurance Framework, the Government</p>	<p>A clearly defined Project Management Framework should be established for the planning, management and governance of individual projects led by the WMCA, covering the project lifecycle, project controls and tools / templates as well as setting the minimum standards required, and integration with both organisational level programme and portfolio management and wider organisational governance, risk and management arrangements.</p> <p>It should include coverage of the seven P3M3 perspectives: Organisational Governance, Management Controls, Risk Management, Stakeholder Management, Benefits Management, Finance and Resource Management.</p>	<p>The Single Assurance Framework will in tranche 1 provide:</p> <ul style="list-style-type: none"> • organisation-wide approach to initiation, development (Green Book requirements), approvals, standards, templates, resource management and political oversight for all projects and programmes • compliance with all relevant government standards and requirements • delivery of an enhanced Assurance Toolkit • a new Organisational Governance process that is consistent, clear and provides required information to decision-makers to consider with principles relating to approvals.

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
	<p>Functional Standard for Project Delivery and the HM Treasury Green Book.</p> <p>We found that there was no dedicated programme of training or induction for project managers, both internal and external regarding the WMCA's project management arrangements, assurance and approval arrangements, over and above the WMCA's existing induction processes undertaken as employees, agency staff or external contractors.</p> <p>We also note that the National Local Growth Assurance Framework advocates that project delivery practices should comply with government standards which include reference to the establishment of a project management framework, and that this compliance with such standards underpins having a common assurance framework.</p> <p>The above therefore supports a maturity level according to the P3M3 definitions of Level 2.</p> <p>Implication: Utilisation of differing practices may lead to inconsistency in effective project delivery,</p>	<p>Direction should be provided regarding application to individual projects on an appropriate, consistent and proportionate basis in relation to the size, cost, risk and complexity of each project through a system for scaling management and control arrangements for individual initiatives.</p> <p>The Framework should be used to support continuous improvement in project effectiveness, developing skills, capabilities and collaboration across the organisation, and embedment of standards and practices across the organisation.</p> <p>Compliance with any relevant government standards and assurance frameworks on project delivery as well as best practice should be reflected within the Framework with clear alignment with standards and expectations set within the WMCA's second line of defence assurance arrangements to be applied to all WMCA led projects (regardless of funding sources).</p> <p>The Framework should be established within the organisation as a key internal control covering first line of defence operational and</p>	<p>Responsibility: Fiona Bebbington – Head of Strategic Hub</p> <p>Target date: 1st March 2021</p> <p>Tranche 2 of the SAF will begin to deliver an organisational approach to performance, monitoring & evaluation and prioritisation.</p> <p>The Strategic Hub will develop:</p> <ul style="list-style-type: none"> • A thorough training programme across Project Managers both within the WMCA and external to support the delivery of the SAF and their own continuous professional development. • Continuous improvement mechanisms and tools to ensure that the skillsets within the WNCA and stakeholders reflect lessons learned. <p>Responsibility: Fiona Bebbington – Head of Strategic Hub</p> <p>Target date: 1st March 2021</p>

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
	<p>lack of assurance and demonstration that initiatives clearly align with strategic objectives and difficulties in facilitating consistent organisational level monitoring and reporting as well as application of assurance and appraisal mechanisms.</p>	<p>management controls to be applied to individual WMCA led projects, with responsibility and ownership of the Framework allocated to the WMCA's programme management office related function.</p> <p>A programme of training and induction should be developed and implemented to support delivery of and compliance with the Framework ensuring this encompasses both internal and external project managers as well as WMCA officers allocated project management responsibilities within their service delivery roles.</p> <p>The Framework should include utilisation of the Green Book Business Case Model by WMCA led projects to promote consistent practices at project level, development of capabilities and expertise across the organisation, alignment with government and local assurance frameworks and project delivery standards, as well as allow for consistent monitoring, reporting and assurance activity across the organisation.</p>	

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
		<p>Use of the above business case approach should ensure clear demonstration of alignment with WMCA strategic objectives to support effective decision-making regarding investment and resource allocation between competing WMCA led initiatives.</p>	
<p>2.2 Page 43</p>	<p>Single system and record We understand that the WMCA was yet to establish a single system approach (supported by a single register) to the monitoring and reporting arrangements for project delivery and progress across the organisation as a delivery body, for WMCA led projects.</p> <p>However, it is appreciated that Finance are able to provide a list of projects from the WMCA financial system Business World based on project costing / budget codes and that the Strategic Hub has provided assurance that all such projects are being taken account of within their developing assurance arrangements.</p> <p>Implication:</p>	<p>A single system approach should be established for the registering, tracking, monitoring and reporting of WMCA led projects throughout their lifecycle and treated as a WMCA key internal control.</p> <p>The single system should provide a single platform for project related information to facilitate greater effective management of the delivery of a complex range of projects and services at an organisational level.</p> <p>As part of the above a single register should be established (including review to identify all current projects) and maintained to include all WMCA led projects.</p> <p>The above single system approach should be maintained and managed centrally as a best practice programme management office</p>	<p>The SAF will in tranche 1 provide:</p> <ul style="list-style-type: none"> • An WMCA Activity Register. • Use of the register as a key internal control - reporting to Strategic Leadership Team (SLT), Corporate Management Team and other WMCA governance mechanisms as appropriate. • Central maintenance and management by the Strategic Hub. <p>The Strategic Hub will, in tandem, incorporate all current projects and develop a dashboard approach for SLT reporting</p> <p>Responsibility: Fiona Bebbington – Head of Strategic Hub</p> <p>Target date: 1st March 2021</p>

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
	<p>Effective and efficient project delivery within cost, time and quality as well as alignment with strategic objectives may be difficult to monitor and report on as an organisation.</p>	<p>function, irrespective of the funding sources associated with a WMCA led project (i.e. WMCA budget and / or external funding bid for by the WMCA (including that received from its own Single Pot)).</p> <p>The above system should include mandatory elements that each project must comply with e.g. as a minimum completion of business cases and periodic reporting on core management information including but not limited to achievement of milestones, risk and issues (according to defined thresholds), costs and benefits.</p> <p>The single system mechanism should ensure it mirrors and supports compliance with any proposed Project Management Framework as well as the standards and expectations defined within the WMCA's internal assurance arrangements applicable to its own projects.</p> <p>Dashboard reporting at the appropriate organisational levels including project, programme and portfolio as well as overall strategic level should be developed for WMCA led projects, providing key</p>	<p>Developing and delivering an organisational approach to strategic planning pipeline approach and providing a single system will commence in tranche 3 of the SAF.</p> <p>Responsibility: Fiona Bebbington – Head of Strategic Hub</p> <p>Target date: 1st September 2021</p>

No	Issue arising	Recommendations	Agreed action including responsibility and target date
		management information and utilising RAG ratings for ease of reference.	
2.3	<p>Appraisal and assurance arrangements We noted that due to the current localised approach in operation as well as ongoing practices that pre-existed the WMCA, there may be gaps in the appraisal and assurance arrangements applied to WMCA led projects as a second line of defence internal control.</p> <p>We further found that as a result of the issue at item 2.2 above, there was no clear mechanism to determine the full complement of WMCA led projects to ensure all have been or will be subjected to the appropriate appraisal and assurance arrangements or identify any gaps for remedial action.</p> <p>We understand that TfWM projects under £5m were appraised under TfWM Gated Lifecycle that pre-existed the WMCA. If a WMCA led project was in receipt of WMCA Investment Programme monies, it would be subject to the Investment Programme Assurance Framework and expected to</p>	<p>Organisational appraisal and assurance arrangements for all WMCA led projects as a key internal control should be clearly defined, documented and communicated, ensuring no gaps in project coverage but applied appropriately and proportionately in relation to size, cost, risk and complexity.</p> <p>The above arrangements should be reflected within and implemented alongside the Project Management Framework.</p> <p>Once all WMCA led projects have been clearly identified as part of item 2.2, a review should be undertaken to ensure that each project has been subject to the required assurance activity and if not, this is undertaken at the earliest and most appropriate project milestone / gateway. Any lessons learnt as a result of this review should be taken account of as part of continual improvement of effective project management and assurance activity.</p>	<p>Tranche 1 of the SAF will provide:</p> <ul style="list-style-type: none"> • organisation-wide approach to assurance, supported by Assurance Toolkit • a framework that is applied consistently and proportionately to all projects and programmes • an opportunity to embed an Assurance culture across the WMCA • consistent officer scheme of delegation to apply to all projects and programmes • Integrate Assurance and Approval Plan (IAAP) – a tool to enable the organisation to take an integrated approach to assurance activity. This will be supported through risk and investment appraisal and additional investment/advisory panel functionality. <p>In parallel the Strategic Hub will undertake a review of existing projects to determine</p>

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
	<p>follow the business case approach. Newer service areas looked to develop their own assurance arrangements as such projects did not fit within the above two scenarios.</p> <p>However, where a project fell outside these parameters, the appraisal and assurance route that such projects were expected to follow was not clearly defined or communicated. The above issues were also previously identified within the 2018-2019 audit review of the Birmingham Eastside Metro Extension Project Management Arrangements, with reference to resolution at an organisational level to be addressed within this review.</p> <p>Also, in the absence of a Project Management Framework, documented guidance was not available to individual projects regarding the project level responsibility to develop appropriate appraisal and assurance arrangements as part of an individual project's governance and project controls.</p> <p>However, we understand that the Strategic Hub was in the process of developing an</p>	<p>The Single Assurance Framework should be applied to all WMCA led projects that may be funded from (or combinations of) WMCA budget, WMCA Single Pot funding or other external body funding.</p> <p>An Integrated Assurance Strategy should be developed at an organisational level to provide WMCA led projects with a strategic overview of the assurance regime that all projects are required to establish and follow within individual project governance and project controls, to a consistent quality and standard, ensuring these align with organisational level assurance strategy.</p> <p>Individual projects (or at programme level where this exists) should be required to develop their own Integrated Assurance and Approvals Plans ensuring direct link to the Integrated Assurance Strategy as well as reflecting any assurance and approval requirements related to funding sources (both external and WMCA Single Pot). This should be used to clearly map (and ensure compliance with) the assurance and approval arrangements applicable to an individual project.</p>	<p>whether appropriate assurance activity has been applied.</p> <p>Lessons learned will be rolled into a continuous improvement framework, to be developed, to ensure regular evaluation and feedback is used to make changes that support better ways of working.</p> <p>Responsibility: Fiona Bebbington – Head of Strategic Hub</p> <p>Target date: 1st March 2021</p>

Action is required to avoid exposure to significant risks in achieving objectives
Amber

No	Issue arising	Recommendations	Agreed action including responsibility and target date
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 47</p>	<p>Integrated Assurance and Approval Plan (IAAP) for the WMCA. In addition, the Strategic Hub was in the process of developing the Single Pot Assurance Framework (SAF) as required by the National Local Growth Assurance Framework which relates to projects funded (but not always led by the WMCA itself), from the Single Pot (e.g. Adult Education Budget, Gain Share and other devolved monies from Government to the WMCA). We understand from discussion that the intention is to also apply the SAF once established to WMCA led projects.</p> <p>Implication: Current assurance arrangements for providing confidence to stakeholders that projects will achieve their scope, time, cost and quality objectives, and realise their benefits may not be effectively applied in all cases where the WMCA leads on delivery.</p>		

Appendix 1a: P3M3 Project Management (PjM3) Maturity Model – definition of maturity levels

Level 1	Awareness of process	Organisation recognises projects and runs them differently from its ongoing business. (Projects may be run informally with no standard process or tracking system.)
Level 2	Repeatable process	Organisation ensures that each project is run with its own processes and procedures to a minimum specified standard. (There may be limited consistency or coordination between projects.)
Level 3	Defined process	Organisation has its own centrally controlled project processes and individual projects can flex within these processes to suit the particular project.
Level 4	Managed process	Organisation obtains and retains specific measurements on its project management performance and runs a quality management organisation to better predict future performance.
Level 5	Optimised process	Organisation runs continual process improvement with proactive problem and technology management for projects in order to improve its ability to predict performance over time and optimise processes.

Appendix 1b: P3M3 Maturity Model – assessed project perspectives with descriptors

Organisational Governance

Organisational controls including ownership, direction and standards established to ensure delivery of initiatives is aligned with the strategic direction of the organisation throughout the project lifecycle.

Management Control

Internal controls utilised by initiatives to maintain the direction of travel throughout the project lifecycle, guided by a control group, effective decision making, existence of stages, regular review to ensure achieve objectives within set tolerances and boundaries, and clear issues resolution through effective decision making.

Benefits Management

Organisation clearly defines and manages the benefits and value it anticipates gaining from investment with benefits management undertaken from the start and may continue past project closure.

Risk Management

Organisation effectively manages threats to, and opportunities enabled by an initiative, with appropriate management actions to mitigate or reduce the likelihood and impact of any identified risk occurring, arising from both internal and external sources, and proactively tracks the triggers that create the risk throughout the project lifecycle.

Stakeholder Management

Internal and external stakeholders are clearly identified, analysed and communicated with effectively to achieve objectives, and reflected within regularly reviewed stakeholder management strategy and communications plan taking account of stakeholder changes as project progresses, feeding into lessons learnt for better stakeholder engagement.

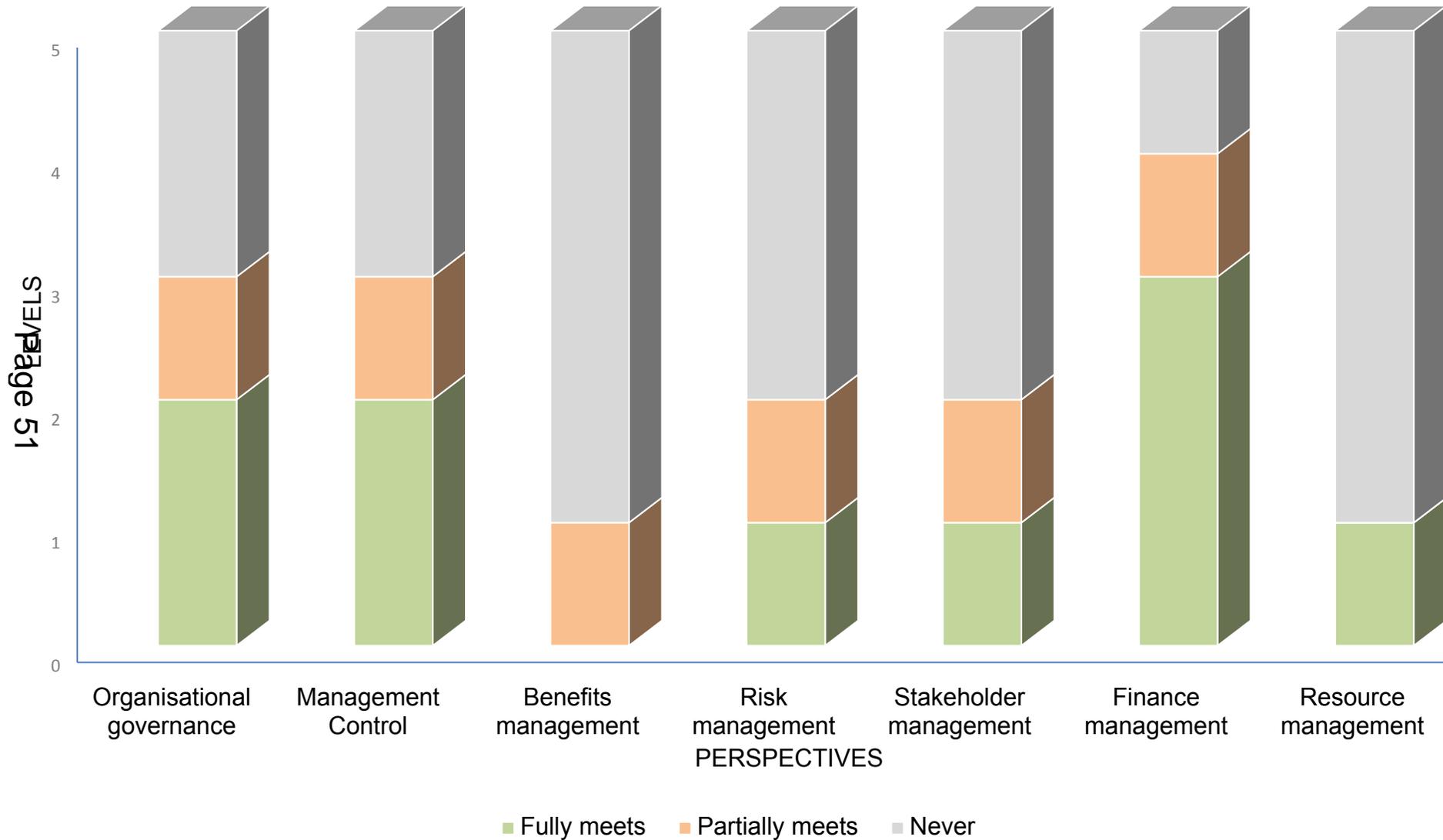
**Finance
Management**

Essential resource as a key focus for initiating and controlling initiatives through capture and evaluation of likely costs within business cases with management of costs over the life of the initiative, with appropriate involvement from the organisation's finance function, embedment of wider organisational approvals and stage reviews and evaluation of costs and benefits.

**Resource
Management**

Effective management (including acquisition and use) of all types of resources (human, infrastructure, technological and physical assets) required for delivery of an initiative, supported by capacity planning and prioritisation, and performance management.

Appendix 2: P3M3 Project Management (PjM3) Maturity Model - WMCA outcome



Appendix 3: P3M3 Project Management Maturity Model – assessment against perspectives

Perspective	Level 1: Awareness	Level 2: Repeatable	Level 3: Defined	Level 4: Managed	Level 5: Optimised
Organisational governance	Informal governance of projects exists but links to broader organisational controls are minimal.	There are localised arrangements in place to apply governance for groups of projects.	Projects consistently establish their governance to align with centrally defined organisational governance arrangements.	Project and organisational governance are integrated with measurement and feedback is used to refine project governance as appropriate to make it more effective.	The governance arrangements for projects are embedded in organisational controls, with demonstrable continual improvement across the organisation.
Management control	Where management control approaches exist, they have been developed in isolation by individual projects.	Management control is recognised as a key component for project success, with localised approaches in place for groups of projects.	Projects consistently deploy management control to achieve objectives within the defined scope and aligned with a centrally defined approach.	The project's management control approach is integrated with the organisation's controls and uses measurement and analysis of performance to verify and refine project effectiveness across the organisation.	The project's management control is embedded within the organisation's control mechanisms, focusing on delivering outcomes that enable the organisation to achieve its strategic aims and objectives with continual improvement across the organisation.

Appendix 3: P3M3 Project Management Maturity Model – assessment against perspectives

Perspective	Level 1: Awareness	Level 2: Repeatable	Level 3: Defined	Level 4: Managed	Level 5: Optimised
Benefits Management Page 53	Where benefits management approaches exist, they have been developed in isolation by individual projects.	Benefits management is recognised as a key component for project success, with localised approaches in place.	Projects consistently establish benefits management to define and track their realisation from the delivery of operational capability to a centrally defined approach.	The project's benefits management approach is integrated with the organisation's performance management and uses the measurement and analysis of performance to verify and refine project effectiveness across the organisation.	The project's benefits management is embedded within the organisational change and performance management approach, focusing on outcomes to achieve the strategic aims and objectives of the organisation, with continual improvement across the organisation.
Risk Management	Where risk management approaches exist, they have been developed in isolation by individual projects.	Risk management is recognised as a key component for programme success, with localised approaches in place for groups of projects.	Projects consistently deploy risk management to mitigate threats and maximise opportunities, aligned with a centrally defined approach.	The project's risk management approach is integrated with the organisation's risk management and uses measurement and analysis of performance to verify and refine project effectiveness across the organisation.	The project's risk management is embedded within the organisation's risk management approach, focusing on mitigating to achieve the strategic aims and objectives of the organisation, with continual improvement across the organisation.

Appendix 3: P3M3 Project Management Maturity Model – assessment against perspectives

Perspective	Level 1: Awareness	Level 2: Repeatable	Level 3: Defined	Level 4: Managed	Level 5: Optimised
Stakeholder engagement <div style="writing-mode: vertical-rl; transform: rotate(180deg); position: absolute; left: -40px; top: 50%; font-weight: bold;">Page 54</div>	Where stakeholder management approaches exist, they have been developed in isolation by individual projects.	Stakeholder management is recognised as a key component for project success, with localised approaches in place for groups of projects.	The organisation's projects consistently engage and communicate with stakeholders using a centrally established approach.	The project's stakeholder management is integrated with the organisation's stakeholder management approach and uses measurement and analysis of performance to verify and refine project effectiveness across the organisation.	The project's stakeholder management is embedded within the organisation's stakeholder management approach, focusing on engaging and communicating to achieve the strategic aims and objectives of the organisation, with continual improvement across the organisation.
Finance Management¹	Where finance management approaches exist, they have been developed in isolation by individual projects.	Finance management is recognised as a key component for project success, with localised approaches in place for groups of projects.	Projects consistently establish finance management to track funding and control expenditure, aligned with a centrally defined approach.	The project's finance management is integrated with the organisation's finance management approach and uses measurement and analysis of performance to verify and refine project effectiveness across the organisation.	The project's finance management is embedded within the organisation's finance management approach, focusing on investment to achieve the strategic aims and objectives of the organisation, with continual improvement across the organisation.

Appendix 3: P3M3 Project Management Maturity Model – assessment against perspectives

Perspective	Level 1: Awareness	Level 2: Repeatable	Level 3: Defined	Level 4: Managed	Level 5: Optimised
Resource management	Where resource management approaches exist, they have been developed in isolation by individual projects.	Resource management is recognised as a key component for project success, with localised approaches in place for groups of projects.	Projects consistently establish resource management to meet their capacity and capability requirements, aligned with a centrally defined approach.	The project's resource management approach is integrated with the organisation's capacity and capability management and uses measurement and analysis of performance to verify and refine project effectiveness across the organisation.	The project's resource management is embedded within the organisation's resource management approach, focusing on maximising the exploitation of the capacity and capability to achieve the strategic aims and objectives of the organisation, with continual improvement across the organisation.

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Assessment has considered overall WMCA Budgetary and Financial Monitoring arrangements in operation per Key Financial Systems Audit 2019-2020 as well as the role of WMCA Finance in monitoring capital programme and specific external funding sources.

Limitations inherent to the internal auditor's work

This report has been prepared solely for the Combined Authority in accordance with the terms and conditions set out in the terms of reference. Internal audit does not accept or assume any liability of duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without prior consent. Internal audit has undertaken this review subject to the limitations outlined below.

Internal control

- Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Responsibilities of management and auditors

- It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. Internal audit work should not be a substitute for management's responsibilities for the design and operation of these systems.
- Internal audit endeavours to plan audit work so that it has a reasonable expectation of detecting significant control weakness and if detected, will carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.
- Accordingly, these examinations by internal auditors should not be relied upon solely to disclose fraud or other irregularities which may exist.

Report distribution:

Julia Goldsworthy – Director of Strategy and Economy
Fiona Bebbington – Head of Strategic Hub
Hardial Phull – Programme Support and Assurance Manager
Andy Morgan – Performance Manager

Date Issued:

26 May 2020



**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	14 July 2020
Report title	Annual Accounts 2019/20 for West Midlands Combined Authority
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Linda Horne, Finance Director Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Approve the annual accounts.
- (2) Note the Audit Findings Report presented by Grant Thornton.
- (3) Note that Grant Thornton propose to issue an unqualified audit opinion for the accounts.
- (4) Approve the signing of the letter of representation by the Finance Director.
- (5) Note that an updated Audit Findings Report will be shared with the committee in September 2020, following receipt of the national technical team's conclusion in relation to the accounting treatment of Land Fund transactions.
- (6) Note and approve the amendments required to the accounts, should a change to the accounting treatment of Land Fund transactions be confirmed by the national technical team.
- (7) Approve that the Chair of Audit, Risk and Assurance Committee be authorised to sign off any changes required to the Narrative Report, Annual Governance Statement or accounts for 2019/20 taking into account any further updates until the end of July 2020.
- (8) Subject to no further issues being raised by Grant Thornton, approve that the Mayor and the Finance Director be authorised to sign the accounts on behalf of WMCA.

1.0 Purpose

- 1.1 This report has been prepared for the Audit, Risk & Assurance Committee to approve the annual accounts of the West Midlands Combined Authority (WMCA) for the financial year ended 31 March 2020.
- 1.2 The audit has been completed without any issues, with one unadjusted misstatement relating to a prior year transaction for the 2018/19 financial year amounting to £280k that was grant funded and had a net nil impact on the Comprehensive Income and Expenditure Statement for the WMCA.

2.0 Background

- 2.1 The accounts for the WMCA were submitted to the auditors on 18 May 2020.
- 2.2 The accounts for the WMCA were circulated to the Audit, Risk & Assurance Committee for review and comments on 3 June 2020.
- 2.3 A full review with the Chair of Audit, Risk & Assurance Committee and WMCA Finance was undertaken and comments reflected. No further comments have been received.
- 2.4 The following are attached for review and approval:
 - i) West Midlands Combined Authority financial report 2019/20
 - ii) Supplementary details of the changes required to the financial statements should the accounting treatment of Land Fund transactions be confirmed as inventory by the national technical team.
 - iii) Grant Thornton Audit Findings Report
 - iv) Letter of Representation

3.0 Annual Accounts

- 3.1 The West Midlands Combined Authority Board has received regular financial monitoring updates throughout 2019/20. The final outturn position for 2019/20 was reported to the West Midlands Combined Authority Board on 5 June 2020.
- 3.2 A detailed briefing and review of the outturn position was undertaken with the Chair of Audit, Risk & Assurance Committee and WMCA Finance to give assurance that the accounts presented reflect the activities for the year.
- 3.3 The audit process has been completed, and the auditors will present their findings to the meeting with their proposal to issue an unqualified audit opinion on the accounts. The Narrative Report, Annual Governance Statement and consideration of events after the Balance Sheet date will need to cover the period up to the date of publication and will therefore need to be kept under review until around the end of July 2020. Authority is therefore sought for approval of the final updated Narrative Report, Annual Governance Statement and any required amendments to the accounts for 2019/20 to be delegated to the Chair of Audit, Risk and Assurance Committee.

4.0 Accounting for the Land Fund

- 4.1 The Land Fund is a ring-fenced capital grant from the Ministry of Housing, Communities & Local Government (MHCLG) of up to £100m awarded to the WMCA, as part of the £350m Housing Deal announced in March 2018. The fund is to be deployed by WMCA, monitored by Homes England on behalf of MHCLG, to deliver new homes on brownfield land where market failure can be demonstrated.
- 4.2 2019/20 is the first year where material transactions have taken place, and as a result management have proposed an accounting treatment for these transactions that the audit team have considered.
- 4.3 Officers concluded that the asset created by the Land Fund should be classified as an asset under construction, as this asset class appears to be the most appropriate and depicts the nature and objectives of the Land Fund and CIPFA's 'Telling the Story'. The transactions have been included in 'Assets Under Construction' in the draft financial statements.
- 4.4 The audit team have challenged the treatment of the Land Fund assets as 'Assets Under Construction' and have suggested that the asset is more closely aligned to classification as 'Inventory'. As these are unusual transactions, the audit team has sought the advice of their national technical team and will provide an updated Audit Findings Report in September to take account of their conclusion.

5.0 Financial Implications

- 5.1 The financial implications are covered within the body of this report and the attached annual accounts reflect the results for the year ended 31 March 2020.

6.0 Legal Implications

- 6.1 Production of these accounts is a statutory requirement.

7.0 Equalities Implications

- 7.1 Alternative formats for these accounts are available upon request.

8.0 Inclusive Growth Implications

- 8.1 Not applicable.

9.0 Geographical Area of Report's Implications

- 9.1 Not applicable.

10.0 Other Implications

- 10.1 Not applicable.

11.0 Schedule of background papers

- 11.1 West Midlands Combined Authority financial report 2019/20

- 11.2 Supplementary information for the changes to the financial statements for Land Fund inventory accounting treatment
- 11.3 Grant Thornton Audit Findings Report
- 11.4 Letter of Representation



Statement of Accounts

For the year ended 31 March 2020

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Welcome to the West Midlands Combined Authority's Statement of Accounts for the financial year ended 31 March 2020. These accounts provide the reader with a view of West Midlands Combined Authority's financial performance and its effectiveness in its use of resources during the year and are therefore a key element in demonstrating sound financial stewardship of taxpayers' money as well as ensuring that key stakeholders understand the financial position of the West Midlands Combined Authority ('the Authority').

The Statement of Accounts for the year ended 31 March 2020 has been prepared in accordance with the requirements of the Accounts and Audit Regulations 2015. The format reflects the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards.

The Authority operates through several undertakings, either exercising full control of an entity (subsidiary undertakings) or in partnership with other organisations (associate undertakings). To provide a complete representation of the activities of the Authority, Group Accounts are also prepared to include the subsidiaries of Midland Metro Limited and WM5G Limited, where the interest and the level of activity is considered material to the group as a whole.

The Narrative Report has been prepared to provide an outline of the activities for the year 2019/20, providing both a guide to the Authority's accounts and to its achievements in delivering inclusive economic growth through transport and economic development as well as setting out the economy, efficiency and effectiveness in its use of resources in doing so.

1. COVID-19 impact

The COVID-19 pandemic will have a significant impact on the Authority's finances and the way it provides its services particularly in 2020/21. The financial impact in 2019/20 was quite limited as the impact of COVID-19 was reflected only towards the end of the financial year as people began to work from home or were furloughed as a result of the COVID-19 crisis.

Impact on the provision of transport services

The government continues to encourage workers to work from home if they can, and only undertake journeys if they are considered essential. Where journeys are to be made, there are recommended guidelines to follow to reduce the risk of spreading COVID-19. The Department for Transport (DfT) are recommending that if journeys are made, people should avoid using public transport where possible, and instead try to walk, cycle or drive.

Following the publication of the government's roadmap and strategy for the next phase of the COVID-19 nationwide response, the DfT published new guidance on 12 May 2020 setting out how passengers should make journeys safely. People should still work at home where they can and only undertake journeys if necessary. Where journeys are necessary, people should choose to walk, cycle or drive instead of using public transport.

Impact on the Authority's workforce

In respect of the Authority's own workforce, the impact on staff of staying at home has had some very positive benefits. An early survey of WMCA employees reported that 55% were benefitting from working from home, where there have been challenges, they have been around ICT and where staff are juggling work with caring responsibilities. We have focussed a considerable amount of effort in regularly communicating with staff, and in making sure that they have a number of different ways to engage with the Authority, despite this some staff are struggling under the weight of 'lockdown'.

The Authority has not needed to redeploy staff to assist on the front line as most of our staff are not 'key workers' and in fact the Authority has relaxed its volunteering policy to encourage staff to volunteer with the NHS and with local councils where they have spare capacity.

Initially the Authority recorded higher than average sickness levels as staff self-isolated, but now sickness has dropped again, it is suspected that there is some under reporting linked to staff working from home. The Authority is recording sickness absence due to COVID-19 but only so that reasons for absence can be monitored; it does not count towards the sickness absence policy triggers. All non COVID-19 related sickness absence is recorded in the normal way and is counted on individuals' records.

Impact on the Authority's supply chain

In respect of supply chain risk, the Authority is following guidance issued by the Cabinet Office in late March 2020: 'Procurement Policy Note - Supplier relief due to COVID-19'. This Procurement Policy Note sets out information and guidance for public bodies on payment of their suppliers to ensure service continuity during and after the current coronavirus, COVID-19, outbreak. The Authority acted immediately to ensure suppliers at risk are in a position to resume normal contract delivery once the outbreak is over.

Actions taken include:

- an urgent review of the Authority's contract portfolio was carried out;
- suppliers were informed they will continue to be paid as normal (even if service delivery is disrupted or temporarily suspended) until at least the end of June;
- the most appropriate payment measures have been put in place to support supplier cash flow including payment on profile (in respect of bus operators for example) or based on the average monthly payment over the previous three months (in respect of adult education providers for example). To qualify for this support, suppliers were required to agree to act on an 'open book' basis and make cost data available to the Authority during this period and they were also informed they should continue to pay employees and flow down funding to their subcontractors; and
- ensuring invoices submitted by suppliers are paid immediately on approval in order to maintain cash flow in the supply chain and protect jobs.

Impact on reserves, financial performance and financial position

The Authority has a general fund balance of £2.3m at the end of 2019/20, representing 1% of net revenue expenditure in the year. In addition, the Authority had balances of £26.6m in general fund earmarked reserves at the end of 2019/20 (see note 25 to the accounts on page 67). This balance includes amounts earmarked for specific risks which will remain present in the Authority's planning environment independent of the COVID-19 crisis.

Whilst there is a significant gap in funding emerging in future years in the Medium-Term Financial Plan, this is being addressed corporately by reviewing transformation opportunities and potential efficiency savings.

At the end of 2019/20, the Authority prudently created a specific COVID-19 reserve of £1.3m from savings in the year. This represents only a small proportion of the estimated financial impact of the crisis on the Authority.

The Authority has also prudently provided for anticipated credit losses at a higher level than in previous years as a result of the crisis, in relation to its exposure to repayment of loans through the Collective Investment Fund and its wholly-owned subsidiaries.

The impact of the crisis on the Authority will be most profound in terms of the loss of major income streams for a prolonged period, through reduced patronage for light rail for example, and a significant drop in other transport related income. Capital project delivery timescales may be impacted as programmes are rescheduled with a potential effect on the realisation of the project benefits for the West Midlands region.

This impact is more significant on the Authority's subsidiaries, especially Midland Metro Limited, where passenger revenues make up the majority of its income. The Authority has recently been notified of a grant award by DfT in the sum of £2.1m, aiming to compensate the Authority for losses in passenger revenues up until the end of June 2020.

The support given by the Authority to bus operators through subsidised services and the concessionary fares schemes has been directed by the Cabinet Office guidance since the start of the crisis. In the same way, payments to Adult Education providers have been made in line with this guidance. Whilst these payments continue to be made in much the same way and level as they would have been before the crisis hit, the value of the service being provided has changed. The Authority will continue to have contractual discussions with operators and providers to ensure that this value is tracked and monitored on an 'open book' basis as directed by the Cabinet Office guidance.

Debt Management

All of the Authority's historic borrowing is at fixed rates so there is no significant impact as a result of the pandemic. The Authority is currently forecasting a need to borrow in the region of £300m during 2020/21 to fund its capital programmes (including the Investment Programme). However, as programmes encounter rescheduling, it's likely the actual value of borrowing will be significantly lower. This will result in a reduced in year cost of borrowing, however this position is anticipated to be partially offset by yields (the return on our cash investments), which are anticipated to be lower in 2020/21 than 2019/20 as a result of needing to invest in short term lower risk instruments so the net impact on the revenue budget is not likely to be material.

It's likely that the currently low rates for medium to long term borrowing will continue for a period of time, particularly if the UK and other economies enter a recession following the pandemic. This may result in a favourable outcome in purely financial terms as the cost of this infrastructure borrowing will stay with the Authority for around 30 years.

Cashflow management

The Authority publishes an annual Treasury Management Strategy in line with Chartered Institute of Public Finance and Accountancy Code of Practice. The policy sets out its objectives which are to ensure the security, liquidity and yield of cash balances. The priorities are listed in order of importance.

Continual cash-flow forecasting is undertaken at a short, medium and long term level to ensure that the Authority is able to plan ahead and continually monitor the financial environment assisted by sector specialists. This will ensure that there are sufficient lenders in place to borrow from in a timely and affordable manner when the need arises. The availability of funds to meet liabilities (liquidity) is ensured through the continuation of detailed cash planning and ensuring liquid products which also offer protection from loss are maximised. As a result of the crisis, it is likely that the Authority will seek out more secure investments for available cash, thereby reducing the exposure to security risk in the current market.

The Authority is already seeing some cash flow management impacts as grants from central government appear to be being received at a slower pace, one example being the Devolution Deal Grant, paid mid-April in 2019 which is anticipated to be paid towards the end of May in 2020. It's possible this is as a result of the squeeze on UK Government funds in light of recent events. Again, these are being managed through pro-active forecasting and a regular dialogue with the relevant stakeholders.

In terms of the wider economic recovery of the West Midlands region, the West Midlands Mayor and the Authority have convened a COVID-19 economic impact group to understand the unfolding economic crisis and effectiveness of the economic policy response.

The group includes leaders of major firms including NEC Group, Balfour Beatty, Deliveroo, Create Central and major banks, the TUC, universities, business representative organisations, local authority leaders, LEP chairs, the Growth Company, government officials, Innovate UK and Bank of England.

At the time of writing, the Authority's recovery plans are under development in response to the most recent government guidance.

2. Organisational overview and external environment

The Authority came into being on 16 June 2016 by virtue of the West Midlands Combined Authority Order. At the same time, the West Midlands Integrated Transport Authority (WMITA) and the West Midlands Passenger Transport Executive (WMPTE) were dissolved. All of the functions, assets, liabilities and powers of WMITA and WMPTE were transferred to the Authority under the provisions of the 2016 Order.

The Authority is now the Local Transport Authority for the West Midlands and also has powers to exercise economic development and regeneration functions in conjunction with its seven constituent local authorities:

- Birmingham City Council
- City of Wolverhampton Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council

Leadership of the Authority comes from the Mayor and the leaders of the seven constituent local authorities, which have full voting rights. The leadership also includes the chairs of the Local Enterprise Partnerships (LEPs) which are business-led organisations that help build relationships between businesses and local authorities. Other bodies which include the LEPs and ten local councils from across the wider West Midlands region, have reduced voting rights but play a crucial role at Board level, helping to inform policy and drive forward the Authority agenda. Full details of bodies that are members of the Authority are set out in the Annual Governance Statement on page 23.

The policies of the Authority are directed by the WMCA Board which is chaired by the Mayor and are implemented by the Senior Leadership Team comprising a Chief Executive and seven Directors, supported by officers. The assurance function is carried out by both the Audit, Risk and Assurance Committee (ARAC) and the Overview and Scrutiny Committee (OSC), both of which comprise members of the constituent authorities and member bodies. Additionally, at least one independent person is appointed to the Audit, Risk and Assurance Committee as Chair. The Authority employed 563 people as at 31 March 2020. Midland Metro Limited employed 225 people as at 31 March 2020.

During the past year, the Authority has continued to work towards delivering its ambitious plans for driving inclusive economic growth in the West Midlands region and building a healthier, happier, better connected and more prosperous population and has also continued to develop strong and sustainable relationships with national government.

The West Midlands' growth priorities and ambitions are set out in the 2015 Strategic Economic Plan. The investments and actions the Authority makes and takes are focussed on delivering this plan, working with Local Enterprise Partnerships and other partners.

The Strategic Economic Plan (SEP) sets out the overarching vision for the region which will be delivered through an aspirational and robust programme to drive and accelerate improvements in productivity and enable the West Midlands to become a net contributor to the UK exchequer, whilst improving the quality of life for everyone who lives and works in the area.

The key objectives set out in the Strategic Economic Plan are as follows:

- Economic growth

- Employment and skills
- Accessibility
- Business competitiveness and productivity
- Land
- Public service reform
- Housing
- Environment

The Authority's core values and the underpinning behaviours are as follows:

Be collaborative

- We work with others to reach common goals
- We are respectful and act with integrity
- We communicate clearly, openly and encourage feedback

Be innovative

- We encourage creativity, originality and curiosity from everyone
- We embrace change and we are open to new possibilities and exploring new ideas
- We adopt best practices and keep up to date with new developments to enhance our work

Be driven

- We have a positive, proactive and a solution orientated attitude
- We set ourselves high standards and strive to exceed these
- We take ownership for our performance and outcomes

Be inclusive

- We care about and treat each other with dignity and respect
- We create a positive working environment
- We value diversity and consider other people's viewpoints ensuring no-one is excluded
- We encourage and support each other

3. Governance

The Authority has continued to work at pace through a period of change and development during 2019/20. The leadership team and structure has now been consolidated and continues to work on delivering improvements in structural efficiency and organisational development. Work has continued to strengthen and improve governance arrangements, Standard of Board Reporting, Forward Planning and the work of ARAC and OSC. Both ARAC and OSC have had an active programme of meetings and have fulfilled an important governance role for the Authority. The OSC undertook a number of in-depth reviews and held three Mayoral question time events. The Chairs of both Committees contribute regularly to the WMCA Board meetings to highlight the work and recommendations of their committees.

The last year has seen the Authority working in a time of extreme political and policy uncertainty caused by debates over Brexit and other issues. Whilst these issues have to a degree been settled (although there is still lack of clarity over the shape of the UK/EU Trade Deal), in recent weeks the COVID-19 public health crisis has brought changes and challenges to every sphere of the country's life with the West Midlands being particularly affected. This has brought particular governance challenges with the inability of elected members to meet together to take decisions. Meetings were suspended towards the end of March 2020 although at the time of writing have recently re-started virtually using the Regulations published by the Government, allowing participation by remote attendance.

The Authority continues to mature and evolve through a period of growth and the operational model is becoming more complex – particularly in light of the existing and potential additions to the Authority functions. A particular focus in the last year has been an intensive piece of work to overhaul and improve our Assurance Framework to ensure that it reflects best practice and the Ministry of Housing, Communities & Local Government (MHCLG) guidance of single pot assurance. The Authority’s Constitution is also undergoing review and the proposed changes will be considered by the WMCA Board in due course.

A Local Industrial Strategy (LIS) implementation group was put in place to support existing portfolio governance, made up of members from the LEPs, West Midlands Growth Company Limited and WMCA staff. Plans for the delivery of this project and the progress dashboard were approved at the November Strategic Economic Development Board. Some change has already been implemented but extended funding uncertainty is constraining the ability to make longer term plans.

Further details are set out in the Annual Governance Statement that can be found on pages 23 to 30.

4. Operational model

The Authority is an enabling body which brings together the political leadership in the West Midlands region; reinforcing and strengthening existing partnership arrangements to help co-ordinate strategic economic planning and drive forward inclusive economic growth.

The major source of funding for operational expenditure is the Transport levy which is paid by local authorities to the Authority to discharge its Transport duties. The Department for Education provide the funding for post-16 education through the Adult Education grant whilst other specific grants from government, investment income generated on balances and fees paid by the Constituent and Non-Constituent Members of the Authority support the work of all other delivery portfolios. Unlike many other local authorities, the Authority does not have significant commercial lines of activity which could provide additional income but also expose the funding to risk and uncertainty. Where commercial undertakings are made that has been done through the separate vehicles such as Midland Metro Limited (MML), WM5G Limited (WM5G) and other subsidiary undertakings.

The Devolution deal grant and a share of business rates support the Investment Programme, and the Capital Programme is funded predominantly by government grants and borrowing.

Detailed workforce planning, monitoring and management is undertaken by the Human Resources team within Corporate Services via business partner liaison with officers responsible for managing and recruiting, taking into consideration issues of capability and capacity. Staffing skills are maintained through the Authority’s continuous staff development and training programme and performance is monitored by the Performance Development Planning process that is now embedded at the Authority.

Table 1 below sets out the headcount (March 2020) and established full time equivalent (FTE) posts as well as the number of vacant posts:

Table 1: WMCA, MML & WM5G Staffing Analysis — March 2020

No.	Headcount	FTEs	Vacancies
TfWM	306	283.4	8
Corporate Services	156	153.1	5
Commissions	80	79.5	14
Mayor’s Office	6	6.0	0
Midland Metro Limited	225	217.9	9
WM5G Limited	13	13.0	5
Total	786	752.9	41

With regard to Equal Pay requirements contained within the Equality Act, the Authority ensures there is no pay discrimination within its pay structures and that all pay differentials can be objectively justified through the use of equality-proofed job evaluation mechanisms which directly relate salaries to the requirements, demands and responsibilities of the role. This policy has been the subject of a review by the Authority's Audit, Risk and Assurance Committee.

5. Review of the year

This section provides a summary of delivery and progress against the WMCA Annual Plan 2019/20 looking back at delivery and progress against the actions, activity and outcomes we set out in our 2019/20 plan and also summarises the region's performance against a range of economic health and growth indicators, and enables developments in the region's economy and society over the last year to be illustrated.

Following the identification of the Authority's aspirations and strategic outcomes in the Strategic Economic Plan, the business planning process for 2019/20 began in the autumn of 2018 including consultation with Budget Holders across the Authority, leading to the preparation of the Financial Plan for 2019/20 onwards and the detailed budget for 2019/20.

The Business Planning process sets out an approach to resource management that allows planning for the Authority's ambitious outcomes within the resources available to the Authority, which at the same time recognises the importance of driving efficiency in the way that the Authority does business, including the better use of technology.

Last year's Annual Plan was approved by the WMCA Board Annual General Meeting in June 2019. It outlined how the Authority (and TfWM) would work with its partners and stakeholders towards delivering its ambitious plans for driving inclusive economic growth in the West Midlands region and building a healthier, happier, better connected and more prosperous population. The Plan was structured on the key strategic priorities and councillor-led portfolios, along with information about our services that enable and support delivery (Corporate Services). The Annual Plan was also subjected to review by the Authority's Overview and Scrutiny Committee by way of a Question and Answer session with the Mayor, Deputy Mayor and Chief Executive.

In 2019/20 the Authority delivered transport services and improvements, built key infrastructure, supported the most vulnerable in our communities, and grew our regional economy. There were some serious challenges – the uncertainty during Brexit negotiations created economic instability, and the final month of the financial year saw the beginnings of COVID-19s impact. Yet overall, this was a year in which the Authority delivered against the commitments in our Annual Plan and continued working with partners to generate real improvements in the lives of people in the West Midlands. Key highlights of our year include:

Transport

- Completed 2km of new Metro track and opened an extended line to the Library of Birmingham.
- Delivered the Regional Transportation Coordination Centre to keep the region moving by managing disruption across road, rail, tram, and train.
- Extended the half-price travel offer to all young people aged 16-18, on bus, rail and Metro, enabling an extra 100,000 young people to benefit.
- Secured £24.2 million to deliver new cross city bus routes, as part of a programme which could benefit up to 70 million passenger per year.
- Expanded the biggest Swift smartcard system outside of London, with new products and contactless payments available on all bus operators, with customers now making over 50m journeys made per year.
- Supported NHS workers during the COVID-19 pandemic, using our Ring and Ride service to shuttle frontline staff between hospitals and our free Park and Ride sites.

Housing & Land

- Deployed £41 million of Land Fund investment in just 5 months unlocking 2,269 new homes on brownfield sites.
- Established a ground-breaking regional approach to defining housing affordability, ensuring that our funding is used to secure housing that reflects local incomes and local needs.
- Launched our regional Design Charter, providing an extra tool to secure good urban design and high-quality development.
- Enabled a 15.8% increase in new homes in 2019/20, reaching a total of 16,938 and exceeding the target trajectory in the Authority's Housing Deal to deliver 215,000 new homes by 2031.

Productivity & Skills

- Secured 1000 work experience opportunities for young unemployed people in partnership with Movement to Work.
- Delivered the £5m Construction Gateway retraining programme, shaped by our industry-led Construction Skills Taskforce.
- Secured further funding to enable bespoke construction training, including on-site training hubs in Perry Barr, Wednesbury, Wolverhampton and Coventry, to upskill the existing workforce and support new entrants to the sector.
- Established a new approach to encourage businesses to transfer unused levy to support apprenticeships at small and medium-sized businesses (SMEs), securing £7.01m and supported over three hundred apprenticeships and well over a hundred SMEs.

Economy & Innovation

- Published the UK's first Local Industrial Strategy, identifying four major new market opportunities and shaping strategies to support these areas.
- Launched Create Central, a private sector led partnership to drive investment, growth and jobs in the screen industries.
- Delivered the first 6 months of the Creative Scale up pilot, with cohorts and workshops throughout the region.
- Developed the first phase of the West Midlands Innovation Programme, securing £3m funding and appointing initial specialists in the low carbon and creative sectors as part of the virtual innovation team.

Environment & Energy, HS2

- Integrated the Energy Capital Partnership into the Authority and secured £500k of direct future funding and £9m investment to design smarter local energy infrastructure across the region, through the Prospering from the Energy Revolution funding stream of Innovate UK.
- Commissioned a study from the Tyndall Centre to set the target date for net zero carbon emissions for the West Midlands Combined Authority area.
- Produced #WM2041, a green paper for consultation, outlining the actions that will need to be taken in order to reach net zero carbon emissions by 2041.

Public Service Reform & Social Economy

- Launched the final report from the Social Economy Taskforce and began developing a business plan to double the size of the social economy in 10 years.
- Developed a new regional, collaborative and scaled up approach to reducing violence, vulnerability and exploitation through the Violence Reduction Unit.
- Worked to reduce homelessness - housing 172 people through our Housing First Pilot and launching an ambitious programme of work to support homeless veterans.

Culture & Digital

- Established the Cultural Leadership Board, with initial workstreams on the role of culture in the Authority's policies and priorities, building financial resilience in the cultural sector, improving diversity in cultural leadership.
- Delivered our nationally leading 5G programme, helping over 20 towns and cities access 5G through the Infrastructure Accelerator and supporting local authorities and network operators through a Connected Map of existing infrastructure and assets.

Wellbeing

- Continued delivering Thrive West Midlands, including getting 500 individuals into work, registered over 400 businesses on the Thrive at Work programme supporting improved wellbeing for up to 235,000 employees.
- Established a collaborative leadership programme for the region which is helping to shape the wellbeing and sport legacy for the Commonwealth Games.
- Focused on delivering a Population Intelligence Hub which is creating the key priorities for the Wellbeing Board and focusing future activity.

Inclusive Communities

- Created the Inclusive Communities portfolio in June 2019, cementing our commitment to supporting and enabling growth that is inclusive.
- Established a Young Combined Authority in September 2019, bringing together a diverse board of young people, aged 16 – 25, from across the West Midlands.
- Worked with business to promote inclusion including the creation of a toolkit (Summer 2019) and marking one year of the Inclusive Leadership Pledge.

Enabling Delivery

- Made funding approvals of £140.8m from the WMCA Investment Programme, bringing the total cumulative funding approvals to £775.0m as at 31 March 2020.
- Continued to embed Social Value into procurement exercises, securing over £2.5m of social value commitment within contracts awarded, with over £2.0m social value commitments delivered to date.
- Supported the organisation in becoming an accredited Living Wage Employer, with Real Living Wage questions now forming part of our tender processes.
- Featured in the 2019/20 Inclusive Top 50 UK Employers list and the National Centre for Diversity Grand Awards Top 100 Index 2002.

6. Operational performance

The WMCA SEP Performance Management Framework provides a clear framework against which success can be measured. The vision for the region has a number of smart objectives, based on the principles of balance, with clear targets. The Performance Management Framework is composed of a selection of strategic headline indicators, which measure the impact of the various programme areas of the West Midlands SEP. These indicators span a wide range of themes including productivity, employment and skills, infrastructure, competitiveness, sustainability and public service reform and measure the economic, social, fiscal and environmental impact.

The Performance Management Framework is independently maintained and updated by the Economic Intelligence Unit of Black Country Consortium Ltd who provide in depth cross-thematic spatial analysis on behalf of the Authority.

The Economic Intelligence Unit will annually monitor the Authority's progress in relation to the targets in the Performance Management Framework so that we can be clear on the impact of our delivery plan in achieving our ambitions.

The indicators in the Performance Management Framework will also be the basis upon which we appraise and prioritise our programme of interventions to deliver the WMCA SEP. These carefully targeted set of interventions will ensure delivery of the greatest economic benefits to the area and allow us to create opportunities across the Authority.

The headline strategic objectives set out in the SEP are as follows:

- **Economic growth** - to improve gross value added (GVA) for the region in line with the UK average
- **Employment and skills** - to improve the balance between the skills that businesses need and the skills of local people so that they have the skills and qualifications to access jobs
- **Accessibility** - to improve the connectivity of people and businesses to jobs and markets respectively
- **Business competitiveness and productivity** - to improve the productivity (GVA) of businesses, focussing on growth sectors
- **Land** - to improve the quantity of high quality, readily available development sites to high quality locations that meet housing and business needs
- **Public Sector Reform** - to secure better for less from public services, improve the life chances and the health and wellbeing of communities
- **Housing** - a greater and broader range of homes
- **Environment** - improved competitiveness through energy and resource efficiency, stimulating new technology and business

Regional Economic Context

The fundamentals of the region's economy demonstrated significant resilience over the past year.

- Gross value added (GVA), the measure used to assess the value of goods and services in an area, grew above the UK at 4.0% (compared to 3.4%) and is at a nine-year high reaching £105.1bn.
- This is matched by a record high in the amount of GVA generated per person, at £25,183, which also grew above the UK average.
- GVA per hour, used to measure productivity, is increasing at 3.3% compared to the UK at 2.7%. However, the absolute level of GVA per hour (£32.69) is still £2.34 below the UK average.
- These regional figures also disguise significant variation at a local level, with GVA per head in Solihull at £45,505 compared to Sandwell at £19,326.
- Economic growth was matched by growth in the number of active enterprises at 3.3%, again above the UK at 0.5%.
- There was also a rise in the number of new enterprises at 1.7% while the UK average decreased at 0.3%.
- From April to June 2019, the employment rate increased by 0.7pp - the largest increase in employment rates of all UK regions.
- However, the five-year survival rate of businesses was slightly below the UK average at 43.1%, and the number of jobs created reduced by 0.9%.

Regional opportunities, such as HS2 and the metro link extension, continue to drive investment into the region.

- Foreign investment has trebled since 2011 and as a region we uniquely have a trade surplus with both China and the USA.
- The 906 Foreign Direct Investment (FDI) projects in the WMCA area from 2011/12 to 2018/19 created over 50,000 new jobs.
- In 2019, the West Midlands Regional trade in goods exports was worth £31.6bn, a decrease of 5.5% compared to 2018. The UK increased by 2.1% to reach an estimated £346.5bn.
- The West Midlands has a trade deficit of £4.8bn, whilst the UK has an overall trade deficit of £136.8bn.

NARRATIVE REPORT OF THE CHIEF EXECUTIVE AND MEMBERS Continued

In 2019 Brexit-related uncertainty was an anchor on regional growth, as demonstrated in regional PMI – the seasonally adjusted index that measures services and manufacturing growth – which hovered in contraction for many months.

The COVID-19 pandemic in the final month of the financial year reflects an increasing risk to the region's prosperity. Initial indications based on the data available at year end suggested West Midlands GVA contracted by 2.4%. Our regional strengths may provide a springboard for approaching the post-COVID-19 'bounce back', but all indications are that the economic effects will be significant in the medium to long-term.

7. Financial performance

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

Revenue Performance

Table 2 set out below shows the overall consolidated revenue position for the Authority compared with the budget that was approved by the WMCA Board in February 2019 and is set out in the same way as the regular financial reports that are considered by the WMCA Board. This means that the table excludes statutory accounting and funding adjustments required by the Code of Practice on Local Authority Accounting, setting out the outturn position in the same way that the Authority's finances are planned and managed throughout the year.

Table 2: West Midlands Combined Authority Revenue Outturn 2019/20

£ million	2018/19	2019/20		
	Actual	Budget	Actual	Variance
Expenditure				
Transport Services	115.78	115.72	111.88	3.84
Combined Authority other services	8.62	97.42	89.81	7.61
Mayor's office	0.78	0.80	0.80	-
Investment Programme	41.59	42.50	42.57	(0.07)
Total Expenditure	166.77	256.44	245.06	11.38
Income				
Transport Levy	114.72	114.72	114.72	-
Devolution Deal Grants	40.15	127.96	121.41	(6.55)
Constituent / Non-Constituent Members	5.06	5.07	5.07	-
Share of Business Rates	4.76	6.00	6.00	-
Investment Income	0.82	1.69	1.26	(0.43)
Contributions from reserves	1.25	1.00	1.00	-
Total Income	166.76	256.44	249.46	(6.98)
Net Surplus/(Deficit)	(0.01)	-	4.40	4.40
Transfer to Efficiency Reserve	-	-	3.05	3.05
Transfer to Covid-19 Reserve	-	-	1.33	1.33
Net Surplus/(Deficit) after transfer to reserves	(0.01)	-	0.02	0.02

The table shows that the budget anticipated expenditure of £256.4m, funded by the Transport Levy, government grants, business rates growth and contributions from members.

Savings were made against the base budget in 2019/20 as the Authority adopted an approach at budget setting for 2020/21 to deliver savings in the 2019/20 financial year to support the budget in 2020/21. Planned transfers to reserves to support the 2020/21 budget amounted to £3.05m overall and transfers to reserves to set aside available funding to protect against the impact of COVID-19 in 2020/21 amounted to £1.33m overall.

The savings primarily arose from reduced expenditure on concessionary travel as a result of lower patronage than anticipated as well as additional income from grants awarded. Lower patronage was experienced throughout the year as a result of lower passenger volumes than anticipated. The impact of COVID-19 is reflected only towards the end of the financial year as people began to work from home or were furloughed as a result of the COVID-19 crisis. This position was partly offset by lower investment income than anticipated as a result of the requirement to set aside prudent provision in respect of loan repayments in the current economic climate.

Capital Programme Performance

The Authority approves the Capital Programme for the financial year as part of the budget setting process and the amount that can be spent is limited by the amount of capital resources available.

Many of the schemes within the Capital Programme take some time to develop and implement over a period of some years and therefore considerable variations can arise.

The Authority spent £189.7m on capital projects in 2019/20 which was £123.1m less than the budget of £312.8m and primarily reflects the re-phasing of activities in relation to the various Metro extension schemes which are taking place slightly later than originally planned. The main variances at the end of March were contained within the Metro Programme totalling £38.2m. Although delivery schedules are not anticipated to be impacted by rephasing of expenditure plans, it's likely that the COVID-19 pandemic will lead to further rescheduling and prioritisation of capital expenditure plans.

Major items of capital spend in the year were:

- Wednesbury to Brierley Hill Metro Extension £20.15m
- Edgbaston Metro Extension £14.55m
- SPRINT Hagley Road £4.06m

The capital programme spend of £194.7m was financed in the following way:

Table 3: Financing of Capital Expenditure 2019/20

	£ million
Government grants	83.40
Borrowing	97.42
District/Local Enterprise Partnership (LEP) grants and contributions	2.51
Third party contributions	4.05
Gainshare contribution	7.32
Total	194.70

8. Strategy and resource allocation

The Authority currently plans its finances over a medium term 5-year rolling period and it includes all known financial pressures that it faces over the medium term in its Financial Plan.

NARRATIVE REPORT OF THE CHIEF EXECUTIVE AND MEMBERS Continued

The Medium-Term Financial Plan (MTFP) incorporates a broad estimate of the financial impact of the following risks and sensitivities:

- Demographic growth and demand pressures specifically where transport payments and services are directly affected by patronage demands;
- Inflation;
- Brexit, to the extent that there may be potential for increased costs of supply of labour, goods and services; and
- Business Rates Retention Scheme and the achievement of growth targets, including the retention mechanism currently being developed through the West Midlands Finance Directors' Group.

The current Medium-Term Financial Plan assumes a cash flat funding requirement from Constituent Authorities both in terms of the Transport for West Midlands levy over the three-year period 2019/20 to 2021/22 and their contributions to the Authority's Delivery Budget in the latter two years. Whilst this currently represents the planning assumption, it is acknowledged that this creates a potential financial risk specifically with regard to inflationary increases, pay and legislative changes and demand in terms of patronage and the impact of these risks will be kept under review.

Assumptions have been made around pay and price rises and the Consumer Prices Index along with changes in patronage and fares. Any variation on this for 2020/21 will need to be managed within the available resources. These clearly may change significantly over the medium term meaning a cash flat position may not be achievable without changes to policy. Medium term planning assumptions will also be kept under constant review to reflect the latest available information in relation to the COVID-19 pandemic.

The Medium-Term Financial Plan reflects the Authority's obligations as a Best Value authority to make arrangements to secure continuous improvement in the way in which our functions are exercised, having regard to a combination of economy, efficiency and effectiveness, including consultation with taxpayers and users as appropriate.

Table 4: Medium-Term Financial Plan 2020/21 to 2024/25

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£m	£m	£m	£m	£m	£m
Transport Levy	114.7	114.7	114.7	114.7	114.7	119.7
Devolution Deal Grants	126.6	172.0	167.3	162.6	162.6	162.6
Business Rates Share	6.0	7.5	9.0	10.5	12.0	13.5
Constituent Membership	4.6	4.6	4.6	4.6	4.6	4.6
Non-Constituent Members	0.4	0.4	0.4	0.4	0.4	0.4
Investment Income	1.7	1.8	1.8	1.9	2.1	2.3
Mayoral Precept	0.0	0.0	7.2	7.3	7.4	7.5
3 rd party Income / Other	0.5	0.4	2.0	2.6	2.6	2.7
Commonwealth Games	0.0	1.4	1.4	0.6	0.0	0.0
Use of Reserves	2.1	4.4	0.0	0.0	0.0	0.0
Unsecured Funding	0.0	3.6	1.0	1.0	1.0	1.0
Total Funding	256.6	310.8	309.4	306.2	307.4	314.3
Transport for West Midlands	115.7	119.8	122.8	123.7	128.5	136.0
WMCA Delivery Budget	97.6	142.6	140.9	137.4	137.6	137.8
Investment Programme	42.5	44.0	51.9	53.4	55.0	56.6
Mayoral Office	0.8	0.8	0.9	0.9	0.9	1.0
Mayoral Election	0.0	3.6	1.0	1.0	1.0	1.0
Total Expenditure	256.6	310.8	317.5	316.4	323.0	332.4
Net Expenditure	0.0	0.0	(8.1)	(10.2)	(15.6)	(18.1)

The medium-term planning position set out in the table above was noted by WMCA Board in February 2020. A balanced budget position for 2020/21 was approved, however, there currently remains a gap in available funding to support expenditure plans ranging from £8.1m in 2021/22 rising to £18.1m in 2024/25.

It is increasingly acknowledged that combined authorities don't have an adequate sustainable funding base and therefore need to bid for much of the resources they do have. The councils that make up mayoral combined authorities also have a financial system that is subject to ongoing review. It is therefore clear that more stable and long-term funding is needed to enable combined authorities to deliver their priorities.

The Authority will continue to review existing established expenditure budgets to drive efficiency savings in the medium term and is continuing to lobby government alongside other Mayoral combined authorities, for sustainable funding for Mayoral combined authorities to be included in the government's spending plans, including funding for the Mayoral Election planned for May 2020 which has now been postponed until May 2021 and future Mayoral Elections.

The Medium-Term Financial Plan position set out above was developed before the onset of the COVID-19 crisis and the Authority therefore intends to begin an urgent refresh of its Medium-Term Financial Plan position early in 2020/21 to enable the latest position on additional spending requirements and reductions in income to be reflected in the updated Medium-Term Financial Plan position.

Significant matters that may affect future cash flows are as follows:

- **COVID-19** – the impact of the COVID-19 crisis on the Authority's financial position is being assessed at the time of writing both in terms of the negative impact on revenue income and the increased risk of cost escalation in delivering its approved Capital Programme and Investment Programme.
- **Capital Financing Costs** – the Authority opted to change the way it calculates Minimum Revenue Provision (MRP) in the 2017/18 financial year. The change was approved by the WMCA Board in November 2017. The reduction in the MRP charge is for a six-year period (2018/19 to 2023/24 inclusive) whereupon the MRP charge will revert to its previous level. The resulting favourable variance achieved in 2017/18 will be used to support the Transport Delivery Budget during the period 2018/19 to 2020/21.
- **Pensions costs** – the Authority has received its triennial actuarial valuation which sets the contributions for the three years beginning 2019/20. It has agreed to prepay these in order to benefit from a discount.
- **Interest Rates** – the ongoing period of low interest rates has impacted on investment returns.
- **Commonwealth Games** – the 2022 Commonwealth Games in Birmingham will be the biggest sporting event to be awarded in England since the London Olympics in 2012. Between 500,000 and one million people are expected to descend on Birmingham over the 11-day sporting event in the summer of 2022 and the Games are anticipated to generate a boost of more than half a billion pounds to the West Midlands region. At the time of writing, the Games are anticipated to go ahead as planned in 2022, however, in the light of recent announcements in relation to major sporting events such as the 2020 Olympics, certainty of timing is under constant review.
- **Mayor's budget and precept** – All Metropolitan Mayors have powers to raise a Mayoral Precept; effectively an incremental charge on top of existing Council Tax bills. In February 2019, the WMCA Board approved a nil precept for the Mayor's remaining term in office, which is now to be extended to May 2021 due to the COVID-19 outbreak.

- **WMCA's Investment Programme** – The Investment Programme aims to deliver an ambitious programme of infrastructure and other measures that are aimed at driving inclusive economic growth in the West Midlands Region. Funding for the programme to date is predominantly through Gainshare Grant and Share of Business Rates with other options for raising the required funding under continual review. Until such time that those additional revenues are realised, the programme will remain within the affordable limit as agreed by WMCA Board.
- **Borrowing Powers** – the amendment to statutory regulations that extended the Authority to borrow for non-transport capital schemes was confirmed in May 2018 subject to the Authority agreeing to operate within an agreed borrowing cap set by HM Treasury. The final year of the three-year cap is in 2020/21 (£867.3m) and the Authority expects to commence a dialogue with HM Treasury during 2020/21 about the value of the borrowing cap which will be effective from 2021/22 onwards.
- **Business Rates Supplement** – the Authority has the same legal powers as Local Authorities to raise a business rate supplement subject to it gaining consent from businesses affected by the charge. Recognising the regional impacts such a charge may have on local businesses, the prospect to implement a Business Rates Supplement was placed on hold by WMCA Board in July 2019.
- **Midland Metro Limited** – 2017 saw the establishment of the Authority's wholly-owned subsidiary, 'Midland Metro Limited' that has been created to take over the day-to-day running of Midland Metro trams in the West Midlands region and is expected to generate profits of around £50m over the first 11 years which will be channelled back into the network for the benefit of passengers and the local economy. Patronage falls during the coronavirus outbreak have significantly increased the risk to the funding of this investment.
- **Commercial & Residential Investment Funds** – the Authority employs West Midlands Development Capital Limited (a subsidiary of the Authority incorporated in 2017) as the fund manager for these commercial loans. The WMCA Investment Funds support the acceleration of commercial / residential property developments within the West Midlands area where traditional lending is not readily available.

These are revolving loan funds that aim to underpin the region's long-term growth and stability and are open to developers seeking finance of £1m to £10m. The fund commits repayable loan capital to eligible commercial, light industrial and residential regeneration opportunities at commercial rates of interest. The maximum value of commitments the Authority will allow against the total fund has been increased from £70m to £210m.

The Authority is obliged under the Accounting Standards to make a suitable financial provision for credit losses which, in the event of a default, would be used to negate the in-year impact of the event.

- **General fund balances** – although clearly the appropriate level of general fund reserves is a matter for judgement by the Finance Director (Section 151 Officer), the generally accepted practice is for general fund reserves to be between 3% and 5% of expenditure. The proposed balance is below this recommended level and consideration should be given over the medium term to increase the level of General Balances to ensure risk can be managed within the Authority without creating volatility on Constituent Authority contributions.

9. Risks and opportunities

The Authority has put in place a system of internal control designed to manage risks to a reasonable level and aims to identify and prioritise the risks to the achievement of policies, aims and objectives; and evaluate the likelihood of those risks being realised, the impact should they be realised and to manage them efficiently, effectively and economically.

The Authority has developed a Risk Management Strategy and strategic risk register, which is reported to regular meetings of the Authority's Audit, Risk and Assurance Committee and the Senior Leadership Team. It provides visibility of risk at operational, programme and strategic levels.

The principal risks and uncertainties faced by the Authority in relation to future service provision, including those in connection with the continued availability, quality and affordability of key resources that the authority depends on to deliver its service are that there is a risk that:

- the Authority is negatively impacted by either the Comprehensive Spending Review and or the approach to business rates localisation leading to a risk that baseline funding is not secure and depends on one-off grants from government for core spending commitments.
- assumptions of the Devolution Deals do not prove to be achievable resulting in a lower available level of funding for the Investment Programme.
- external challenges or changes in policy from global, EU or government / political or financial change are not factored into WMCA plans, which could make delivery ambitions more difficult to achieve.
- as the Authority continues to expand and absorb new remits and accountabilities that the Authority's stakeholders become more pressured in terms of their funding contributions.
- capacity and skills amongst managers and officers are insufficient, or conflicts with other priorities, which will impact on the ability to deliver the Authority's strategic deliverables which will impinge on the organisation's ability to secure future funding opportunities.
- a lack of progress with local plans, which the Authority does not control, could affect securing continuing funding and support from government to achieve the Housing and Land goals.
- 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:
 - a) commercial models not being able to deliver expected benefits and commercial revenue targets and/or
 - b) the structure exposing the Combined Authority to greater financial risk if the delivery model is unsuccessful.

The Authority has also put in place and continues to develop a robust monitoring framework that measures the performance of the Authority and gauges how the Authority is progressing against the SEP and the Mayor's Renewal Plan.

Capacity and skill availability have been considered an issue and as noted in Table 1 above, the Authority was carrying a significant number of vacancies as at 31 March 2020. However, it should be noted that the number of vacancies as at 31 March 2020 (41) compares favourably with the number reported in last year's report (57). A formal capability and vacancy risk management plan has been put in place with updates and assurance provided to the Audit, Risk and Assurance Committee to ensure that the potential risks associated with a high proportion of vacancies are managed effectively.

Opportunities for further devolution of responsibilities are sought where in accordance with the Strategic Priorities of the Authority.

The Authority has taken the opportunity to make a submission to the Comprehensive Spending Review, although this has now been delayed due to Brexit and the COVID-19 outbreak. This submission would seek to place the Authority on a stronger and more resilient basis for funding of its core operations and build on its potential to draw additional funding into the West Midlands region.

Opportunities to generate additional revenue streams are actively explored. Recent examples include the generation of additional advertising revenue from the Authority's bus shelters in conjunction with a private sector partner as well as taking on the operation of CCTV for a number of partners in our new Regional Transport Coordination Centre hub.

The Single Commissioning Framework approved by the Authority to guide deployment of devolved housing and land funds and its associated gateway process is used by the Authority to ensure value for money, risk management, effective due diligence and ensuring the Authority is intervening where there is demonstrable market failure to secure additionality and wider inclusive growth objectives.

The Authority has also actively sought new commercial trading opportunities and in doing so has established two subsidiaries since its inception.

The largest subsidiary is 'Midland Metro Limited' which operates light rail in the region. The commercial model is expected to generate surpluses which will be channelled back into the light rail network for the benefit of passengers and the local economy.

The second subsidiary, WM5G Limited, came into operation in 2019/20 in order to channel the investment from central government through the Department for Digital, Culture, Media & Sport (DCMS) into the development of new 5G technology at its testbed in the West Midlands.

10. Midland Metro Limited

Midland Metro Limited (MML) is a private limited company wholly owned by the Authority and was incorporated in 2017. The main business of MML is to provide passenger light rail transportation operation and maintenance of the Midland Metro in accordance with the terms of the public service contract with the Authority.

MML started trading on 24 June 2018 on commencement of the franchise and as a 100% subsidiary of the Authority, has now been consolidated into the Authority's group accounts.

Income mainly consists of passenger revenue from on tram sales and income received from the Authority in respect of travel card sales and concessionary travel reimbursement.

Under the terms of the public service contract, MML receives a subsidy in loss making years to enable it to break even. A franchise fee will be paid to the Authority in profit making years.

11. WM5G Limited

West Midlands 5G Limited (WM5G) is a private limited company wholly owned by the Authority and was incorporated in February 2019. The main business of WM5G is to be the UK's first region-wide 5G test bed and thus accelerate 5G deployment across the region to achieve citizen, public and private sector benefits from 5G.

WM5G started trading on 1st April 2019 as a 100% subsidiary of the Authority, and has now been consolidated into the Authority's group accounts.

Income mainly consists of grants from the DCMS and the Authority in respect of funding of initiatives and competitions to acceleration 5G Infrastructure and Applications.

12. Basis of preparation

The Authority's Statement of Accounts have been prepared under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and are for the full year from 1 April 2019 to 31 March 2020.

The Group Accounts comprise of:

- i) The Authority.
- ii) Midland Metro Limited, a wholly-owned subsidiary of the Authority, established in 2017 to take over the day-to-day running of Midland Metro trams in the West Midlands region from 24 June 2018 with the aim of channelling profits back into the tram network for the benefit of passengers and the local economy.

- iii) WM5G Limited, a wholly-owned subsidiary of the Authority, established in 2019 to accelerate the benefits of 5G throughout the region and working in partnership with public and private sectors organisations to deliver projects to speed up the launch of 5G networks.

The Statement of Accounts covering the Authority and the Group includes:

Comprehensive Income and Expenditure Statement

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

Movement in Reserves Statement

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

Balance Sheet

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

Cashflow Statement

The Cashflow Statement shows the changes in cash and cash equivalents during the year. The statement shows how the Authority and the Group generate and use cash and cash equivalents by classifying the cash flows as operating, investing and financing activities.

13. Directors and Senior Officers

The following WMCA directors and senior officers held office during the year:

<u>Directors/Senior Officers</u>	<u>Title</u>	<u>Appointment/Resignation</u>
Deborah Cadman	Chief Executive	
Gareth Bradford	Director of Housing and Regeneration	
Henry Kippin	Director of Public Service Reform	Resigned – 29 November 2019
Ian Martin	Director of Investment and Commercial Activities	Appointed – 29 April 2019
Julia Goldsworthy	Director of Strategy	
Julie Nugent	Director of Productivity and Skills	
Laura Shoaf	Managing Director, Transport for West Midlands	
Linda Horne	Finance Director	Appointed – 6 June 2019
Simon Wren	Director of Strategic Communications and Public Affairs	
Tim Martin	Clerk to the WMCA and Monitoring Officer	

The title Director of Public Service Reform was re-named to Director of Inclusive Growth & Public Service Reform and appointed in April 2020.

14. Auditors

Grant Thornton (UK) LLP are the auditors of the Authority for 2019/20. Their appointment was made under Section 3 of the Audit Commission Act 1998, saved under provisions of the Local Audit and Accountability Act 2014.

On behalf of the West Midlands Combined Authority Board

Deborah Cadman
Chief Executive
Date:

STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The Authority is required to:

(i) Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. These responsibilities are discharged through the role of the Responsible Finance Officer which during 2019/20 were:

<u>Period</u>	<u>Individual</u>	<u>Role</u>
15 December 2018 – 5 June 2019	Linda Horne	Interim Finance Director
6 June 2019 – current	Linda Horne	Finance Director

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

(iii) Approve the Statement of Accounts.

2. The Responsible Finance Officer's Responsibilities

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

In preparing this Statement of Accounts, the Responsible Finance Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The Responsible Finance Officer has also:

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

3. Certification of the accounts

I certify that this Statement of Accounts gives a true and fair view of the financial position of the Authority at the reporting date and of its income and expenditure for the year ended 31 March 2020.

Linda Horne
Finance Director and Responsible Finance Officer
Date:

4. Approval of the Accounts

I certify that the audited Statement of Accounts covering the period 1 April 2019 to 31 March 2020 were approved by a resolution of the Audit, Risk and Assurance Committee on 14 July 2020.

David Lane
Chair of the Audit, Risk and Assurance Committee
Date:

Scope of Responsibility

This Annual Governance Statement (AGS) reflects the activities of the Authority from 1 April 2019 to 31 March 2020.

The Authority is made up of seven district councils, constituent and non-constituent members and three Local Enterprise Partnerships (LEPs), observers and a co-opted member.

The Authority Constituent authorities consist of the seven district councils across the region:

- Birmingham City Council
- City of Wolverhampton Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council

The non-Constituent member of the Authority are comprised of non-constituent authorities and LEP members:

Non-constituent authorities

- Cannock Chase District Council
- North Warwickshire Borough Council
- Nuneaton and Bedworth Borough Council
- Redditch Borough Council
- Rugby Borough Council
- Shropshire Council
- Stratford-on-Avon District Council
- Tamworth Borough Council
- Telford and Wrekin Council
- Warwickshire County Council

LEP members

- Black Country LEP
- Coventry and Warwickshire LEP
- Greater Birmingham and Solihull LEP

There are also five Observers of the Authority. These are:

- Herefordshire Council
- The Marches LEP
- The Young Combined Authority
- West Midlands Fire and Rescue Authority
- West Midlands Police and Crime Commissioner

There is one member co-opted on to the WMCA Board at the discretion of the WMCA Board. They are:

- Trade Union Congress (TUC)

ANNUAL GOVERNANCE STATEMENT Continued

The Authority currently has 6 active Arm's Length Company relationships, namely;

No.	Company Name	Stake	Accounting Treatment
a.	West Midlands Rail Limited	50%	Associate
b.	West Midlands Development Capital Limited	100%	Subsidiary
c.	Midland Metro Limited	100%	Subsidiary
d.	West Midlands Growth Company Limited	5.3%	Investment
e.	WM5G Limited	100%	Subsidiary
f.	West Midlands Integrated Transport Authority Pension Fund (closed)	N/A	Administering authority (ceased)

The management of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) was discharged from the West Midlands Combined Authority to the West Midlands Pension Fund Pensions Committee. Assurance on governance and legal and financial controls are placed on the West Midlands Pension Fund (WMPF).

Following a process of public consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG), the Regulations (Statutory Instrument 2019 No 1351, The Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019) effecting the merger between the WMITA PF and the WMPF came into force on 8 November 2019 and were backdated to confirm the merger effective 1 April 2019.

Under the Regulations:

- the LGPS Administering Authority responsibilities from the Authority are transferred to the City of Wolverhampton Council as Administering Authority for the WMPF
- all legal and contractual arrangements the Authority held in relation to its role as Administering Authority are novated to City of Wolverhampton Council
- all assets and liabilities of the WMITA PF are transferred to WMPF (administered by the City of Wolverhampton Council)

For each of the arm's length companies where WMCA owns a 50% or greater share an assurance and governance checklist has been completed to confirm all legal and financial controls have been satisfied. In addition confirmation of wider assurance and governance is approved.

WMCA is an enabling body which brings together the political leadership in the region; reinforcing and strengthening existing partnership arrangements to help co-ordinate strategic economic planning and drive forward inclusive economic growth.

The Purpose of the Governance Framework

The Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and delivers value for money.

To demonstrate good corporate governance, the Authority carries out its functions in a way that provides accountability, transparency, effectiveness, integrity, and inclusivity; enabling the Authority to pursue its vision and secure its agreed objectives in the most effective and efficient manner and in line with the approved constitution.

In discharging this overall responsibility, WMCA Senior Leadership Team and Statutory Officers are responsible for putting in place proper arrangements (known as a Governance Framework) which comprises the legislative requirements, systems and processes, cultures and values. This enables the Authority to govern its affairs, facilitate the effective exercise of its functions, which includes arrangements for the management of risk, in addition to exercising leadership and being held accountable for its decisions and activities.

The Authority has put in place a system of internal control designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of our policies, aims and objectives; and evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them efficiently, effectively and economically.

The Authority has developed a Risk Management Strategy and strategic risk register, which is regularly reported to ARAC and the WMCA Senior Leadership Team. It provides visibility of risk at strategic, operational, and programme levels. Risk management processes are also being embedded within the organisations performance management framework as it is being developed.

Annual Governance Statement

This Annual Governance Statement meets the requirements of Regulation 6(1) (b) of the Accounts and Audit (England) Regulations 2015 which requires all relevant public bodies to prepare an annual governance statement.

The Authority demonstrates compliance with the seven core principles of good governance set out in the latest CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

These seven principles are:

- (a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- (b) Ensuring openness and comprehensive stakeholder engagement.
- (c) Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- (d) Determining the interventions necessary to optimise the achievement of the intended outcomes.
- (e) Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- (f) Managing risks and performance through robust internal control and strong public financial management.
- (g) Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

The Governance Framework

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

The code of conduct is laid out in the Constitution; this defines standards of behaviour for Members and officers working on behalf of the Authority. The Head of Governance who is the monitoring officer deals with issues of conduct and generally promotes high standards among officers, members and the Mayor. ARAC perform the role of the Standards Committee.

The Authority embeds standards of conduct and behaviour through promoting a culture with values:

Be collaborative

- We work with others to reach common goals
- We are respectful and act with integrity
- We communicate clearly, openly and encourage feedback

Be innovative

- We encourage creativity, originality and curiosity from everyone
- We embrace change, and we are open to new possibilities and exploring new ideas
- We adopt best practices and keep up to date with new developments to enhance our work

Be driven

- We have a positive, proactive and a solution oriented attitude
- We set ourselves high standards and strive to exceed these
- We take ownership for our performance and outcomes

Be inclusive

- We care about and treat each other with dignity and respect
- We create a positive working environment
- We value diversity and consider other people's viewpoints ensuring no one is excluded
- We encourage and support each other

The business of the Authority will also be conducted in accordance with the Seven Principles of Public Life identified in The Nolan Committee Report (1995), and defined as selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

2. Ensuring openness and comprehensive stakeholder engagement

We have established channels of communication with the community and other stakeholders, ensuring accountability and encouraging open consultation. Meetings are held in public unless there are good reasons for confidentiality.

We incorporate good governance arrangements in our partnerships and reflect these in our overall governance arrangements. This has been developed further this year by working with the arm's length companies to confirm assurance and governance arrangements.

We assess the effectiveness of relationship frameworks in order to identify any changes required.

Where consultation is required we adhere to the principles of good consultation "the Gunning principles". A variety of measures are used to seek views from the public particularly around transport policy.

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

The Authority ensure the vision and the implications for governance arrangements are reviewed including monitoring its achievement of intended outcomes from social, economic, environmental and organisational health perspectives through the budget and performance framework and project delivery process. The performance management framework is currently being refreshed and will evolve as the organisation grows.

The Authority is focused on delivering value for money and success in this respect is reviewed by independent auditors in line with the NAO's Code of Audit Practice and Auditor's Guidance Note AGN03. The results of the Value for Money audit work and the key messages arising will be reported in an Audit Findings Report and in the Annual Audit Letter.

Each of these benefit categories are assessed in major project business case submissions. The Authority wants to ensure strategically important projects with high benefits for the region are progressed.

The Authority is working to achieve the priorities set out in the Devolution Deals that have been negotiated with Central Government. The Authority's purpose and vision are detailed in the Strategic Economic plan (SEP) and the Annual Plan. Performance against the Devolution Deals will be monitored and assessed throughout 2020/21. A gateway review in respect of the first Devolution Deal is currently anticipated in 2021.

To ensure the purpose and vision of the Authority is clear and well communicated an annual review titled The Annual Business Plan Review outlines the Authority's activities and achievements. This will be signed off by the WMCA Board in due course.

4. Determining the interventions necessary to optimise the achievement of the intended outcomes

The Authority works closely with the relevant Government Departments, local and national stakeholders and constituent and non-constituent authorities to determine the necessary actions to achieve these priorities.

Senior Leadership Team oversees the corporate decision making process and reports are considered at an appropriate level of the organisation in accordance with the provisions of the Constitution.

Corporate decisions are primarily taken at meetings of the WMCA Board, although each of the Board's thematic delivery committee's exercise a degree of delegated authority in respect of their powers to make decisions on behalf of the Authority. This includes reviewing progress of outcomes against delivery plans.

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

We have defined and documented in our Constitution the roles and responsibilities of the Board, Scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication. As the Authority develops we are reviewing our governance arrangements and the Constitution to ensure they remain fit for purpose in a growing organisation. A scheme of delegation is laid out in the Constitution.

The collective and individual roles and responsibilities of the Senior Leadership Team, Members and officers have been established. We now have in place a complete and stable leadership team.

The Leadership team has reviewed the structure of Corporate Services to ensure its capability continues to meet the future aspirations of the organisation and it is anticipated that a review of business processes will be carried out in 2020/21.

We identify and aim to address the development needs of members and officers in relation to their roles and support with appropriate induction and training. In 2019/2020 a considerable proportion of the training budget was spent on the leadership of the organisation. Specifically in

2019/20, ARAC members received finance training to allow them to understand financial accounts, reporting arrangements and treasury management. An external health check and training for Overview and Scrutiny Committee was completed in 2019/20.

Training requirements for 2020/21 will be reviewed following ARAC in July. Overview and Scrutiny Committee Chairs and leading Members have also participated in external training and events.

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

Risk management is embedded in the culture; accountabilities and responsibilities defined within roles, and with processes determining ways of working, managing and reporting risk. This continues to evolve and steps are being undertaken to improve the process across the organisation. WMCA risk appetite for the 6 recognised risk categories has been reconfirmed by Senior Leadership Team for 2020/21.

The Authority ensures compliance with relevant laws and regulations, internal policies and procedures. We are rigorous and transparent about decision making and the recording of decisions. The Overview and Scrutiny Committee reviews and challenges the work and decisions of the Authority amidst with policy review and development.

ARAC is independent of the executive and scrutiny function. They monitor and review risk and governance processes, and results, in order to provide assurance to the WMCA Board on their effectiveness. Appropriate controls are in place for arms-length companies and as good practice external auditors have been appointed for West Midlands Rail Limited, Midland Metro Limited and WM5G Limited.

Internal Audit provides the 'third line of defence' with the first line being policies, procedures and controls and the second being managers' own checks of the control environment. Professional advice and good quality information is provided to ensure those making decisions are provided with relevant information that is fit for purpose. In 2019 all the Authority's key financial audits received a 'substantial' internal audit outcome.

A robust assurance framework consistently ensures governance and process are independently reviewed and reported and the risks have been identified and are being adequately managed. The assurance framework has recently undergone a review to ensure it remains fit for purpose and has been expanded to include assurance requirements for the new and proposed devolution deals. This assurance framework will be approved by Ministry of Housing, Communities and Local Government (MHCLG) and will be aligned to the National Single Pot Assurance Guidance.

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

The Authority has implemented the WMCA Assurance Framework which was approved by MHCLG (previously Department of Communities and Local Government (DCLG)) in July 2016. The Revised Assurance Framework will be presented to the WMCA Board for approval in July.

The Authority is working closely with Department for Business, Energy and Industrial Strategy (BEIS) who will review the performance of the Devolution objectives and adherence to the Assurance Framework. The Annual conversation with BEIS and MHCLG is planned for the end of June 2020.

The Authority has a monitoring officer who sits on both the Senior Leadership Team and attends the WMCA Board meetings to ensure all of our activity is legal. Our high level of Governance standards include the publishing of agendas, minutes and reports in the public domain and only limited use of confidential reporting. The 2020/21 audit plan will be approved at ARAC's July meeting.

A checklist has been implemented for the arm's length companies of the Authority to ascertain confidence in governance and assurance arrangements. This action came out of the Audit, Risk and Assurance Committee, to develop a checklist of questions that would provide a mechanism of assurance to the Committee that could provide overall assurance on all of the Authority's activities. All relationships will be reviewed at least once a year.

Arrangements are in place for "whistleblowing" and "counter-fraud" for receiving and investigating complaints from both officers and members of the public. Any issues raised are considered by the Monitoring Officer in conjunction with Internal Audit and reported to the Chair of ARAC as appropriate.

Annual Review of Effectiveness of Governance Framework

The Opinion of the Head of Governance 2019/2020

CIPFA (The Chartered Institute of Public Finance & Accountancy) defines the role of Governance and the Chief Financial Officer as follows:

- Governance is defined as "The arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users, and operates in an economical, effective, efficient and ethical manner" and;
- The Chief Financial Officer is "The organisation's most senior executive role charged with leading and directing financial strategy and operations."

These statements have been confirmed and agreed by the Head of Governance and the Finance Director respectively.

The Head of Governance is satisfied that the system of internal assurance is robust and providing visibility of risk and reasonable assurance to the senior management teams.

The opinion is based on the results of an on-going programme of activities and review, the outcomes of which were considered by the Audit, Risk and Assurance Committee. Activities include:

- a) External audit
- b) Internal audit
- c) The Risk Management Process, particularly the Strategic Risk Register
- d) Performance information
- e) Assurance

During 2019/20, the Treasury Management audit and five other 'key financial systems' audits were given 'substantial' rating by internal audit and 100% 'Green' in terms of its recommendations, whilst a 'Satisfactory' level was achieved by Health & Safety (71% green recommendations), Asset Management (66% green recommendations) and Human Resources Workforce Planning (1 Amber recommendation). None of the audit recommendations were flagged as 'red' where imperative action is required. This demonstrates that the systems and processes around audit, risk and governance are effective.

A total of 45 project assurance reviews have been undertaken by the Corporate Assurance Team in this period, covering 32 different projects. These projects follow the Government Gateway Project Methodology for minor projects. This is an increase in both number and complexity on the 27 assurance reviews and 19 projects undertaken last year.

Progress of the 2019/20 Annual Business Plan was monitored on a monthly basis by internal management teams with key risks impacting on its delivery, being escalated to the directorate risk registers. The new Annual Business Plan is being developed and will be approved by the WMCA Board in June 2020.

Regular risk management review meetings are now in place across all the Authority's activities including all directorates to enable full visibility of key risks having the potential to impact on the organisation. Risk Management and Performance Management is intended to be brought together to provide a strong evidence base to substantiate the risk assumptions.

There are a total of 5 operational Risk Registers feeding into the WMCA Strategic Risk Register with another 2 areas – Economic Risk Register and Strategic & Industrial strategy – being finalised at the time of writing. There are regular meetings in place with both the management team of each business area and the Strategy Director to monitor the status of risks and to ascertain the level of risk exposure in each of these areas to determine the assurance conclusions. Additionally the Strategic Risk Register is reviewed by the Strategic Leadership Team on a bi-monthly basis.

The Authority is one of England's Combined Authorities to successfully negotiate a further devolution deal. This has helped lead to the Region successfully acquiring the Commonwealth Games in 2022, 5G programme pilot and the new Housing Delivery deal.

The Authority has set itself a demanding programme of work and is ambitious for itself and the benefits that it hopes to bring to the region. It has been successful in negotiations for a second Devolution Deal and has recruited an able team of experienced professionals to form the leadership team. However there is a significant pressure on resources, particularly in matching staff resources to the tasks in hand and this is being carefully monitored by the Authority and a plan in place to mitigate these pressures accordingly. The impact of COVID-19 on the Authority's programme of work is being assessed at the time of writing and a recovery plan is under development.

Conclusion

In undertaking the review of internal control and governance framework, the Authority is satisfied the systems of internal control that facilitate the effective exercise of the organisation's functions are in place and that all issues raised through the Audit, Risk and Assurance Committee have been appropriately addressed and actions have been assigned an appropriate owner. [To be updated for the latest position end of July 2020]

On behalf of the West Midlands Combined Authority

Andy Street
Mayor and Chair of the West Midlands Combined Authority
Date:

Deborah Cadman
Chief Executive
Date:

TO BE PROVIDED UPON AUDIT COMPLETION

AUTHORITY COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2018/2019								2019/2020		
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Notes	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000			
163,508	(24,275)	139,233	Transport services*	7	178,759	(27,418)	151,341			
12,555	(6,445)	6,110	Combined Authority other services*	8	90,605	(97,131)	(6,526)			
34,319	-	34,319	Investment Programme	9	68,581	-	68,581			
813	(590)	223	Mayor's office	10	752	(804)	(52)			
211,195	(31,310)	179,885	Cost of services		338,697	(125,353)	213,344			
298	-	298	Other operating expenditure	11	325	-	325			
10,160	(1,703)	8,457	Financing and investment income and expenditure	12	10,705	(2,262)	8,443			
34,125	(261,495)	(227,370)	Taxation and non-specific grant income and expenditure	13	35,274	(287,558)	(252,284)			
255,778	(294,508)	(38,730)	(Surplus) or deficit on provision of services		385,001	(415,173)	(30,172)			
		(7,866)	Remeasurement of the net defined benefit liability	28			(20,168)			
		(7,866)	Other Comprehensive Income and Expenditure				(20,168)			
		(46,596)	Total Comprehensive Income and Expenditure				(50,340)			
		24,548	Adjustments between funding and accounting basis under regulations	5			(3,588)			
		7,866	Transfer to Pensions Reserve	28			20,168			
			Transfers to/from Earmarked Reserves							
		5,283	- General fund	25			6,465			
		8,910	- Investment programme funding	25			27,277			
		11	(Surplus) or deficit for the year under funding basis				(18)			

*Prior year expenditure for Transport services and Combined Authority other services has been adjusted by £0.638m (see explanation in note 5(b)). Cost of Services remain unchanged.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The Group Comprehensive Income and Expenditure Statement includes the results of its subsidiaries, Midland Metro Limited and WM5G Limited, and impact transport services, Combined Authority other services and financing and investment income and expenditure line items.

2018/2019			2019/2020			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000	Notes	£'000	£'000	£'000
170,426	(31,191)	139,235		189,724	(38,369)	151,355
12,555	(6,445)	6,110		97,402	(103,927)	(6,525)
34,319	-	34,319		66,876	-	66,876
813	(590)	223		752	(804)	(52)
218,113	(38,226)	179,887		354,754	(143,100)	211,654
298	-	298	11	325	-	325
10,160	(1,705)	8,455	12	9,075	(2,277)	6,798
34,125	(261,495)	(227,370)	13	35,274	(287,558)	(252,284)
262,696	(301,426)	(38,730)		399,428	(432,935)	(33,507)
		-				-
		(38,730)				(33,507)
		(7,866)	28			(20,168)
		(7,866)				(20,168)
		(46,596)				(53,675)
		24,548	5			(3,588)
		7,866	28			20,168
		5,283	25			8,095
		8,910	25			28,982
		11				(18)

*Prior year expenditure for Transport services and Combined Authority other services has been adjusted by £0.638m (see explanation in note 5(b)). Cost of Services remain unchanged.

AUTHORITY MOVEMENT IN RESERVES

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

	Usable reserves					Unusable reserves					
	General Fund	Earmarked Reserves	Total General Fund	Capital Receipts Reserve	Total Usable Reserves	Revaluation Reserve	Capital Adjustment Account	Pensions Reserve	Accumulated Absences Account	Total Unusable Reserves	Total reserves
	Balance		Balance	Reserve	Reserves	Reserve	Account	Reserve	Account	Reserves	reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 31 March 2018	2,295	82,356	84,651	247	84,898	6,953	67,617	(55,377)	(305)	18,888	103,786
Movements in reserves during 2018/19											
Total comprehensive income and expenditure	38,730	-	38,730	-	38,730	-	-	7,866	-	7,866	46,596
De-recognition of Ring & Ride vehicles under IFRIC 4	-	-	-	-	-	-	(1,555)	-	-	(1,555)	(1,555)
Adjustments between accounting basis and funding basis under regulations (note 5b)	(24,548)	93	(24,455)	-	(24,455)	(211)	30,287	(5,559)	(62)	24,455	-
Increase or (decrease) in 2018/19 before transfer to earmarked reserves	14,182	93	14,275	-	14,275	(211)	28,732	2,307	(62)	30,766	45,041
Transfers to/(from) earmarked reserves	(14,193)	14,193	-	-	-	-	-	-	-	-	-
Balance at 31 March 2019 carried forward	2,284	96,642	98,926	247	99,173	6,742	96,349	(53,070)	(367)	49,654	148,827
Movements in reserves during 2019/20											
Total comprehensive income and expenditure	30,172	-	30,172	-	30,172	-	-	20,168	-	20,168	50,340
Adjustments between accounting basis and funding basis under regulations (note 5b)	3,588	16,173	19,761	-	19,761	(211)	(12,421)	(7,000)	(129)	(19,761)	-
Increase or (decrease) in 2019/20 before transfer to earmarked reserves	33,760	16,173	49,933	-	49,933	(211)	(12,421)	13,168	(129)	407	50,340
Transfers to/(from) earmarked reserves	(33,742)	33,742	-	-	-	-	-	-	-	-	-
Balance at 31 March 2020 carried forward	2,302	146,557	148,859	247	149,106	6,531	83,928	(39,902)	(496)	50,061	199,167

GROUP MOVEMENT IN RESERVES

The Group Movement in Reserves Statement shows the movement in the year on the different reserves held by the Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and 'unusable reserves' (i.e. those allocated for specific purposes).

	Usable reserves						Unusable reserves					Total reserves £'000
	General Fund Balance £'000	Earmarked Reserves £'000	Total General Fund Balance £'000	Capital Receipts Reserve £'000	Reserves of the Subsidiary £'000	Total Usable Reserves £'000	Reval- uation Reserve £'000	Capital Adjustment Account £'000	Pensions Reserve £'000	Accumulated Absences Account £'000	Total Unusable Reserves £'000	
Balance at 31 March 2018	2,295	82,356	84,651	247	-	84,898	6,953	67,617	(55,377)	(305)	18,888	103,786
Movements in reserves during 2018/19												
Total comprehensive income and expenditure	38,730	-	38,730	-	-	38,730	-	-	7,866	-	7,866	46,596
De-recognition of Ring & Ride vehicles under IFRIC 4	-	-	-	-	-	-	-	(1,555)	-	-	(1,555)	(1,555)
Adjustments between accounting basis and funding basis under regulations (note 5b)	(24,548)	93	(24,455)	-	-	(24,455)	(211)	30,287	(5,559)	(62)	24,455	-
Increase or (decrease) in 2018/19 before transfer to earmarked reserves	14,182	93	14,275	-	-	14,275	(211)	28,732	2,307	(62)	30,766	45,041
Transfers to/(from) earmarked reserves	(14,193)	14,193	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2019 carried forward	2,284	96,642	98,926	247	-	99,173	6,742	96,349	(53,070)	(367)	49,654	148,827
Movements in reserves during 2019/20												
Total comprehensive income and expenditure	33,507	-	33,507	-	-	33,507	-	-	20,168	-	20,168	53,675
Adjustments between accounting basis and funding basis under regulations (note 5b)	3,588	16,173	19,761	-	-	19,761	(211)	(12,421)	(7,000)	(129)	(19,761)	-
Increase or (decrease) in 2019/20 before transfer to earmarked reserves	37,095	16,173	53,268	-	-	53,268	(211)	(12,421)	13,168	(129)	407	53,675
Transfers to/(from) earmarked reserves	(37,077)	37,077	-	-	-	-	-	-	-	-	-	-
Balance at 31 March 2020 carried forward	2,302	149,892	152,194	247	-	152,441	6,531	83,928	(39,902)	(496)	50,061	202,502

BALANCE SHEET

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

	Notes	31 March 2020		31 March 2019	
		Authority £'000	Group £'000	Authority £'000	Group £'000
Property, plant and equipment	17	423,310	423,668	341,392	341,586
Long-term investments	18	5,093	5,093	6,940	6,940
Long-term debtors		241	241	-	-
Long-term assets		428,644	429,002	348,332	348,526
Short-term investments	18	7,995	7,995	20,999	20,999
Inventories		-	829	-	560
Short-term debtors	19	43,103	47,066	36,330	36,895
Cash and cash equivalents	20	78,793	79,546	28,732	29,124
Current assets		129,891	135,436	86,061	87,578
Short-term borrowing	21	(7,024)	(7,024)	(7,136)	(7,136)
Short-term creditors	22	(73,385)	(75,953)	(57,163)	(58,874)
Provisions	23	(933)	(933)	(2,817)	(2,817)
Grants receipts in advance - revenue	13	(8,850)	(8,850)	(12,623)	(12,623)
Transferred debt	24	(833)	(833)	(757)	(757)
Current liabilities		(91,025)	(93,593)	(80,496)	(82,207)
Net current assets/(liabilities)		38,866	41,843	5,565	5,371
Long-term borrowing	21	(118,432)	(118,432)	(123,771)	(123,771)
Provisions	23	(1,810)	(1,810)	(1,000)	(1,000)
Grants receipts in advance - capital	13	(102,604)	(102,604)	(22,758)	(22,758)
Transferred debt	24	(5,595)	(5,595)	(6,428)	(6,428)
Net pension liability	28	(39,902)	(39,902)	(51,113)	(51,113)
Long-term liabilities		(268,343)	(268,343)	(205,070)	(205,070)
Net assets/(liabilities)		199,167	202,502	148,827	148,827
General Fund Balance	25	2,302	2,302	2,284	2,284
Earmarked Reserves	25	146,557	149,892	96,642	96,642
Capital Receipts Reserve	25	247	247	247	247
Profit and Loss Reserve	25	-	-	-	-
Usable reserves		149,106	152,441	99,173	99,173
Revaluation Reserve	26	6,531	6,531	6,742	6,742
Capital Adjustment Account	26	83,928	83,928	96,349	96,349
Pensions Reserve	26	(39,902)	(39,902)	(53,070)	(53,070)
Accumulated Absences Account	26	(496)	(496)	(367)	(367)
Unusable reserves		50,061	50,061	49,654	49,654
Total reserves		199,167	202,502	148,827	148,827

This financial report replaces the unaudited financial report certified by Linda Horne on 18 May 2020. They were approved for issue by the Audit, Risk and Assurance Committee on 14 July 2020. Events after the Balance Sheet date have been considered up to the date of approval.

CASHFLOW STATEMENT

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

	2020		2019	
	Authority £'000	Group £'000	Authority £'000	Group £'000
Net (deficit)/surplus on the provision of services	30,172	33,507	38,730	38,730
Adjustments to net surplus or deficit on the provision of services for non-cash movements				
Depreciation and impairment of non-current assets	18,607	18,750	13,487	13,584
Revaluation increase	-	-	(447)	(447)
Net amounts of non-current assets written off on disposal	325	325	298	298
Non-current assets transferred to provision of services	139	139	-	-
Change in pensions liability (note 28)	8,957	8,957	8,766	8,766
(Increase)/decrease in long-term debtors	(241)	(241)	-	-
(Increase)/decrease in short-term debtors	(6,773)	(10,171)	(4,370)	(4,935)
(Increase)/decrease in inventories	-	(269)	-	(560)
(Decrease)/increase in short-term creditors	16,222	17,079	16,150	17,861
(Decrease)/increase in provisions	(1,074)	(1,074)	(2,731)	(2,731)
Net interest payable	4,321	4,306	5,791	5,789
Interest paid	(6,713)	(6,713)	(7,930)	(7,930)
Interest received	2,262	2,277	1,703	1,705
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities				
Capital grants received	(125,266)	(125,266)	(100,442)	(100,442)
Capital grants paid	35,274	35,274	34,125	34,125
Net cash flows from operating activities	(23,788)	(23,120)	3,130	3,813
Investing activities				
Purchase of property, plant and equipment	(100,989)	(101,296)	(61,563)	(61,854)
Capital grants received for the purchase of property, plant and equipment	89,992	89,992	66,317	66,317
Increase/(decrease) in short-term and long-term investments	14,851	14,851	(16,939)	(16,939)
Net cash flows from investing activities	3,854	3,547	(12,185)	(12,476)
Financing activities				
Increase/(decrease) in grants receipts in advance	76,073	76,073	23,538	23,538
Repayment of loans	(5,321)	(5,321)	(23,318)	(23,318)
Transferred debt - repayment of principal	(757)	(757)	(688)	(688)
Net cash flows from financing activities	69,995	69,995	(468)	(468)
Net increase or decrease in cash and cash equivalents	50,061	50,422	(9,523)	(9,131)
Cash and cash equivalents at 1 April	28,732	29,124	38,255	38,255
Cash and cash equivalents at 31 March (note 20)	78,793	79,546	28,732	29,124

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1. Basis of preparation

a) General principles

The Statement of Accounts summarises the Authority and the Group's transactions for the 2019/20 financial year and the position as at 31 March 2020. The Authority is required to prepare an Annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code), supported by International Financial Reporting Standards (IFRS).

The Group financial statements have been prepared in accordance with the Code.

b) Basis of preparation

i) Authority Accounts

The accounts have been prepared on a historical cost basis modified by the revaluation of certain categories of non-current assets in accordance with the Code. Income and expenditure are accounted for on an accruals basis (recognised in the period to which they relate) rather than when cash payments are made or received.

ii) Group Accounts

The Code requires local authorities with, in aggregate, material interests in subsidiary and associated companies and joint ventures, to prepare group financial statements.

The Group's financial statements have been prepared using uniform accounting policies and on a historical cost basis modified by the revaluation of certain categories of non-current assets in accordance with the Code and incorporate the financial statements of the Authority and its subsidiaries as at 31 March 2020.

The accounting policies of the subsidiaries have been aligned with the policies of the Authority, for the purposes of Group accounts, where materially different.

c) Going concern

The accounts of the Authority and the Group have been prepared on a going concern basis as it is considered by the Mayor that their activities will continue in operational existence for the foreseeable future by meeting their liabilities as they fall due for payment.

2. Significant accounting policies

a) Consolidation

The accounts of Midlands Development Capital Limited, Midland Metro (Two) Limited, Network West Midlands Limited and West Midlands Development Capital Limited which are subsidiaries of the Authority; and its associate, West Midlands Rail Limited have not been consolidated with those of the Authority because the companies are either dormant and do not hold any assets or liabilities or are not material (see note 18 on investments).

The accounts of Midland Metro Limited and WM5G Limited have been consolidated into the group accounts on a line-by-line basis.

b) Taxation

Corporation, income and capital gains tax

Authority

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

Subsidiaries

Corporation tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the Comprehensive Income and Expenditure Statement except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except as otherwise indicated. The recognition of deferred tax assets is limited to the extent that it is probably that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is calculated using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of VAT except:

- Irrecoverable VAT on the purchase of assets or services is recognised as an expense in the income statement.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from HMRC, or payable to the Authority and the Group is included as part of receivables or payables in the Balance Sheet.

c) Income

Revenue grants and other funding income is recognised on an accruals basis where there is reasonable assurance that the income will be received and all attached conditions have been complied with.

Income arising from ticket sales is recognised when the services are transferred to the service recipient in accordance with the performance obligations in the contract.

d) Government grants and other contributions

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

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

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

e) Revenue expenditure funded from capital under statute

Revenue expenditure funded from capital under statute (REFCUS) is expenditure of a capital nature that does not result in the creation of a non-current asset on the Balance Sheet.

- As part of its policy of improving and co-ordinating public transport within the area, the Authority meets the cost of upgrading transport facilities within the West Midlands. These costs are attributed to tangible assets where possible with the remainder written off to Cost of Services in the year as REFCUS.
- The Authority makes payments of capital grants and contributions to Constituent Authorities and other organisations carrying out economic development and regeneration functions on behalf of the Authority. These are included within REFCUS.

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

f) Pensions scheme

Defined Benefit Pension Scheme

Employees of the Authority are members of the West Midlands Pension Fund. This is a funded defined benefits career average salary statutory scheme administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013 (previously a funded defined benefits final salary statutory scheme). The scheme provides defined benefits to members (e.g. retirement lump sums and pensions) which are earned as employees who worked for the Authority. The fund is valued every three years by a professionally qualified independent actuary.

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

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

Defined Contribution Pension Scheme

Midland Metro Limited and WM5G Limited operate a defined contribution pension plan for their employees. A defined contribution plan is a pension plan under the company pays fixed contributions into a separate entity. Once the contributions have been paid, the company has no further payment obligations.

The contributions are recognised as an expense in the Comprehensive Income and Expenditure Statement when they fall due. Amounts not paid are shown in creditors as a liability in the Balance Sheet. The assets of the plan are held separately from the company in independently administered funds.

g) Financial assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI)

The Authority's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest.

The financial assets include investments, long-term debtors, trade debtors and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Deposits with original maturities of over three months are classified as short-term investments. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses. For the purpose of the Cashflow Statement, bank overdrafts that are repayable on demand and form an integral part of the Authority and the Group's cash management are included as a component of cash and cash equivalents.

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

Financial assets measured at amortised cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Authority and the Group become a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at amortised cost. Annual credits to the Financing and Investment Income and Expenditure in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Authority and the Group, this means that the amount presented in the Balance Sheet is the outstanding principal amount (plus accrued interest) and interest credited to the CIES is the amount receivable for the year.

Expected credit loss model

The Authority and the Group recognise expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade debtors held by the Authority and the Group.

Impairment losses are calculated to reflect the expectation that the future cash flow might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

The Authority has a Collective Investment Fund portfolio which loans to property developers within the Authority geography. Loss allowances for these loans are assessed on an individual basis.

h) Financial liabilities

Financial liabilities include loans and borrowings and trade creditors. Loans and borrowings consist of bank overdrafts and finance leases.

Financial liabilities are recognised initially at fair value. Subsequent to initial recognition loans and borrowings are measured at amortised cost using the effective interest method. Annual charges for interest payable are made to the Comprehensive Income and Expenditure Statement based on the carrying value of the liability multiplied by the effective rate of interest for the instrument.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Comprehensive Income and Expenditure Statement in the year they occur. Any premium or discount arising on restructuring of the loan portfolio is respectively deducted from or added to the amortised cost of the new or modified loan and charged to the Comprehensive Income and Expenditure Statement over the life of the loan.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance would be managed by a transfer to or from the Financial Instruments Adjustment Account in the Movements in Reserves Statement. In 2019/20, no such transactions have occurred.

Trade creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Comprehensive Income and Expenditure Statement in the period in which it is recognised. For finance leases see note 2(j).

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

i) Property, plant and equipment

Recognition and measurement

Infrastructure and assets under construction are measured at historical cost less accumulated depreciation and/or accumulated impairment losses, if any. Assets classified as infrastructure include bus and railway stations, bus shelters, park and ride sites, trams and Midland Metro infrastructure.

All other assets are measured at current value. Vehicles, plant and equipment are valued at depreciated historical cost as a proxy for current value as they have short useful lives and/or low values. Current value for land and buildings is interpreted by the Code as the amount that would be paid for the asset in its existing use. Valuations are performed frequently to ensure that the current value of a revalued asset does not differ materially from its carrying amount.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. The Authority does not have a de minimis level for capitalisation. Each capital project is reviewed on an individual basis and the costs considered for capitalisation. Non-enhancing expenditure is written off to the Comprehensive Income and Expenditure Statement.

Any revaluation surplus is credited to the Revaluation Reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Comprehensive Income and Expenditure Statement, in which case the increase is recognised in the Comprehensive Income and Expenditure Statement. A revaluation deficit is recognised in the Comprehensive Income and Expenditure Statement, except to the extent that it offsets an existing surplus on the same asset in the Revaluation Reserve.

An annual transfer is made from the Revaluation Reserve to the General Fund for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the assets' original cost. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other operating expenditure. When revalued assets are sold, any revaluation reserve relating to the particular asset is transferred to the General Fund.

Depreciation

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset. Leased assets as identified in note 2 (j) are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. A full year's depreciation is charged in the financial year that the asset becomes operational. No depreciation is charged in the year of disposal.

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

- Buildings 40 years
- Equipment 5 – 40 years
- Midland Metro
 - Infrastructure 10 - 30 years
 - Trams 30 years

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

Midland Metro – future routes

Expenditure, other than land purchase, on other areas of the network will be capitalised once approval for a particular line is received and the development is likely to proceed. Development costs are written off in the year. Land acquired for the expansion of the network is capitalised and included in land, measured at fair value.

Assets under construction

Expenditure in respect of assets which are not yet complete at the reporting date is classified as assets under construction. Upon the asset becoming operational, the expenditure is transferred to property, plant and equipment. In the event that capital expenditure does not directly result in an operational asset, the costs are recognised within the Comprehensive Income and Expenditure Statement.

j) Leases

Leases in terms of which the Authority and the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the Comprehensive Income and Expenditure Statement.

Operating leases are not recognised in the Balance Sheet but charged as an expense in the Comprehensive Income and Expenditure Statement on a straight-line basis over the lease term.

k) Impairment

Non-financial assets

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

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

l) Provisions and contingent liabilities

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

A contingent liability arises where an event has taken place that gives the Authority and the Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

m) Minimum Revenue Provision

Capital Finance Regulations require the Authority to provide for the repayment of long-term capital programme borrowing through a revenue charge in accordance with the Minimum Revenue Provision (MRP) requirements. The MRP policy is detailed within the Treasury Management Strategy and agreed by the Authority prior to the start of the financial year. The approved MRP statement for the current year is:

- For capital expenditure incurred before 1 April 2009 or which in future will be financed by supported borrowing, MRP will be broadly based as being 2% of the underlying Capital Financing Requirement.
- From 1 April 2009 for all capital expenditure met from unsupported or prudential borrowing, MRP will be based on the estimated life of the asset or a depreciation calculation.
- MRP will commence in the financial year after the asset has become operational.
- In relation to the Authority wider Devolution Investment Programme MRP will be charged over the 30 years to 2046/47 in order to repay all the Investment Plan borrowing.

A revenue charge is also made to provide for the repayments of the former West Midlands County Council inherited debt of the Authority.

n) Events After the Reporting Period

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

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

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

o) Prior Period Adjustments and changes in accounting policies

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

3. Critical accounting judgements, estimates and assumptions

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

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

Judgements

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

Group Boundaries

The Authority has a number of interests in other entities which fall within the group boundary (see note 18). Midland Metro Limited and WM5G Limited are deemed to be material and are therefore consolidated into the group accounts.

Going Concern

Local authorities are required by the Code of Practice on Local Authority Accounting 2019/20 to prepare their accounts on a going concern basis, that is that the functions of the Authority will continue to operate for the foreseeable future, as it can only be discontinued under statutory prescription. This is despite the impact of COVID-19 on the financial sustainability of the Authority because the going concern basis and the rationale behind it remains unchanged.

Estimates and assumptions

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

The item in the Balance Sheet at 31 March 2020 for which there is a risk of material adjustment in the forthcoming financial year is as follows:

- **Defined pension benefits:**
The cost of defined benefit pension plans is determined using independent actuarial valuation involving the use of assumptions about discount rates, returns on assets, future salary increases, mortality rates and future pension increases. Such assumptions are reviewed at each period end, and determined jointly between the pension fund management and the actuaries. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next full actuarial valuation and will require a subsequent contribution adjustment to bring the funding back into line with target.

The effects of changes in individual assumptions have been measured by the fund's actuaries in their 2020 IAS 19 valuation report:

- A 0.1% p.a. increase in the discount rate will reduce the pension fund liability by £5.069m.
- A 0.1% p.a. decrease in the discount rate will increase the pension fund liability by £5.165m.
- An increase of life expectancy at retirement by 1 year will increase the pension fund liability by £16.459m.
- A decrease of life expectancy at retirement by 1 year will decrease the pension fund liability by £15.488m.
- 0.1% p.a. increase in inflation will increase the pension fund liability by £4.832m.
- 0.1% p.a. decrease in inflation will decrease the pension fund liability by £4.750m.

4. Accounting Standards issued but not yet adopted

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

The Code requires local authorities to disclose information relating to the impact of an accounting change that will be required by a new standard under the International Financial Reporting Standard (IFRS) that has been issued but not yet adopted by the Code. The accounting standards that are to be introduced in the 2019/20 CIPFA Code of Practice are:

- Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

The amendments are effective for periods beginning on or after 1 January 2019 and they are:

- Paragraph 14A has been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.
- Paragraph 41 has been deleted.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The following standards have been amended and are effective for periods beginning on or after 1 January 2019:

- IFRS 3 Business Combinations – clarified that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.
- IFRS 11 Joint Arrangements – clarified that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes – clarified that the requirements in the former paragraph 52B (to recognise the income tax consequences of dividends where the transactions or events that generated distributable profits are recognised) apply to all income tax consequences of dividends by moving the paragraph away from paragraph 52A that only deals with situations where there are different tax rates for distributed and undistributed profits.

- iv) IAS 23 Borrowing Costs – clarified that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

The amendments are effective for periods beginning on or after 1 January 2019 and they are:

- i) If a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.
- ii) Amendments have been included to clarify the effect of plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

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

5. Expenditure and Funding Analysis - Authority

(a) Expenditure and Funding Analysis

The Expenditure and Funding analysis shows how annual expenditure is used and funded from resources (transport levy, government grants, constituent and non-constituent contributions) by the Authority in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Authority's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

	As reported for resource management (notes 7 - 11) £'000	Adjustments to arrive at amounts chargeable to the General Fund		Net expenditure chargeable to the General Fund £'000	Adjustments between funding and accounting basis (note 5b) £'000	2019/2020
		Reserves Transfer £'000	Financing £'000			Net expenditure in the Comprehensive Income and Expenditure Statement £'000
Transport services (note 7)	114,740	(6,503)	(8,432)	99,805	51,536	151,341
Combined Authority other services (note 8)	6,217	(529)	-	5,688	(12,214)	(6,526)
Investment Programme (note 9)	42,569	(26,658)	(62)	15,849	52,732	68,581
Mayor's office (note 10)	-	(52)	-	(52)	-	(52)
Cost of services	163,526	(33,742)	(8,494)	121,290	92,054	213,344
Other operating expenditure	-	-	-	-	325	325
Financing and investment income and expenditure	(1,252)	-	8,494	7,242	1,201	8,443
Taxation and non-specific grant income and expenditure	(162,292)	-	-	(162,292)	(89,992)	(252,284)
(Surplus) or deficit on provision of services	(18)	(33,742)	-	(33,760)	3,588	(30,172)
Opening General Fund balance				(2,284)		
Transfers to/from Earmarked Reserves				33,742		
Closing General Fund balance				(2,302)		

NOTES TO THE ACCOUNTS Continued

	As reported for resource management (notes 7 - 11) £'000	Adjustments to arrive at amounts chargeable to the General Fund		Net expenditure chargeable to the General Fund £'000	Adjustments between funding and accounting basis (note 5b) £'000	Net expenditure in the Comprehensive Income and Expenditure Statement £'000
		Reserves Transfer £'000	Financing £'000			
		2018/2019 (restated)				
Transport services (note 7)	114,779	(4,741)	(7,853)	102,185	37,048	139,233
Combined Authority other services (note 8)	5,515	420	1,187	7,122	(1,012)	6,110
Investment Programme (note 9)	41,593	(10,095)	(1,348)	30,150	4,169	34,319
Mayor's office (note 10)	-	223	-	223	-	223
Cost of services	161,887	(14,193)	(8,014)	139,680	40,205	179,885
Other operating expenditure	-	-	-	-	298	298
Financing and investment income and expenditure	(823)	-	8,014	7,191	1,266	8,457
Taxation and non-specific grant income and expenditure	(161,053)	-	-	(161,053)	(66,317)	(227,370)
(Surplus) or deficit on provision of services	11	(14,193)	-	(14,182)	(24,548)	(38,730)
Opening General Fund balance				(2,295)		
Transfers to/from Earmarked Reserves				14,193		
Closing General Fund balance				(2,284)		

(b) Note to the Expenditure and Funding Analysis

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

Adjustments for 2019/20

	Adjustments for capital purposes				Pensions adjustments £'000	Accumulated Absences Account £'000	Total adjustments £'000
	Depreciation/ revaluation/ loss on disposal £'000	REFCUS £'000	Grants/ contributions £'000	Financing £'000			
	Transport services	18,607	32,968	(2,894)			
Combined Authority other services	-	-	(13,279)	-	1,065	-	(12,214)
Investment Programme	-	60,890	-	(8,158)	-	-	52,732
Mayor's office	-	-	-	-	-	-	-
Net cost of services	18,607	93,858	(16,173)	(10,166)	5,799	129	92,054
Other operating expenditure	325	-	-	-	-	-	325
Financing and investment income and expenditure	-	-	-	-	1,201	-	1,201
Taxation and non-specific grant income and expenditure	-	-	(89,992)	-	-	-	(89,992)
(Surplus) or deficit on provision of services	18,932	93,858	(106,165)	(10,166)	7,000	129	3,588

NOTES TO THE ACCOUNTS Continued

The methodology for allocating pensions adjustments between services reflects the underlying activity. Prior year comparatives have been adjusted to allocate £0.638m to Combined Authority other services to ensure consistency in the treatment across both years i.e. 2018/19 and 2019/20.

Comparatives for 2018/19 (restated)

	Adjustments for capital purposes				Pensions adjustments £'000	Accumulated Absences Account £'000	Total adjustments £'000
	Depreciation/ revaluation/ loss on disposal	REFCUS	Grants/ contributions	Financing			
	£'000	£'000	£'000	£'000			
Transport services	13,040	22,253	1,557	(3,519)	3,655	62	37,048
Combined Authority other services	-	-	(1,650)	-	638	-	(1,012)
Investment Programme	-	31,778	-	(27,609)	-	-	4,169
Mayor's office	-	-	-	-	-	-	-
Net cost of services	13,040	54,031	(93)	(31,128)	4,293	62	40,205
Other operating expenditure	298	-	-	-	-	-	298
Financing and investment income and expenditure	-	-	-	-	1,266	-	1,266
Taxation and non-specific grant income and expenditure	-	-	(66,317)	-	-	-	(66,317)
(Surplus) or deficit on provision of services	13,338	54,031	(66,410)	(31,128)	5,559	62	(24,548)

Depreciation - charges for depreciation of non-current assets, revaluation and loss on disposal of property, plant and equipment are chargeable to the Comprehensive Income and Expenditure Statement under proper accounting practices.

REFCUS - revenue expenditure funded from capital under statute is added to services lines as it is chargeable to Cost of Services under proper accounting practices. Also included within REFCUS are amounts written off to Cost of Services in respect of capital development schemes.

Grants/contributions - revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is also credited with capital grants receivable and payable in the year without conditions or for which conditions were satisfied in the year.

Financing - the statutory charges for capital financing i.e. Minimum Revenue Provision, debt repayment and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Pensions adjustments - the adjustment to transport services represents the removal of the employer contributions made by the Authority as allowed by statute and the replacement with current service costs and past service costs calculated under accepted accounting practices (IAS 19). The adjustment to Financing and investment income and expenditure is the net interest on the defined benefit liability charged to the Comprehensive Income and Expenditure Statement under IAS 19.

Accumulated absences account – the adjustment for the removal of the accrued element of short-term accumulating compensated absences (for example holiday pay) to the salaries actually payable in the financial year in accordance with relevant statutory provisions that allow authorities to adjust the effect of accounting for benefits on the General Fund in the Movement in Reserves Statement, via the use of an Accumulated Absences Account.

6. Expenditure and income analysed by nature

The Authority's expenditure and income is analysed as follows:

	Authority	
	2019/20	2018/19
	£'000	£'000
Expenditure		
Employee benefits expenses	25,247	21,422
Other service expenses	194,386	117,609
Pension	7,800	6,359
Depreciation, amortisation and impairment	18,607	13,040
REFCUS	93,858	54,031
Loss on disposal of non-current assets	325	298
Interest payments	9,504	8,894
	349,727	221,653
Income		
Fees and charges and other service income	(15,338)	(15,495)
Government revenue grants and contributions	(146,515)	(52,315)
Local Authority business rates growth and contributions	(11,072)	(9,833)
Levies	(114,720)	(114,720)
Capital grants and contributions (net of payments)	(89,992)	(66,317)
Interest and investment income	(2,262)	(1,703)
	(379,899)	(260,383)
Surplus on provision of services	(30,172)	(38,730)

7. Transport services

An analysis of the Authority's income and expenditure by activity for the year is as follows:

Analysis for 2019/20	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Concessions	60,437	(88)	60,349
Bus Services	30,733	(9,333)	21,400
Rail and Metro Services	9,585	(5,725)	3,860
Integration	8,286	(2,021)	6,265
Network Resilience	1,324	(36)	1,288
Business Support Costs	3,878	(111)	3,767
Policy and Strategy and Elected Member Services	3,172	(683)	2,489
LSTF/Midlands Connect Programmes	6,527	(6,527)	-
Finance Charges	11,463	-	11,463
Reserves transfer - approved contribution to 2020-21 budget	3,859	-	3,859
As reported to management (note 5)	139,264	(24,524)	114,740
Adjustments to arrive at amounts chargeable to the General Fund	(14,935)	-	(14,935)
Adjustments between funding and accounting basis (note 5b)	54,430	(2,894)	51,536
Per Comprehensive Income and Expenditure Statement	178,759	(27,418)	151,341

Comparatives for 2018/19	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Concessions	63,668	(131)	63,537
Bus Services	29,605	(7,400)	22,205
Rail and Metro Services	10,127	(6,405)	3,722
Integration	8,330	(2,472)	5,858
Network Resilience	893	(32)	861
Business Support Costs	3,416	(93)	3,323
Policy and Strategy and Elected Member Services	3,097	(583)	2,514
LSTF/Midlands Connect/BBAF Programmes	8,716	(8,716)	-
Finance Charges	12,759	-	12,759
As reported to management (note 5)	140,611	(25,832)	114,779
Adjustments to arrive at amounts chargeable to the General Fund	(12,594)	-	(12,594)
Adjustments between funding and accounting basis (note 5b)	35,491	1,557	37,048
Per Comprehensive Income and Expenditure Statement	163,508	(24,275)	139,233

Explanation for the major movements can be found in section 7 of the Narrative Report.

The Authority manages and administers two public transport ticketing schemes in the West Midlands on behalf of bus, tram and rail operators. The nNetwork scheme is a ticketing scheme which allows holders of tickets to travel on bus, rail and tram services within the West Midlands. The nBus & nBus/Metro schemes are ticketing schemes covering majority of bus services within the West Midlands and the Midland Metro (tram).

The Authority receives revenues from ticket sales which are then pooled and distributed to operators net of commission based on passenger journeys. Net amounts to operators during the year amounted to £26.2m (2019: £29.5m).

8. Combined Authority other services

During the year, the line items were amended to reflect how the financial performance is managed and reported. The comparatives have been reclassified according to these new line items.

Analysis for 2019/20	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Economy and Innovation	1,760	(768)	992
Environment and Energy	255	(76)	179
Culture and Digital	438	(342)	96
Public Service Reform	466	(49)	417
Wellbeing	2,141	(1,595)	546
Housing and Land	2,071	(2,071)	-
Inclusive Communities	72	(68)	4
Skills and Productivity	79,362	(78,883)	479
Leadership and Corporate Support	2,984	-	2,984
Reserves transfer - approved contribution to 2020-21 budget	520	-	520
As reported to management (note 5)	90,069	(83,852)	6,217
Adjustments to arrive at amounts chargeable to the General Fund	(529)	-	(529)
Adjustments between funding and accounting basis (note 5b)	1,065	(13,279)	(12,214)
Per Comprehensive Income and Expenditure Statement	90,605	(97,131)	(6,526)

Comparatives for 2018/19	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Economy and Innovation	1,653	(579)	1,074
Environment and Energy	150	-	150
Public Service Reform	638	(159)	479
Wellbeing	818	(433)	385
Housing and Land	1,142	(999)	143
Skills and Productivity	2,035	(1,571)	464
Leadership and Corporate Support	2,861	(41)	2,820
5G	2,200	(2,200)	-
As reported to management (note 5)	11,497	(5,982)	5,515
Adjustments to arrive at amounts chargeable to the General Fund	420	1,187	1,607
Adjustments between funding and accounting basis (note 5b)	638	(1,650)	(1,012)
Per Comprehensive Income and Expenditure Statement	12,555	(6,445)	6,110

Amounts reported for Skills and Productivity included the Adult Education Budget are as follows:

		Gross	Gross	Net
		Expenditure	Income	Expenditure
		£'000	£'000	£'000
Adult Education Budget	2019/20	71,478	(71,515)	(37)
	2018/19	-	-	-

Explanation for the major movements can be found in section 7 of the Narrative Report.

9. Investment programme

Analysis for 2019/20	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Revenue costs of project and programme delivery	5,374	-	5,374
Programme resource	2,318	-	2,318
Investment programme financing costs	36,107	-	36,107
Interest income	-	(1,230)	(1,230)
As reported to management (note 5)	43,799	(1,230)	42,569
Adjustments to arrive at amounts chargeable to the General Fund	(27,950)	1,230	(26,720)
Adjustments between funding and accounting basis (note 5b)	52,732	-	52,732
Per Comprehensive Income and Expenditure Statement	68,581	-	68,581

Comparatives for 2018/19	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Revenue costs of project and programme delivery	2,035	-	2,035
Programme resource	1,694	-	1,694
Investment programme financing costs	39,103	-	39,103
Interest income	-	(1,239)	(1,239)
As reported to management (note 5)	42,832	(1,239)	41,593
Adjustments to arrive at amounts chargeable to the General Fund	(12,682)	1,239	(11,443)
Adjustments between funding and accounting basis (note 5b)	4,169	-	4,169
Per Comprehensive Income and Expenditure Statement	34,319	-	34,319

The methodology of analysing between categories as reported to management has changed this year to better reflect the underlying activity. Consequently, prior year comparatives have been adjusted accordingly to ensure consistency across both years i.e. in 2018/19 and 2019/20. The amounts as reported to management remain unchanged.

10. Mayor's office

Analysis for 2019/20	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Staff	676	-	676
Premises and services	57	-	57
Promotions, information and initiatives	2	-	2
Travel and subsistence	17	-	17
Grants and other contributions	-	(804)	(804)
Use of reserves	52	-	52
As reported to management (note 5)	804	(804)	-
Adjustments to arrive at amounts chargeable to the General Fund	(52)	-	(52)
Adjustments between funding and accounting basis (note 5b)	-	-	-
Per Comprehensive Income and Expenditure Statement	752	(804)	(52)

Comparatives for 2018/19	Authority		
	Gross	Gross	Net
	Expenditure	Income	Expenditure
	£'000	£'000	£'000
Staff	671	-	671
Premises and services	91	-	91
Promotions, information and initiatives	36	(32)	4
Travel and subsistence	15	-	15
Grants and other contributions	-	(558)	(558)
Use of reserves	-	(223)	(223)
As reported to management (note 5)	813	(813)	-
Adjustments to arrive at amounts chargeable to the General Fund	-	223	223
Adjustments between funding and accounting basis (note 5b)	-	-	-
Per Comprehensive Income and Expenditure Statement	813	(590)	223

11. Other operating expenditure

	Authority 2019/20 £'000	Group 2019/20 £'000	Authority 2018/19 £'000	Group 2018/19 £'000
Loss on disposal of property, plant and equipment	325	325	298	298
Total	325	325	298	298

The loss on disposal of property, plant and equipment relates to the ongoing replacement of bus shelters which have been funded by grants.

12. Financing and investment income and expenditure

	Authority 2019/20 £'000	Group 2019/20 £'000	Authority 2018/19 £'000	Group 2018/19 £'000
Interest payable and similar charges on borrowings:				
PWLB	5,752	5,752	6,648	6,648
Barclays	402	402	403	403
Interest payable on the former transferred debt	429	429	443	443
Impairment loss allowance (notes 18, 19 and 30)	2,921	1,291	1,400	1,400
Net interest on the net defined benefit liability (note 28)	1,201	1,201	1,266	1,266
	10,705	9,075	10,160	10,160
Interest receivable and similar income	(1,006)	(1,021)	(463)	(465)
Other investment income	(1,256)	(1,256)	(1,240)	(1,240)
Total	8,443	6,798	8,457	8,455

Other investment income relates to the loan interest income from the Collective Investment Fund (see note 18).

Impairment loss allowance relates to potential losses recognised on the Collective Investment Fund and the loan to Midland Metro Limited, in accordance with the requirement of IFRS 9 Financial Instruments. The loss allowance includes consideration for the impact of COVID-19 (see notes 18 and 19).

13. Government and other grant income

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement of the Authority:

	Authority	
	2019/20 £'000	2018/19 £'000
Revenue grants and contributions credited to cost of services		
Adult Education Budget	79,195	197
Bus Service Operator Grant	1,999	1,929
Construction Skills	11,480	719
Housing Package	1,806	890
Mayoral Capacity Fund	1,000	1,000
Midlands Connect Programme	7,274	7,258
Other	7,261	3,822
Total	110,015	15,815

NOTES TO THE ACCOUNTS Continued

	Authority	
	2019/20	2018/19
	£'000	£'000
Grants and contributions credited to taxation and non-specific grant income		
Transport levy from the West Midlands districts*	114,720	114,720
Gainshare contribution - MHCLG	36,500	36,500
Business rates growth	6,003	4,764
Constituent, non-constituent and observers membership fees and contributions*	5,069	5,069
Capital grants and contributions	125,266	100,442
Gross income	287,558	261,495
Capital grants paid	(35,274)	(34,125)
Total	252,284	227,370

*An analysis of the transport levy and constituent and non-constituent member membership fees and contributions by district is shown in note 34 Related party disclosures.

The Authority receives grants from the DfT which it administers and passes onto district partners. This expenditure does not form part of the Authority's capital programme but is included within taxation and non-specific grant income and expenditure.

The Authority has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the giver. These are recognised in the Balance Sheet as grants receipts in advance until such time as the conditions are met. The balances at the year-end are shown below:

	Authority	
	2020	2019
	£'000	£'000
Grants received in advance - capital		
Clean Bus Technology	1,764	5,428
Future Mobility Zones	18,265	-
Local Transport Fund	1,729	2,756
Joint Air Quality	1,133	3,168
Land Fund	41,286	-
Local Authority Major Project	-	7,801
Local Growth Fund	2,100	1,079
Midlands Connect	2,000	2,000
Transforming Cities Fund	28,674	-
Other grants less than £2m	5,653	526
	102,604	22,758
Grants received in advance - revenue		
Adult Education Budget	-	109
Bus Service Operator Grant	627	913
Construction Skills	-	1,137
Employment Support Pilot	3,012	3,071
Housing Package	3,146	2,952
Midlands Connect	1,642	3,917
Other	423	524
	8,850	12,623

In light of the COVID-19 pandemic, grants and contributions are expected to continue to be receivable from the awarding body in accordance with the terms and conditions of the grant or funding agreement.

14. Officers' remuneration

The remuneration paid to the Authority's senior employees was as follows:

		Salary, fees and allowances £'000	Pension contributions £'000	Total Authority £'000
WMCA Staff				
Chief Executive	2019/20	195	31	226
	2018/19	191	28	219
Clerk to the WMCA and Monitoring Officer	2019/20	94	15	109
	2018/19	92	13	105
Director of Housing and Regeneration	2019/20	114	18	132
	2018/19	112	16	128
Director of Finance ¹	2019/20	-	-	-
	2018/19	91	13	104
Director of Investment and Commercial Activities ²	2019/20	111	17	128
	2018/19	-	-	-
Director of Public Service Reform ³	2019/20	82	13	95
	2018/19	120	17	137
Director of Productivity and Skills	2019/20	126	20	146
	2018/19	118	17	135
Director of Strategic Communications and Public Affairs ⁴	2019/20	115	18	133
	2018/19	50	7	57
Director of Strategy	2019/20	121	20	141
	2018/19	113	17	130
Finance Director ¹	2019/20	110	17	127
	2018/19	22	3	25
Managing Director, Transport for West Midlands	2019/20	133	21	154
	2018/19	125	18	143
Mayoral Team				
Mayor	2019/20	79	-	79
	2018/19	79	-	79
Deputy Mayor ⁵	2019/20	-	-	-
	2018/19	-	-	-
Chief of Staff ⁶	2019/20	67	10	77
	2018/19	82	12	94

¹ Director of Finance resigned in December 2018 and an Interim Finance Director was appointed on a temporary basis until the appointment of a new Finance Director in June 2019. Therefore, the pay does not reflect a full year's salary.

² This is a new post and the Director of Investment and Commercial Activities was appointed in April 2019. Therefore, the pay does not reflect a full year's salary.

NOTES TO THE ACCOUNTS Continued

³ Director of Public Service Reform resigned in November 2019. Therefore, the pay does not reflect a full year's salary. The title was renamed to Director of Inclusive Growth & Public Service Reform and this post was appointed in April 2020.

⁴ The post was newly appointed in 2018/19, therefore the pay does not reflect a full year's salary.

⁵ Deputy Mayor did not receive any remuneration from the Authority and no amount was re-charged from other District Authorities for his service during the period.

⁶ Chief of Staff resigned in January 2020, therefore the pay does not reflect a full year's salary.

The Authority's other employees receiving more than £50,000 remuneration which includes exit packages for the year (excluding pension contributions) were paid the following amounts:

	2020	Authority 2019
£50,000 - £54,999	31	35
£55,000 - £59,999	28	17
£60,000 - £64,999	5	14
£65,000 - £69,999	16	8
£70,000 - £74,999	3	2
£75,000 - £79,999	6	2
£80,000 - £84,999	1	4
£85,000 - £89,999	6	1
£90,000 - £94,999	1	-
£95,000 - £99,999	2	2
£100,000 - £104,999	2	2
£105,000 - £109,999	-	-
£110,000 - £114,999	1	-
£115,000 - £119,999	1	-
£120,000 - £134,999*	-	-
£140,000 - £144,999	-	1

* there were no employees within these bands

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

Cost band (including special payments)	Compulsory redundancies		Total exit packages		Total cost of packages in each band	
	2020	2019	2020	2019	2020	2019
	No.	No.	No.	No.	£'000	£'000
£0 - £20,000	4	16	4	16	29	173
£20,001 - £40,000	3	4	3	4	78	112
£40,001 - £60,000	1	-	1	-	49	-
£60,001 - £80,000	-	2	-	2	-	153
£80,001 - £100,000	-	-	-	-	-	-
£100,001 +	-	1	-	1	-	119
	8	23	8	23	156	557

15. Members' allowances

	Authority and Group	
	2020	2019
	£'000	£'000
Allowances	127	125
Expenses	3	5
Total	130	130

16. External audit costs

Charges relating to work undertaken by the external auditors:

	Authority	Group	Authority	Group
	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	47	74	47	63
Fees payable in respect of other services provided by external auditors during the year	-	2	-	-
Total	47	76	47	63

17. Property, plant and equipment

Infrastructure assets comprise bus and railway stations, park and ride sites and the Midland Metro system including trams. Other land and buildings include the head office at Summer Lane and non-operational land acquired for the future expansion of park and ride sites and the Midland Metro.

Assets under construction largely consists of expenditure on the construction of the Midland Metro extension and assets acquired under the Land Fund pending completion of remediation works.

Ring and Ride vehicles with a carrying value of £1.555m previously included in vehicles, plant and equipment in the Balance Sheet in accordance with IFRIC 4 were derecognised in 2018/19 as they no longer met the requirements of IFRIC 4.

NOTES TO THE ACCOUNTS Continued

Movements in 2019/20 Authority	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Authority
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2019	3,559	37,155	346,199	128,520	515,433
Additions - capital programme	-	1,985	733	98,271	100,989
Transfers	-	325	87,054	(87,379)	-
Transfers to provision of services	-	-	-	(139)	(139)
Depreciation reversed on revaluation	-	-	-	-	-
Disposals	-	-	(1,384)	-	(1,384)
At 31 March 2020	3,559	39,465	432,602	139,273	614,899
Accumulated depreciation					
At 1 April 2019	-	24,733	149,308	-	174,041
Charge for the year	87	2,060	16,460	-	18,607
Depreciation reversed on revaluation	-	-	-	-	-
Disposals	-	-	(1,059)	-	(1,059)
At 31 March 2020	87	26,793	164,709	-	191,589
Net book value					
At 31 March 2020	3,472	12,672	267,893	139,273	423,310
At 31 March 2019	3,559	12,422	196,891	128,520	341,392

Group	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Group
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2019	3,559	37,446	346,199	128,520	515,724
Additions - capital programme	-	1,985	733	98,271	100,989
Additions - other	-	307	-	-	307
Transfers	-	325	87,054	(87,379)	-
Transfers to provision of services	-	-	-	(139)	(139)
Depreciation reversed on revaluation	-	-	-	-	-
Disposals	-	-	(1,384)	-	(1,384)
At 31 March 2020	3,559	40,063	432,602	139,273	615,497
Accumulated depreciation					
At 1 April 2019	-	24,830	149,308	-	174,138
Charge for the year	87	2,203	16,460	-	18,750
Depreciation reversed on revaluation	-	-	-	-	-
Disposals	-	-	(1,059)	-	(1,059)
At 31 March 2020	87	27,033	164,709	-	191,829
Net book value					
At 31 March 2020	3,472	13,030	267,893	139,273	423,668
At 31 March 2019	3,559	12,616	196,891	128,520	341,586

NOTES TO THE ACCOUNTS Continued

Comparative movements in 2018/19 Authority	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Authority
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2018	3,576	44,360	346,559	68,755	463,250
Additions - capital programme	-	1,166	632	59,765	61,563
Revaluation increase recognised in the provision of services	447	-	-	-	447
Depreciation reversed on revaluation	(464)	-	-	-	(464)
Disposals	-	-	(992)	-	(992)
Derecognition - Ring & Ride vehicles	-	(8,371)	-	-	(8,371)
At 31 March 2019	3,559	37,155	346,199	128,520	515,433
Accumulated depreciation					
At 1 April 2018	391	29,753	138,384	-	168,528
Charge for the year	73	1,796	11,618	-	13,487
Depreciation reversed on revaluation	(464)	-	-	-	(464)
Disposals	-	-	(694)	-	(694)
Derecognition - Ring & Ride vehicles	-	(6,816)	-	-	(6,816)
At 31 March 2019	-	24,733	149,308	-	174,041
Net book value					
At 31 March 2019	3,559	12,422	196,891	128,520	341,392
At 31 March 2018	3,185	14,607	208,175	68,755	294,722

Group	Land and buildings	Vehicles, plant and equipment	Infra-structure assets	Assets under construction	Total Group
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 April 2018	3,576	44,360	346,559	68,755	463,250
Additions - capital programme	-	1,166	632	59,765	61,563
Additions - other	-	291	-	-	291
Revaluation increase recognised in the provision of services	447	-	-	-	447
Depreciation reversed on revaluation	(464)	-	-	-	(464)
Disposals	-	-	(992)	-	(992)
Derecognition - Ring & Ride vehicles	-	(8,371)	-	-	(8,371)
At 31 March 2019	3,559	37,446	346,199	128,520	515,724
Accumulated depreciation					
At 1 April 2018	391	29,753	138,384	-	168,528
Charge for the year	73	1,893	11,618	-	13,584
Depreciation reversed on revaluation	(464)	-	-	-	(464)
Disposals	-	-	(694)	-	(694)
Derecognition - Ring & Ride vehicles	-	(6,816)	-	-	(6,816)
At 31 March 2019	-	24,830	149,308	-	174,138
Net book value					
At 31 March 2019	3,559	12,616	196,891	128,520	341,586
At 31 March 2018	3,185	14,607	208,175	68,755	294,722

Revaluations

Land and buildings are revalued at least every five years at current value and a full valuation was carried out as at 31 March 2019. This valuation was carried out by Bruton Knowles in accordance with the Practice Statements in the Valuation Standards (The Red Book) published by The Royal Institution of Chartered Surveyors. Current value is determined by reference to market-based evidence. This means that valuations performed by the valuer are based on active market prices adjusted for any difference in the nature, location or condition of the asset.

Between valuations, a desktop review is carried out by independent valuers for indications of material changes to values and adjustments are made to the carrying value of assets as appropriate.

Authority	Land and buildings	Vehicles, plant and equipment	Infra- structure assets	Assets under construction	Total Authority
	£'000	£'000	£'000	£'000	£'000
Carried at historical cost	-	-	-	139,273	139,273
Carried at depreciated historical cost	-	39,465	432,602	-	472,067
Valued at current value as at:					
31 March 2020	-	-	-	-	-
31 March 2019	3,559	-	-	-	3,559
31 March 2018	-	-	-	-	-
31 March 2017	-	-	-	-	-
31 March 2016	-	-	-	-	-
Total cost or valuation	3,559	39,465	432,602	139,273	614,899

Capital commitments

At 31 March 2020, the Authority has entered into a number of contracts for the construction or enhancement of property, plant and equipment and future years for £51.6m (2019: £7.5m). The major commitments are listed in the table below:

	2020 £'000	2019 £'000
Longbridge Connectivity Package	806	3,013
Metro Third Generation Trams	49,880	-
Metro Catenary Free	953	4,503
	51,639	7,516

18. Investments

	Long-term		Current		Authority and Group	
	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000
Loans investments - Collective						
Investment Fund	6,652	7,598	9,127	11,741	15,779	19,339
Loss allowance	(1,559)	(658)	(1,132)	(742)	(2,691)	(1,400)
Loans investments - Collective						
Investment Fund	5,093	6,940	7,995	10,999	13,088	17,939
Investments in subsidiaries	-	-	-	-	-	-
Short-term deposits	-	-	-	10,000	-	10,000
Total	5,093	6,940	7,995	20,999	13,088	27,939

The Collective Investment Fund is a fund of investments held by the Authority which provides loans to property developers to support the acceleration of commercial property developments within the West Midlands region. The Fund was originally managed by Birmingham City Council on behalf of the Authority and was transferred to the Authority in October 2018.

The loss allowance is assessed on an individual basis (see accounting policy - note 2 (g)) and recognised in the Comprehensive Income and Expenditure (see note 12). This loss allowance also includes potential losses for the impact of COVID-19.

The Authority has interests in the following entities which were incorporated in England.

	Ownership	Share capital	Nature of business
Midlands Development Capital Limited	100%	£100	Dormant
Midland Metro Limited	100%	£100	Trading
Midland Metro (Two) Limited	100%	£100	Dormant
Network West Midlands Limited	100%	£100	Dormant
West Midlands Development Capital Limited	100%	£100	Trading
WM5G Limited	100%	n/a - limited by guarantee	Trading
West Midlands Growth Company Limited	5%	n/a - limited by guarantee	Trading
West Midlands Rail Limited	50%	n/a - limited by guarantee	Trading

Midlands Development Capital Limited was incorporated under the Companies Act 2006 as a private limited company on 27 March 2017.

Midland Metro Limited was incorporated under the Companies Act 2006 as a private limited company on 24 August 2017.

Midland Metro (Two) Limited was incorporated under the Companies Act 1985 as a private limited company on 16 March 1988. The company was dissolved on 10 March 2020.

Network West Midlands Ltd was incorporated under the Companies Act 1985 as a private limited company on 31 July 2000.

West Midlands Development Capital Limited was incorporated under the Companies Act 2006 as a private limited company on 8 May 2017.

WM5G Limited was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 26 February 2019. The company started trading in April 2020.

NOTES TO THE ACCOUNTS Continued

West Midlands Rail Ltd was incorporated under the Companies Act 2006 as a private limited company (limited by guarantee) on 10 April 2014.

19. Short-term debtors

	2020		2019	
	Authority £'000	Group £'000	Authority £'000	Group £'000
Loans to group undertakings	1,630	-	-	-
Loss allowance	(1,630)	-	-	-
Loans to group undertakings	-	-	-	-
Trade debtors and accrued income	31,300	33,573	22,105	21,450
Other debtors	2,167	2,337	4,073	4,378
Prepayments	9,636	11,156	10,152	11,067
Total	43,103	47,066	36,330	36,895

Included within trade debtors and accrued income are monies owed in respect of grant funding claims, business rates growth and also monies owed from operators for ticketing. Prepayments consist of prepayments for concessions to operators and capital prepayments for the Midland Metro extension. Other debtors consist of amounts recoverable for VAT.

The loss allowance relates to potential losses recognised in the Comprehensive Income and Expenditure (see note 12) for the impact of COVID-19.

20. Cash and cash equivalents

	2020		Carrying amount 2019	
	Authority £'000	Group £'000	Authority £'000	Group £'000
Cash at bank and in hand	343	546	82	474
Short-term deposits	78,450	79,000	28,650	28,650
Total	78,793	79,546	28,732	29,124

Daily cash balances are invested overnight. The balance at 31 March 2020 represents monies held on deposit as at 31 March 2020 to be repaid on the next available banking day. Interest is earned at the respective short-term deposit rates.

21. Borrowing

	Authority and Group	
	2020	2019
	£'000	£'000
Lender		
Public Works Loan Board (PWLB)	113,778	119,099
Barclays	10,000	10,000
Accrued interest payable	1,678	1,808
Total	125,456	130,907
Maturity		
Principal and accrued interest due within one year	7,024	7,136
1 - 2 years	354	5,340
2 - 5 years	1,148	1,104
5 - 10 years	12,237	2,152
Over 10 years	104,693	115,175
Principle due after more than one year	118,432	123,771
Total	125,456	130,907

The Group adopts a low risk treasury management approach seeking to maximise low interest loans when the opportunity arises. During the year, the Group did not undertake any new short-term borrowing (2019: nil). The amount of fixed rate debt is 100% (2019: 100%) with no variable rate debt (2019: nil).

Historically, the majority of Group borrowing has been undertaken through Public Works Loan Board (PWLB); which is essentially HM Treasury. In October 2019, PWLB increased the margin on its standard loans by 1% which was a policy decision aimed at slowing the pace of borrowing by Local Authorities. As such, the Authority continues to review all options to obtain competitively priced debt to fund its Capital programme.

Following the rate rise, the Group is able to access PWLB debt at 180 basis points above the UK Gilt rate. However, the Group was granted, through a competitive process, access to £100m of PWLB borrowing at the Governments Local Infrastructure Rate (Gilts + 60 basis points). The Group expects to begin calling this borrowing down during 2020/21.

During 2005/06 the ITA entered into a £10.0m LOBO ("Lenders Option Borrowers Option") loan with Barclays Bank Plc at 4.03% repayable in 2055/56. In June 2016, Barclays decided to waive its right permanently under the lenders option of the LOBO feature to change interest rates in the future and converted it into a fixed rate loan. No other terms or conditions of the loan were amended and the loan will still mature in June 2055.

22. Short-term creditors

	2020		2019	
	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000
Trade creditors and accruals	69,727	71,998	53,868	55,298
Taxes and social security	711	908	620	801
Payments received on account	2,947	3,047	2,675	2,775
	73,385	75,953	57,163	58,874

Included within trade creditors and accruals are accruals for capital expenditure relating to various projects, amounts due to operators for concessions, subsidised services and ticketing, and sundry accruals for other goods and services. Payments received on account include ticketing income received but not yet paid to operators and advertising income billed in advance.

23. Provisions

Current year movements	Transport	Buildings	Rail	Total
	development	maintenance	services/ insurance	Authority and Group
	£'000	£'000	£'000	£'000
Balance at 1 April 2019	1,259	1,000	1,558	3,817
Additional provision	-	-	184	184
Release of provision	-	-	(917)	(917)
Amounts used	(326)	-	(15)	(341)
Balance at 31 March 2020	933	1,000	810	2,743
Current	933	-	-	933
Long-term	-	1,000	810	1,810
Total	933	1,000	810	2,743

Prior year comparatives	Transport	Buildings	Rail	Total
	development	maintenance	services/ insurance	Authority and Group
	£'000	£'000	£'000	£'000
Balance at 1 April 2018	3,742	1,414	1,392	6,548
Additional provision	-	-	180	180
Amounts used	(2,483)	(414)	(14)	(2,911)
Balance at 31 March 2019	1,259	1,000	1,558	3,817
Current	1,259	-	1,558	2,817
Long-term	-	1,000	-	1,000
Total	1,259	1,000	1,558	3,817

Transport development

This has been provided to meet the Authority's present obligations for the West Midlands regions' transport developments.

Buildings maintenance

This has been provided to meet contractual obligations in respect of the Authority's properties.

Rail services/insurance

This has been provided in order to meet estimated liabilities and risks in relation to local rail services and the net expected costs of claims outstanding, and their administration, relating to the activities of the former West Midlands Passenger Transport Executive as a bus operator prior to 26 October 1986.

24. Transferred debt

This consists of loans inherited from the former West Midlands County Council which are managed by Dudley MBC on behalf of all the West Midlands authorities. When the County Council was disbanded, the loans were nominally distributed amongst the various local government authorities in the West Midlands with the former West Midlands Integrated Transport Authority's share of the loan set at 5.495%. The loan is repayable in annual instalments on an annuity basis with the last instalment due in 2025/26.

	Authority and Group	
	2020	2019
	£'000	£'000
Balance at 1 April	7,185	7,873
Repayment in the year	(757)	(688)
Balance at 31 March	6,428	7,185
Due within one year	833	757
Due over one year	5,595	6,428
Total	6,428	7,185

25. Usable reserves

The purpose of the individual reserves are as follows:

General Fund Balance

The General Fund Balance is a statutory fund which represents funds available to the Authority to meet unexpected short-term requirements. Movements in the General Fund are detailed in the Movement in Reserves Statement.

Earmarked Reserves

Current year movements Authority	Earmarked general fund Authority £'000	Investment programme funding reserve Authority £'000	Unapplied revenue grants Authority £'000	Total Authority £'000
Balance at 1 April 2019	20,172	73,848	2,622	96,642
Receivable in year	-	-	95,449	95,449
Utilised in year	-	-	(79,276)	(79,276)
Net unapplied in year		-	16,173	16,173
Released in year to general reserves	(7,818)	-	-	(7,818)
Transfers in year from general reserves	14,283	27,277	-	41,560
Net transfer (to)/from general reserves	6,465	27,277	-	33,742
Balance at 31 March 2020	26,637	101,125	18,795	146,557

NOTES TO THE ACCOUNTS Continued

Group	Investment			Total Group
	Earmarked	programme	Unapplied	
	general	funding	revenue	
	fund	reserve	grants	
	£'000	£'000	£'000	£'000
Balance at 1 April 2019	20,172	73,848	2,622	96,642
Receivable in year	-	-	95,449	95,449
Utilised in year	-	-	(79,276)	(79,276)
Net unapplied in year	-	-	16,173	16,173
Released in year to general reserves	(7,818)	-	-	(7,818)
Transfers in year from general reserves	15,913	28,982	-	44,895
Net transfer (to)/from general reserves	8,095	28,982	-	37,077
Balance at 31 March 2020	28,267	102,830	18,795	149,892

Prior year comparatives Authority and Group	Investment			Total Authority and Group
	Earmarked	programme	Unapplied	
	general	funding	revenue	
	fund	reserve	grants	
	£'000	£'000	£'000	£'000
Balance at 1 April 2018	14,889	64,938	2,529	82,356
Receivable in year	-	-	2,974	2,974
Utilised in year	-	-	(2,881)	(2,881)
Net unapplied in year	-	-	93	93
Released in year to general reserves	(4,720)	-	-	(4,720)
Transfers in year from general reserves	10,003	8,910	-	18,913
Net transfer (to)/from general reserves	5,283	8,910	-	14,193
Balance at 31 March 2019	20,172	73,848	2,622	96,642

Earmarked general fund

This reserve contains contributions in the year to provide funding to back transport capital programme commitments.

Investment programme funding reserve

This reserve (renamed from Gainshare contribution) contains the Gainshare contribution received from the MHCLG (previously known as DCLG) along with other income sources relating to the Investment Programme including Business Rates Growth where the expenditure has not been incurred at the Balance Sheet date. The funding will be transferred to the General Fund via the Movements in Reserves Statement as the expenditure is incurred.

Unapplied revenue grants

This reserve contains revenue grants that the Authority has received from the DfT in respect of the Local Sustainable Transport Fund and the Midlands Connect Programme where the expenditure has not been incurred at the Balance Sheet date. These grants are transferred to the General Fund via the Movements in Reserves Statement as the expenditure is incurred.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year end.

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	247	247
Transfer to the Capital Receipts Reserve upon receipt of cash from loan repayments under Collective Investment Fund	11,462	12,680
Use of the Capital Receipts Reserve to finance capital expenditure	(11,462)	(12,680)
Closing balance at 31 March	247	247

Profit and Loss Reserve

The Profit and Loss Reserve consolidates the in-year results for subsidiaries. This is kept separate from the General Fund given the specific statutory restrictions that apply to the General Fund.

26. Unusable reserves

The purpose of the individual reserves are as follows:

Revaluation Reserve

The Revaluation Reserve contains the gains made from increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost,
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	6,742	6,953
Difference between current value depreciation and historical cost	(211)	(211)
Closing balance at 31 March	6,531	6,742

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

The account is debited with the cost of acquisition, construction or subsequent costs as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert current and fair value figures to a historical cost basis). The account is credited with capital grants and contributions receivable and amounts set as finance for the costs of acquisition, construction and subsequent costs (MRP).

NOTES TO THE ACCOUNTS Continued

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	96,349	67,617
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and amortisation of non-current assets (note 17)	(18,607)	(13,487)
Revaluation increase recognised in the provision of services (note 17)	-	447
Adjusting amount written out of the Revaluation Reserve (note 26)	211	211
Loss on disposal of property, plant and equipment (note 11)	(325)	(298)
Non-current assets transferred to provision of services (note 17)	(139)	-
Revenue expenditure funded from capital under statute (note 27)	(93,719)	(54,031)
Capital financing applied in the year		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing (note 27)	89,959	66,317
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing in prior years	33	-
Statutory provision for the financing of capital investment charged against the General Fund (MRP - note 27)	400	400
Debt repayment charged against the General Fund (note 24)	757	688
Capital expenditure charged against the General Fund (note 27)	1,683	2,431
Capital expenditure funded by the Gainshare contribution (note 27)	7,326	27,609
Derecognition of Ring & Ride vehicles (note 17)	-	(1,555)
Closing balance at 31 March	83,928	96,349

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the reserve shows the shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	53,070	55,377
Remeasurements (liabilities and assets) (note 28)	(20,168)	(7,866)
Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement (note 28)	9,072	8,828
Employer's pension contributions payable in the year:		
Current year (note 28)	(2,072)	(3,269)
Closing balance at 31 March	39,902	53,070

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, for example annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	367	305
Movement in the year	129	62
Closing balance at 31 March	496	367

27. Capital expenditure and capital financing

The total amount of capital expenditure in the capital programme incurred in the year, together with the resources that have been used to finance it are shown in the tables below.

	Authority and Group	
	2020	2019
	£'000	£'000
Directly delivered capital schemes		
Midland Metro	79,318	64,021
Rail infrastructure	15,668	6,798
Key Routes network	8,361	3,420
Bus infrastructure	7,373	2,579
Land fund	35,607	-
Future Transport Zone	1,614	-
Connected vehicles	3,382	-
Regional Transport Coordination Centre	1,603	-
Other	2,922	2,042
	155,848	78,860
Grants to local authorities	38,860	36,734
Total capital expenditure	194,708	115,594
Property, plant and equipment (note 17)	100,989	61,563
Written off to cost of services - capital development/district schemes	93,719	54,031
	194,708	115,594
Funded by:		
Central Government grants	83,395	56,726
District/Local Enterprise Partnership (LEP) grants and contributions	2,507	9,396
3rd party contributions	4,057	195
Total grants and contributions	89,959	66,317
Gainshare contribution	7,326	27,609
Borrowing	97,423	21,668
	194,708	115,594

Explanations on the performance of the capital programme can be found in section 7 in the Narrative Report.

The Authority has a statutory obligation to make adequate provision to meet its liabilities in respect of capital expenditure financed by external borrowing through a revenue charge (the Minimum Revenue Provision or MRP). The method of calculating the provision is defined by statute and is based on the Authority's underlying Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed below:

	Authority and Group	
	2020	2019
	£'000	£'000
Opening Capital Financing Requirement	257,177	220,152
Capital investment		
Capital programme costs funded by borrowing (note 27)	97,423	21,668
Other capital expenditure funded by borrowing - Collective Investment Fund	7,466	31,556
Sources of finance		
Minimum Revenue Provision (MRP)	(400)	(400)
Use of the Capital Receipts Reserve to finance capital expenditure (note 25)	(11,462)	(12,680)
Transferred debt repayment (note 24)	(757)	(688)
Capital expenditure charged to the General Fund	(1,683)	(2,431)
Capital grants received previously funded through borrowings	(33)	-
Closing Capital Financing Requirement	347,731	257,177
Explanation of movement in year		
Increase in underlying need to borrow (unsupported by government financial assistance)	90,554	37,025
Increase in Capital Financing Requirement	90,554	37,025

28. Pension schemes

Defined benefit pension scheme

Employees of the Authority participate in the West Midlands Pension Fund, a defined benefit career average salary statutory scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. This scheme is administered by the City of Wolverhampton Council in accordance with the Local Government Pension Scheme Regulations 2013 and is governed by the Pensions Committee at the West Midlands Pension Fund.

In general, participating in a defined benefit pension scheme means that the employer is exposed to a number of risks:

- investment risk – the fund holds investment in assets classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges.
- interest rate risk – the fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cash flows. As the fund holds assets such as equities, the value of the assets and liabilities may not move in the same way.
- inflation risk – all of the benefits under the fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation.
- longevity risk – in the event that the members live longer than assumed, a deficit will emerge in the fund. There are also other demographic risks.

An actuarial valuation of this fund was carried out by Barnett Waddingham LLP, an independent firm of actuaries in accordance with the Regulations as at 31 March 2016. Based on the results of this valuation, the actuaries set the Authority's employer contributions for the three years from 1 April 2017 at a primary rate of 15.9% of the current employees' pensionable pay plus £0.8m per annum to meet 100% of the overall fund liabilities. This pension cost has been determined after allowing for the amortisation of the difference between the assets and the accrued liabilities relating to the Authority over the average remaining service lives of the current members of the fund.

Following the latest triennial valuation as at 31 March 2019, the actuaries set the Authority's employer contributions for the three years from 1 April 2020 at a net primary rate of 12.4% of the current employees' pensionable pay. In April 2020 a prepayment of employer's contributions of £9.7m was made for the three years to 2022/23 to take advantage of discounts available.

Disclosures in this note are taken from the actuarial report provided by Barnett Waddingham LLP.

Following the recent McCloud and Sargeant judgement which relate to age discrimination within the Judicial and Fire Pension Schemes respectively, an allowance was made in 2018/19 for the estimated potential impact on the employer's defined benefit obligation based on analysis carried out by the Government Actuary's Department (GAD) and the employer's liability profile. Following government confirmation in a statement by the Chief Secretary to the Treasury on 15 July 2019 that the principles of the outcome would be accepted as applying to all public service schemes, this allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

On the High Court's recent ruling on the equalisation of Guaranteed Minimum Pension (GMP) between genders, the valuation assumption taken by the actuaries is that the West Midlands Pension Fund will pay limited increases for members that have reached State Pension Age (SPA) by 6 April 2016, with the Government providing the remainder of the inflationary increase, and for members that reach SPA after this date, the actuaries have assumed that the West Midlands Pension Fund will be required to pay the entire inflationary increase. Therefore the actuaries do not believe any adjustments to the value placed on the liabilities are needed.

Calculation method

The figures as at 31 March 2020 are based on the 31 March 2019 formal valuation of the fund. Membership data as at 31 March 2019 was used to develop current funding requirements. Liabilities are based on benefit payment and contribution information provided by the fund's administrator as at 31 March 2020. This valuation was carried out by Barnett Waddingham LLP.

Net liability and pension reserve

The net amount recognised on the Balance Sheet at 31 March 2020 is a deficit of £39.902m compared to a deficit of £51.113m at 31 March 2019.

Movement in pension fund liability during the year

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	51,113	50,213
Employer's pension contributions payable in the year:		
Current year	(2,072)	(3,269)
Prepayment for 2019/20	1,957	3,207
Post employment benefit charged to the surplus or deficit on provision of services:		
Current service cost	7,598	6,192
Past service cost	111	1,257
Administration expenses	162	113
Net interest cost	1,201	1,266
Total cost	8,957	8,766
Remeasurements (liabilities and assets)	(20,168)	(7,866)
Closing balance at 31 March	39,902	51,113

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the levy is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Authority and Group	
	2020	2019
	£'000	£'000
Comprehensive Income and Expenditure Statement		
Cost of services		
Current service cost	7,598	6,192
Past service cost	111	1,257
Administration expenses	162	113
Financing and investment income and expenditure		
Net interest cost	1,201	1,266
Total post employment benefit charged to the surplus or deficit on provision of services	9,072	8,828
Remeasurements (liabilities and assets)	(20,168)	(7,866)
Total post employment benefit charged/(credited) to the Comprehensive Income and Expenditure Statement	(11,096)	962

Movement in Reserves Statement

Reversal of net charges made to the surplus or deficit on provision of services for post employment benefits in accordance with the Code	(9,072)	(8,828)
Actual amount charged against the General Fund Balance for pensions in the year	2,072	3,269
	(7,000)	(5,559)

Assets and liabilities in relation to post-employment benefits

	Authority and Group	
	2020	2019
	£'000	£'000
Present value of scheme liabilities	(289,789)	(304,285)
Present value of scheme assets	249,887	253,172
Amounts recognised as liabilities	(39,902)	(51,113)

Reconciliation of present value of the scheme liabilities (defined benefit obligation)

	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	304,285	306,062
Current service cost	7,598	5,596
Interest cost	7,022	7,522
Change in demographic assumptions*	8,847	(16,237)
Change in financial assumptions	(27,334)	11,384
Experience loss on defined benefit obligations	511	-
Liabilities assumed on settlements	-	1,107
Contributions by scheme participants	1,522	1,220
Benefits paid	(12,773)	(13,753)
Past service costs/curtailments	111	1,384
Closing balance at 31 March	289,789	304,285

* the change in demographic assumptions can be found in the valuation assumptions on page 76

Reconciliation of fair value of the scheme assets

Assets	Authority and Group	
	2020	2019
	£'000	£'000
Opening balance at 1 April	253,172	255,849
Interest on plan assets	5,821	6,256
Administration expenses	(162)	(113)
Return on assets less interest	(16,019)	3,013
Other actuarial gains	18,211	-
Employer contributions - current year	2,072	3,269
Employer contributions - prepayment for 2019/20	(1,957)	(3,207)
Contributions by scheme participants	1,522	1,220
Settlement prices received	-	638
Benefits paid	(12,773)	(13,753)
Closing balance at 31 March	249,887	253,172

NOTES TO THE ACCOUNTS Continued

The plan assets at the year-end were as follows:

Authority	2020	2020	2019	2019
	%	£'000	%	£'000
Asset				
Equities	56.9	142,247	59.1	149,638
Gilts	11.6	29,045	9.6	24,322
Other bonds	4.2	10,443	3.9	9,755
Property	8.9	22,226	8.5	21,503
Cash/liquidity	3.6	8,968	3.2	8,018
Other*	14.8	36,958	15.7	39,936
Total	100.0	249,887	100.0	253,172

* mainly consists of private equities, infrastructure, gilt and equity index futures

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

The expected rate of return on plan assets is based on market expectations, at the beginning of the period, for investments returns over the entire life of the related obligation.

	2020	Authority 2019
Valuation assumptions		
Discount rate	2.4%	2.4%
Rate of salary increase	3.0%	4.0%
Rate of pension	2.0%	2.5%
Future life expectancies from age 65		
Retiring today:		
Males	21.9	20.9
Females	24.1	23.2
Retiring in 20 years:		
Males	23.8	22.6
Females	26.0	25.0

It is assumed that:

- members will exchange half of their commutable pension for cash at retirement;
- members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- the proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

The impact of the change in the valuation assumptions is reflected in the five year history table shown below:

Five year history	2016	2017	2018	2019	2020
	£'000	£'000	£'000	£'000	£'000
Present value of liabilities	(316,284)	(318,749)	(306,062)	(304,285)	(289,789)
Fair value of assets in the pension scheme	225,655	261,583	255,849	253,172	249,887
(Deficit)/surplus in the scheme	(90,629)	(57,166)	(50,213)	(51,113)	(39,902)
Difference between the expected and actual return on scheme assets	(7,765)	32,795	(6,041)	3,013	2,192
Percentage of scheme assets	-3.4%	12.5%	-2.4%	1.2%	0.9%
Experience gains and (losses) on scheme liabilities	(12,058)	(28,991)	11,701	(11,384)	26,823
Percentage of scheme liabilities	-3.8%	-9.1%	3.8%	-3.7%	9.3%
Changes in actuarial assumptions	-	9,272	-	16,237	(8,847)
Percentage of scheme liabilities	0.0%	2.9%	0.0%	5.3%	-3.1%
Net actuarial gain/(loss) recognised	(19,823)	13,076	5,660	7,866	20,168
Percentage of scheme liabilities	-6.3%	4.1%	1.8%	2.6%	7.0%
Cumulative actuarial loss recognised	(93,901)	(80,825)	(75,165)	(67,299)	(47,131)

Defined Contribution Pension Scheme – Midland Metro Limited and WM5G Limited

Income Statement

The amounts recognised in Midland Metro's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £155k (2019: £70k).

The amounts recognised in WM5G Limited's Income Statement and consolidated into the Group Comprehensive Income and Expenditure Statement are £15k (2019: £nil).

29. Financial risk management

The Authority's principal financial liabilities comprise trade and other payables. The main purpose of these financial liabilities is to fund the Authority's activities. The Authority has trade and other receivables, and cash, short-term deposits and investments that derive directly from its activities. The Authority does not enter into any derivative transactions.

The Authority is exposed to credit risk, liquidity risk and market risk. Whilst some transactions for Metro operations are executed in Euros, currency risk is not a significant factor for the Authority since it ensures that substantially all financial assets and liabilities are contracted for in Sterling.

The Authority is also exposed to the risk of default against loans made to commercial and residential developers under its investment funds. The Authority negate the risk of default through employing sector specific professional fund managers, full and thorough due diligence on all investments as they pass through the assurance framework and the securing of loans on developer land and assets.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Authority is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks, other financial institutions and local authorities.

NOTES TO THE ACCOUNTS Continued

The Authority manages the credit risk from its financing activities by restricting its exposure with financial institutions to those that are on the official lending list as compiled by the Authority's treasury management advisors. The criteria for these lending lists are set out in the Treasury Management Strategy report and credit ratings monitored constantly through the receipt of credit rating bulletins from its treasury management advisors. If a financial institution fails to meet the criteria they are removed from the official lending list. The lending list contains financial as well as duration limits to reduce risk. Minimal balances are held for daily cashflow management and any surplus funds are invested on the overnight money market with HSBC Bank plc.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Authority	Group	Authority	Group
	2019/20	2019/20	2018/19	2018/19
	£'000	£'000	£'000	£'000
12-month expected credit losses:				
Investments (note 18)	13,088	13,088	27,939	27,939
Cash and short-term deposits (note 20)	78,793	79,546	28,732	29,124
	91,881	92,634	56,671	57,063
Simplified approach:				
Trade debtors and accrued income (note 19)	31,300	33,573	22,105	21,450
Total	123,181	126,207	78,776	78,513

The loss allowance recognised during the year are as follows:

Authority	12-month expected credit losses		Lifetime expected credit losses - simplified		Total	
			2019/20	2018/19		
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Asset class (amortised cost)	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance as at 1 April	1,400	-	-	-	1,400	-
Individual financial assets transferred to 12-month expected credit loss	2,921	1,400	-	-	2,921	1,400
Individual financial assets transferred to lifetime expected credit losses	-	-	-	-	-	-
Closing balance at 31 March	4,321	1,400	-	-	4,321	1,400

Group	12-month expected credit losses		Lifetime expected credit losses - simplified		Total	
			2019/20	2018/19		
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
Asset class (amortised cost)	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance as at 1 April	1,400	-	-	-	1,400	-
Individual financial assets transferred to 12-month expected credit loss	1,291	1,400	-	-	1,291	1,400
Individual financial assets transferred to lifetime expected credit losses	-	-	-	-	-	-
Closing balance at 31 March	2,691	1,400	-	-	2,691	1,400

Liquidity risk

Liquidity risk covers the ease of access to finance. The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. The Authority maintains a sufficient level of liquidity through the use of Money Market Funds/overnight deposits and call accounts. If longer term funding is required, the Authority has ready access to borrowings from the money markets and the Public Works Loans Board (PWLB). There is no significant risk that it will be unable to raise finance to meet its commitments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates, but effective cash management ensures any borrowing is undertaken at favourable rates.

Market risk

The Authority is exposed to the risk of interest rate movements on its borrowings and investments. It manages those risks as follows:

- New long-term borrowings are only undertaken if required to meet cash flow requirements.
- Debt restructuring is undertaken when financially viable to take account of fluctuating interest rates.
- Limits are set on the proportion of its borrowing limits in accordance with the Treasury Management Strategy.

Coronavirus

The Authority will continue to monitor closely the impacts of COVID-19 including the effect on financial markets and the stability of the financial institutions the Authority has dealings with to ensure that security and liquidity of Group investments are not adversely affected. The Authority is assisted in this regard by professional Treasury Management advisors, Arlingclose Limited.

With respect to the commercial loans, the Authority is continually reviewing the impacts on the construction sector and the potential impact on its loan portfolio. Provision has been made in the 2019/20 accounts for potential defaults and the Authority will continue to maintain a close dialogue

with borrowers through its sector specialist fund manager. In the event that any of the investments encounter difficulty, each will be managed on a case by case basis and if necessary, the Authority's rights over control of the development or assets will be exercised.

Maturity analysis of financial liabilities

All trade and other payables are due to be paid in less than one year.

30. Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet at amortised cost. Long-term debtors consist of loan receivables and lease receivables, short-term debtors consist of trade debtors and accrued income, and short-term creditors consist of trade creditors and accruals.

Analysis for 2019/20	Long-term		Current		Total	
	Authority	Group	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at amortised cost						
Investments (note 18)	5,093	5,093	7,995	7,995	13,088	13,088
Long-term debtors	241	241	-	-	241	241
Short-term debtors (note 19)	-	-	31,300	33,573	31,300	33,573
Cash and cash equivalents (note 20)	-	-	78,793	79,546	78,793	79,546
Total financial assets	5,334	5,334	118,088	121,114	123,422	126,448
Financial liabilities at amortised cost						
Borrowings (note 21)	118,432	118,432	7,024	7,024	125,456	125,456
Short-term creditors (note 22)	-	-	69,727	71,998	69,727	71,998
Transferred debt (note 24)	5,595	5,595	833	833	6,428	6,428
Total financial liabilities	124,027	124,027	77,584	79,855	201,611	203,882
Comparatives for 2018/19	Long-term		Current		Total	
	Authority	Group	Authority	Group	Authority	Group
	£'000	£'000	£'000	£'000	£'000	£'000
Financial assets at amortised cost						
Investments (note 18)	6,940	6,940	20,999	20,999	27,939	27,939
Short-term debtors (note 19)	-	-	22,105	21,450	22,105	21,450
Cash and cash equivalents (note 20)	-	-	28,732	29,124	28,732	29,124
Total financial assets	6,940	6,940	71,836	71,573	78,776	78,513
Financial liabilities at amortised cost						
Borrowings (note 21)	123,771	123,771	7,136	7,136	130,907	130,907
Short-term creditors (note 22)	-	-	53,868	55,298	53,868	55,298
Transferred debt (note 24)	6,428	6,428	757	757	7,185	7,185
Total financial liabilities	130,199	130,199	61,761	63,191	191,960	193,390

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

Authority	2019-20			2018-19		
	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Total Authority £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Total Authority £'000
Interest income (note 12)	(2,262)	-	(2,262)	(1,703)	-	(1,703)
Interest expense (note 12)	-	10,705	10,705	-	10,160	10,160
Net loss/(gain) for the year in the surplus or deficit on the provision of services	(2,262)	10,705	8,443	(1,703)	10,160	8,457

Group	2019-20			2018-19		
	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Total Group £'000	Financial assets at amortised cost £'000	Financial liabilities at amortised cost £'000	Total Group £'000
Interest income (note 12)	(2,277)	-	(2,277)	(1,705)	-	(1,705)
Interest expense (note 12)	-	9,075	9,075	-	10,160	10,160
Net loss/(gain) for the year in the surplus or deficit on the provision of services	(2,277)	9,075	6,798	(1,705)	10,160	8,455

Fair value of financial assets and liabilities

The table below compares the carrying value of financial assets and liabilities to their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

NOTES TO THE ACCOUNTS Continued

Analysis for 2019/20	Input level in fair value hierarchy	Authority		Group	
		Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets at amortised cost					
Investments	N/A	13,088	13,088	13,088	13,088
Long-term debtors	N/A	241	241	241	241
Short-term debtors	N/A	31,300	31,300	33,573	33,573
Cash and cash equivalents	N/A	78,793	78,793	79,546	79,546
Total financial assets		123,422	123,422	126,448	126,448
Financial liabilities at amortised cost					
Public Works Loan Board (PWLB)	Level 2	115,349	178,185	115,349	178,185
Barclays	Level 2	10,107	14,639	10,107	14,639
Total borrowings		125,456	192,824	125,456	192,824
Short-term creditors	N/A	69,727	69,727	71,998	71,998
Transferred debt	Level 2	6,428	7,146	6,428	7,146
Total financial liabilities		201,611	269,697	203,882	271,968
Comparatives for 2018/19					
	Input level in fair value hierarchy	Authority		Group	
		Carrying amount £'000	Fair value £'000	Carrying amount £'000	Fair value £'000
Financial assets at amortised cost					
Investments	N/A	27,939	27,939	27,939	27,939
Short-term debtors	N/A	22,105	22,105	21,450	21,450
Cash and cash equivalents	N/A	28,732	28,732	29,124	29,124
Total financial assets		78,776	78,776	78,513	78,513
Financial liabilities at amortised cost					
Public Works Loan Board (PWLB)	Level 2	120,800	180,745	120,800	180,745
Barclays	Level 2	10,107	14,201	10,107	14,201
Total borrowings		130,907	194,946	130,907	194,946
Short-term creditors	N/A	53,868	53,868	55,298	55,298
Transferred debt	Level 2	7,185	8,239	7,185	8,239
Total financial liabilities		191,960	257,053	193,390	258,483

Short-term debtors and creditors, cash and cash equivalents and investments approximate to their carrying amounts largely due to the short-term nature of these instruments.

Barclays: the valuation method used is to discount contractual (or expected) cash flows at the market rate for local authority loans of the same remaining term, which is an income approach.

PWLB: the valuation model considers the present value of the cashflows expected over the remaining life of each loan discounted using lending rates for new loans based on PWLB rates at the measurement date, which is an income approach. The fair value is adjusted to reflect the premium or discount charged for early repayment.

The key inputs for Barclays and PWLB valuation model are contractual future cash flows which are then discounted using a discount rate. The discount rate ranges from 1.68% to 2.18% depending on the remaining term.

Transferred debt: this consists mainly of PWLB and LOBOs. The valuation technique for PWLB is to discount contractual cash flows at the market rate for local authority loans of the same remaining term. The valuation technique for LOBOs is to discount contractual cash flows at the market rate for local authority loans of the same remaining term and add the value of the lenders' option from a market option pricing model. The key inputs for these valuation models are contractual future cash flows which are then discounted using a discount rate. The discount rates used for PWLB ranges from 1.90% to 2.38% and the discount rate for LOBOs is 1.64%.

The fair valuation methodology for borrowings and transferred debt are at level 2 – significant observable inputs. There have been no changes in valuation methodology during the year.

31. Operating leases

Authority as lessee

Land and buildings - land is acquired for park and ride sites and bus stations by entering into operating leases. Some of these leases are non-cancellable with typical lives of 25 years.

Supported bus services - the Authority has determined that the tendered service contracts of six (2019: four) bus operators take the form of operating leases under IFRIC 4.

The future minimum lease payments payable under non-cancellable operating leases at 31 March 2020 are as follows:

	2020	2019
	£'000	£'000
Land and buildings		
Less than one year	447	430
Between two and five years	872	1,029
More than five years	2,794	2,900
	4,113	4,359
Supported bus services		
Total contract spend:		
Less than one year	523	413
Between two and five years	495	219
	1,018	632

Authority as lessor

The Authority leases out parts of the Head Office at Summer Lane, various units at bus stations and land and buildings acquired for the future expansion of park and ride sites whilst they are awaiting development. These are a mixture of cancellable and non-cancellable operating leases.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2020 are as follows:

	2020	2019
	£'000	£'000
Land and buildings		
Less than one year	174	188
Between two and five years	352	448
More than five years	1,909	1,987
	2,435	2,623

32. Reconciliation of liabilities arising from financing activities

	Long-term borrowings	Short-term borrowings	Grants receipts in advance	Total Authority and Group
	£'000	£'000	£'000	£'000
Opening balance at 1 April	136,284	-	35,381	171,665
Financing cash flows	-	(6,078)	-	(6,078)
Non-cash changes	(12,257)	12,257	76,073	76,073
Closing balance at 31 March	124,027	6,179	111,454	241,660

33. Contingent liabilities and guarantees

The West Midlands Integrated Transport Authority Pension Fund (WMITA PF) was established by Government Regulation on 29 November 1991 and became active on 4 December 1991. The pension fund is guaranteed by National Express Group plc and Preston City Council. In the event of the pension fund becoming insolvent and National Express Group plc and Preston City Council not meeting their guarantee, then the Authority would be liable to meet any excess liabilities.

In 2019/20, following the enactment of UK Statutory Instrument 2019 No. 1351 ("The Local Government Pension Scheme (West Midlands Integrated Transport Authority Pension Fund and West Midlands Pension Fund Merger) Regulations 2019, all assets and liabilities of the former WMITA PF transferred to the West Midlands Pension Fund (WMPF). For any person for whom the appropriate administering authority had been, or would have been, the Authority, the appropriate administering authority became the City of Wolverhampton Council. The regulations effecting this change came into full legal force on 8 November 2019 but with retrospective effect from 1 April 2019 (the 'merger date' cited in the legislation).

Following the merger, the Authority is discharged from the excess liabilities of Preston Bus Limited which is guaranteed by Preston City Council but remains liable to meet any excess liabilities of West Midlands Travel Limited (WMTL) if National Express Group plc is unable to meet their guarantee. In the event that WMTL exit the pension fund (either directly or through the guarantee arrangement with National Express Group plc) without fully discharging its liabilities, the Authority will subsume the assets and liabilities of WMTL pension fund with its own assets and liabilities in the WMPF.

The market value for WMTL is only available at each triennial valuation and was value at a deficit of £92.5m at the last triennial valuation as at 31 March 2019.

The Authority has guarantees with local authorities lodged with the bank in connection with works undertaken at various car parks as follows:

	£'000
Sandwell MBC (2 guarantees)	104
Birmingham City Council (1 guarantee)	97

34. Related party disclosures

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority. These include:

Central Government

Central Government has significant influence over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates and provides funding in the form of grants. Grants received from Government Departments together with grant receipts not yet recognised due to conditions attached to them at 31 March 2020 are set out in note 13.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2019/20 is shown in note 15. All members have at least two roles under the Local Government Act 1985 in that they are members of one of the seven constituent levying District Councils and are appointed to the Authority or co-opted to one of its committees.

During the year, there were expenditure and grant payments totalling £548k (2019: £nil) with Black Country Consortium Limited in which a member has an interest.

Officers

During the year there were income transactions of £10k (2019: £209k) relating to rental income and recharges, and professional consultancy fees and miscellaneous expenses of £3.4m (2019: £320k) with companies in which two (2019: three) officers had an interest. Transactions with these companies were conducted at arm's length. The amounts as at 31 March 2020 due to these companies are £nil (2019: £440k) and due from these companies are £8k (2019: £37k).

Other Public Bodies (subject to common control by central government)

The Authority received the following levy payments and funding from the constituent District Councils:

	Transport Levy		Membership fees and contributions		LGF LEP funding	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	45,025	45,031	1,090	1,090	1,503	1,593
City of Wolverhampton Council	10,292	10,276	572	572	-	-
Coventry City Council	14,260	14,132	631	630	-	-
Dudley MBC	12,647	12,719	608	608	-	-
Sandwell MBC	12,887	12,922	612	612	-	-
Solihull MBC	8,471	8,480	545	545	-	-
Walsall Council	11,138	11,160	586	586	68	2,636
Non-constituent authorities	-	-	325	325	-	-
Total	114,720	114,720	4,969	4,968	1,571	4,229

NOTES TO THE ACCOUNTS Continued

Funding paid by the Authority to the District Councils:

	Devolved Transport		Economic		Adult Education	
	Funding		Regeneration		Budget	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Constituent authorities						
Birmingham City Council	5,160	5,160	-	112	6,392	-
City of Wolverhampton Council	3,505	3,610	-	1,172	1,957	-
Coventry City Council	4,480	4,588	-	-	3,313	-
Dudley MBC	4,585	4,745	-	-	844	-
Sandwell MBC	4,755	4,918	-	-	959	-
Solihull MBC	6,414	5,523	-	-	-	-
Walsall MBC	6,375	5,581	-	-	-	-
Total	35,274	34,125	-	1,284	13,465	-

Entities controlled or significantly influenced by the Authority

During the year, the Authority paid management fees of £150k (2019: £150k) and £579k (2019: £175k) to West Midlands Development Capital Limited, a wholly-owned subsidiary, for the management of the Brownfield Land and Property Development Fund and the Collective Investment Fund respectively.

West Midlands Rail Limited, a company limited by guarantee where the Authority has 50% interest, received funding contributions of £41k (2019: £41k) from the Authority. In addition, the Authority recharged expenses of £154k (2019: £389k) which the Authority paid on behalf of West Midlands Rail Limited. The Authority has also charged corporate support and professional services of £46k (2019: £46k).

Other than as disclosed in note 19, Midland Metro Limited, a wholly-owned subsidiary which is consolidated in the group accounts, received subsidy of £1.01m (2019: £821k) from the Authority under the terms of the Public Service Agreement. The Authority has charged corporate support and professional services of £478k (2019: £370k). The Authority has also recharged expenses of £86k (2019: £126k).

During the year, the Authority paid grant of £1.70m to (2019: £nil) to WM5G Limited, a wholly-owned subsidiary which is consolidated in the group accounts, in respect of funding of initiatives and competitions to acceleration 5G infrastructure and applications. The Authority has also recharged expenses of £549k (2019: £nil)

Transactions with West Midlands Development Capital Limited, West Midlands Rail Limited, Midland Metro Limited and WM5G Limited were conducted at arm's length. The outstanding balances as at 31 March 2020 are as follows:

Due from

Midland Metro Limited	£1.7m
West Midlands Rail Limited	£121k
WM5G Limited	£659k

35. Events after the Reporting Period

The unaudited Statement of Accounts were authorised for issue by the Authority's Section 151 officer on 18 May 2020. Events taking place after this date are not reflected in the financial statements or notes to the accounts. Where events taking place before this date provided information about conditions existing as at 31 March 2020, the amounts in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The following events occurred after 31 March 2020 but are considered to be non-adjusting events:

The COVID-19 pandemic, also known as the coronavirus pandemic, is an ongoing global pandemic of the coronavirus disease (COVID-19). The outbreak was first identified in Wuhan, China, in December 2019 and spread to the United Kingdom in late January 2020.

In late March, the UK government imposed a lockdown, banning all non-essential travel and shutting almost all schools, businesses, venues, facilities, amenities and places of worship. The impact on the Authority's finances for 2019/20 was around £1m and this mainly consisted from the loss of income from Metro. The estimated impact for 2020/21 is currently being evaluated and will be reported to the WMCA Board at its meeting on 24 July 2020.

The DfT has confirmed short-term funding for Metro in the form of Light Rail Restart Grant, intended to provide financial support to enable services to continue whilst needing to implement social distancing measures. The grant which is based on estimated service levels and ramp up profiles is currently subject to further confirmation but is estimated to provide £3.7 million worth of support for Metro for the period up to 3 August 2020.

Accounting Standards

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are the accounting standards that the Authority are required to follow when producing the financial statements.

Accruals

An accounting principle that recognises income and expenditure as they are earned or incurred, not as money is received or paid.

Actuarial Assumptions

Predictions made for factors that will affect the financial position of the pension scheme.

Actuarial Gains and Losses

Changes in the estimated value of the pension fund because events have not coincided with the actuarial assumptions made or the assumptions themselves have changed.

Amortisation

The measure of the consumption of an intangible asset over its useful life.

Budget

A budget is a plan of approved spending during a financial year.

Capital Programme

The plan of approved spending on non-current assets.

CIPFA

The Chartered Institute of Public Finance and Accountancy, the institute that governs accounting in the public sector.

Collective Investment Fund

Fund of investments held by the Authority which provides loans to property developers to support the acceleration of commercial property developments within the West Midlands region.

Credit loss

Cash shortfalls measured by the difference between the net present value of all the contractual cash flows that are due to an authority in accordance with the contract for the instrument and the net present value of all the cash flows that the authority expects to receive.

Deficit

This occurs when spending exceeds income.

Depreciation

The measure of wear and tear, consumption or other reduction in the useful economic life of a non-current asset.

Expected credit loss

The weighted average of credit losses with the respective risks of a default occurring as the with the weights.

Fair Value

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Year

The Authority's financial year runs from 1 April to the following 31 March.

Impairment of Asset

An asset has been impaired when it is judged to have lost value other than through normal use.

Intangible Assets

An item which does not have physical substance (for example software) but can be identified and used by the Authority over a number of years.

Lease

A finance lease is an agreement to pay for an asset in regular instalments where the person paying the lease (the lessee) is deemed to own the asset. In contrast, an operating lease occurs when the lessee is not considered to own the asset.

LOBO

Lenders Options Borrowers Option. A form of loan where the lender can change certain conditions of the loan, such as the dates and the interest rate. If this occurs, the borrower then has the option of either continuing with the loan or redeeming it in full without a penalty.

Materiality

An item is material if its inclusion in the financial statements would influence or change the judgement of a reasonable person. If the information would have no impact on the decision maker, it is deemed not material.

Public Works Loan Board (PWLB)

A government agency that lends money to local authorities. Local authorities are able to borrow some or all of their requirements to finance capital expenditure from this source.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Spending on assets that have a lasting value but are not owned by the Authority.

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SUPPLEMENTARY INFORMATION – CHANGES TO THE FINANCIAL STATEMENTS FOR INVENTORY ACCOUNTING

The following areas will be impacted if the assets purchased under the Land Fund are treated as inventories:

1. Balance Sheet – reduction in property, plant and equipment with a corresponding increase in inventories
2. Cashflow Statement – increase in net cash flows from operating activities and net cash flows from investing activities
3. Significant accounting policies – accounting policy for inventories to be inserted
4. Associated notes to the accounts

The amended Balance Sheet and Cashflow Statement are presented on subsequent pages with changes highlighted in yellow.

BALANCE SHEET

	Notes	31 March 2020		31 March 2019	
		Authority £'000	Group £'000	Authority £'000	Group £'000
Property, plant and equipment	17	410,886	411,244	341,392	341,586
Long-term investments	18	5,093	5,093	6,940	6,940
Long-term debtors		241	241	-	-
Long-term assets		416,220	416,578	348,332	348,526
Short-term investments	18	7,995	7,995	20,999	20,999
Inventories	XX	12,424	13,253	-	560
Short-term debtors	19	43,103	47,066	36,330	36,895
Cash and cash equivalents	20	78,793	79,546	28,732	29,124
Current assets		142,315	147,860	86,061	87,578
Short-term borrowing	21	(7,024)	(7,024)	(7,136)	(7,136)
Short-term creditors	22	(73,385)	(75,953)	(57,163)	(58,874)
Provisions	23	(933)	(933)	(2,817)	(2,817)
Grants receipts in advance - revenue	13	(8,850)	(8,850)	(12,623)	(12,623)
Transferred debt	24	(833)	(833)	(757)	(757)
Current liabilities		(91,025)	(93,593)	(80,496)	(82,207)
Net current assets/(liabilities)		51,290	54,267	5,565	5,371
Long-term borrowing	21	(118,432)	(118,432)	(123,771)	(123,771)
Provisions	23	(1,810)	(1,810)	(1,000)	(1,000)
Grants receipts in advance - capital	13	(102,604)	(102,604)	(22,758)	(22,758)
Transferred debt	24	(5,595)	(5,595)	(6,428)	(6,428)
Net pension liability	28	(39,902)	(39,902)	(51,113)	(51,113)
Long-term liabilities		(268,343)	(268,343)	(205,070)	(205,070)
Net assets/(liabilities)		199,167	202,502	148,827	148,827
General Fund Balance	25	2,302	2,302	2,284	2,284
Earmarked Reserves	25	146,557	149,892	96,642	96,642
Capital Receipts Reserve	25	247	247	247	247
Profit and Loss Reserve	25	-	-	-	-
Usable reserves		149,106	152,441	99,173	99,173
Revaluation Reserve	26	6,531	6,531	6,742	6,742
Capital Adjustment Account	26	83,928	83,928	96,349	96,349
Pensions Reserve	26	(39,902)	(39,902)	(53,070)	(53,070)
Accumulated Absences Account	26	(496)	(496)	(367)	(367)
Unusable reserves		50,061	50,061	49,654	49,654
Total reserves		199,167	202,502	148,827	148,827

CASHFLOW STATEMENT

	2020		2019	
	Authority £'000	Group £'000	Authority £'000	Group £'000
Net (deficit)/surplus on the provision of services	30,172	33,507	38,730	38,730
Adjustments to net surplus or deficit on the provision of services for non-cash movements				
Depreciation and impairment of non-current assets	18,607	18,750	13,487	13,584
Revaluation increase	-	-	(447)	(447)
Net amounts of non-current assets written off on disposal	325	325	298	298
Non-current assets transferred to provision of services	139	139	-	-
Change in pensions liability (note 28)	8,957	8,957	8,766	8,766
(Increase)/decrease in long-term debtors	(241)	(241)	-	-
(Increase)/decrease in short-term debtors	(6,773)	(10,171)	(4,370)	(4,935)
(Increase)/decrease in inventories	(12,424)	(12,693)	-	(560)
(Decrease)/increase in short-term creditors	16,222	17,079	16,150	17,861
(Decrease)/increase in provisions	(1,074)	(1,074)	(2,731)	(2,731)
Net interest payable	4,321	4,306	5,791	5,789
Interest paid	(6,713)	(6,713)	(7,930)	(7,930)
Interest received	2,262	2,277	1,703	1,705
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities				
Capital grants received	(125,266)	(125,266)	(100,442)	(100,442)
Capital grants paid	35,274	35,274	34,125	34,125
Net cash flows from operating activities	(36,212)	(35,544)	3,130	3,813
Investing activities				
Purchase of property, plant and equipment	(88,565)	(88,872)	(61,563)	(61,854)
Capital grants received for the purchase of property, plant and equipment and inventories	89,992	89,992	66,317	66,317
Increase/(decrease) in short-term and long-term investments	14,851	14,851	(16,939)	(16,939)
Net cash flows from investing activities	16,278	15,971	(12,185)	(12,476)
Financing activities				
Increase/(decrease) in grants receipts in advance	76,073	76,073	23,538	23,538
Repayment of loans	(5,321)	(5,321)	(23,318)	(23,318)
Transferred debt - repayment of principal	(757)	(757)	(688)	(688)
Net cash flows from financing activities	69,995	69,995	(468)	(468)
Net increase or decrease in cash and cash equivalents	50,061	50,422	(9,523)	(9,131)
Cash and cash equivalents at 1 April	28,732	29,124	38,255	38,255
Cash and cash equivalents at 31 March (note 20)	78,793	79,546	28,732	29,124

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Authority and group. The Authority focused on identifying key operational and strategic risks, using new interim working practices to ensure that functions can continue during 'lock down'. Our experience of working with the finance function has demonstrated that while functions continue to operate, these are inevitably taking more time to complete than in a normal year.</p> <p>The most significant impact of Covid-19 has been the negative impact on income streams, particularly in relation to bus, rail and tram travel. Officers are working through the implications of this on the financial position, in what is an environment that continues to evolve.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an Audit Plan addendum on 28 April 2020. In that addendum we reported an additional financial statement level significant risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Authority and audit staff have had to adapt to ensure we have gained sufficient audit evidence for the balances within the financial statements. This has meant a greater reliance on video calling for many aspects of the audit, particularly in terms of the use of sharing of screens to watch transaction listings being run. Where information is normally provided in a spreadsheet format, we have had to undertake additional levels of testing to ensure that the information provided hasn't been manipulated prior to being sent to the audit team.</p>
<p>Financial Statements</p> <p>Page 159</p>	<p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p> <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Authority's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Authority and the group and Authority's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>The Authority published its unaudited accounts on 18 May 2020 which was still significantly ahead of the pre Covid-19 preparation date of 31 May 2020.</p> <p>Our audit work was completed remotely during May and June. Our findings are summarised on pages 5 to 18. We have identified adjustments to the financial statements that have resulted in a £2.3m adjustment to the Authority's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix A.</p> <p>Our work is substantially complete subject to the following outstanding matters:</p> <ul style="list-style-type: none"> • Resolution of the technical query in relation to the accounting treatment of the Land Fund • Receipt of the assurances from the pension fund auditor • Completion of group procedures • Review of management's assessment of going concern • Completion of testing of operating expenditure • Review of the final set of financial statements, and • Receipt of management representation letter (see appendix C) <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>

Headlines

This table summarises the key findings and other matters arising from the statutory audit of West Midlands Combined Authority ('the Authority') and the preparation of the group and Authority's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have</p> <ul style="list-style-type: none"> completed our risk based review of the Authority's value for money arrangements, and concluded that West Midlands Combined Authority has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. <p>We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20 and 21.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and to certify the closure of the audit. 	<p>We have:</p> <ul style="list-style-type: none"> not exercised any of our additional statutory powers or duties, and completed the majority of our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Summary

Overview of the scope of our audit

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

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by *ISA UK 260 - Communication with Those Charged with Governance* and the Code. Its contents have been discussed with management.

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for both WM5G Limited and Midlands Metro Limited (MML).
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 13 January 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries as highlighted on page 3 being resolved, we anticipate issuing an unqualified audit opinion in mid September 2020.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. We have revised materiality based on the final position in the draft financial statements, however the benchmarks applied have remained the same.

	Group Amount	Authority Amount	Qualitative factors considered
Materiality for the financial statements	£6.8m £4.7m (Planning)	£6.5m £4.6m (Planning)	• Materiality determined equates to approximately 1.8% of the Authority's total expenditure
Performance materiality	£5.1m £3.525m (Planning)	£4.9m £3.45m (Planning)	• This is determined by applying 75% to headline materiality. There has not historically been a large number of significant misstatements arising as a result of the financial statements audits at the Authority and key reporting personnel in the finance function have remained stable from the prior year audit and so there are no concerns this would increase aggregation risk.
Trivial matters	£340k £235k (Planning)	£325k £230k (Planning)	• This is determined by applying 5% to headline materiality
Materiality for Senior Officer Remuneration		£25k (No Change from Planning)	• We believe these disclosures are of specific interest to the reader of the accounts. We consider that using an absolute materiality value is appropriate, rather than applying a % of any other benchmark, because the magnitude of the disclosures does not vary greatly with the size of the organisation or any similar factors.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	<p data-bbox="134 264 259 299">Covid- 19</p> <p data-bbox="134 321 372 357">Group and Authority</p> <p data-bbox="134 378 942 521">The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances to have an impact on the production and audit of the financial statements for the year ended 31 March 2020, included and not limited to;</p> <ul data-bbox="134 549 942 1063" style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical from line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. 	<p data-bbox="963 264 1015 299">We:</p> <ul data-bbox="963 307 2003 828" style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 18 May 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the pension fund liability valuations; • evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. <p data-bbox="963 835 2003 978">Our audit work has not identified any issues in respect of Covid-19 specific risks. The Authority responded well to the challenge of remote working and were able to produce draft financial statements to a broadly similar timetable as in previous years which at 18 May 2020 was still significantly ahead of the pre Covid-19 production date of 31 May. We are aware that nationally, this is one of the first set of draft financial statements produced and audited.</p> <p data-bbox="963 985 2003 1162">Given this early timescale, it has not been possible to fully finalise our work in areas of going concern or in respect of pension liability valuations. Management are currently updating their financial forecasts, and we have agreed that we will review those prior to issuing our opinion. In addition, the uncertainty around year end pension fund valuations, has meant that the assurances we seek from the auditor of the West Midlands Pension Fund will not be available until late August.</p>

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

2 The revenue cycle includes fraudulent transactions (rebutted)

Auditor commentary

Group and Authority

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Group and the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition
- Opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including the West Midlands Combined Authority (the Authority), mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for the Authority.

In terms of this risk and how it relates to the Group we have also determined that the risk of fraud arising from revenue recognition can be rebutted because we do not consider there to be a risk of material misstatement in the accounts of Midland Metro Limited or WM5G Limited due to fraud in revenue recognition. We also believe, that the above bullet points also apply from a group perspective.

Our audit work has not identified any issues in respect of improper revenue recognition. We have not altered our assessment as reported in the audit plan and therefore have no issues to report in this regard.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Management override of controls</p> <p>Group and Authority</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>The Group and Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as one of the most significant assessed risks of material misstatement for both the Group and the Authority</p>	<p>Auditor commentary</p> <p>We have;</p> <ul style="list-style-type: none"> • Evaluated the design effectiveness of management controls over journals, • Analysed the journals listing and determined the criteria for selecting high risk unusual journals, • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, • Gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence, and • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work to date has not identified any issues in respect of management override of controls. At the time of writing we are:</p> <ul style="list-style-type: none"> • awaiting some evidence from officers in relation to two journals, and • we are yet to undertake our review of the WM5G Ltd component auditor's (Cooper Parry) working papers which will allow us to conclude on whether there are any findings from a group perspective, but from our liaison to date there are no findings to report.
<p>4 Valuation of pension fund net liability</p> <p>Group and Authority</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net pension liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£51 million at 31 March 2019) in the Authority's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Auditor commentary</p> <p>We have;</p> <ul style="list-style-type: none"> • Updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls, • Evaluated the instructions issued by management to their management expert for this estimate and the scope of the actuary's work, • Assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation, • Assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability, • Tested the consistency of the pension fund asset and liability disclosures in the notes to the core financial statements with the actuarial report, • Undertaken procedures to confirm the reasonableness of the actuarial assumption made by reviewing the report of the consulting actuary (as an auditor's expert) and performed any additional procedures suggested with the report, and • Sought assurances from the auditor of West Midlands Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. <p>Management obtained an updated actuary report to include asset valuations up to the 31 March 2020, to take account of the potential change in valuations due to Covid-19. The draft financial statements have been revised to take account of this updated actuary report. At the time of writing we await the assurances from the Pension Fund auditor.</p>

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Midland Metro Limited	BDO LLP	<p>We requested that BDO undertake procedures in relation to the following areas at MML.</p> <ul style="list-style-type: none"> • Management override of controls: review of controls, analysis of journals and consideration of estimates applied • Testing of income and debtors • Testing of operating expenses and creditors balance, including consideration of whether appropriate cut-off has been applied • Testing of employee remuneration • Receipt of bank confirmations for balance as at 31 March 2020 	<ul style="list-style-type: none"> • As at the time of writing we have not yet received the component auditors' report to the group auditor. • We have reviewed the workpapers of BDO, and following this review we are not aware of any findings that would need to be reported on a group basis. • We will verbally update the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.
WM5G Limited	Cooper Parry	<p>We requested that Cooper Parry undertake procedures in relation to the following areas at WM5G.</p> <ul style="list-style-type: none"> • Management override of controls: review of controls, analysis of journals and consideration of estimates applied • Testing of income and debtors • Testing of operating expenses and creditors balance, including consideration of whether appropriate cut-off has been applied • Testing of employee remuneration • Receipt of bank confirmations for balance as at 31 March 2020 	<ul style="list-style-type: none"> • As at the time of writing we have not yet received the component auditors' report to the group auditor. • We have not yet reviewed the workpapers of Cooper Parry, however, we have not been made aware of any significant issues arising from the audit. • We will verbally update the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>1 Accounting for the Land Fund</p> <p>The Land Fund is a ring-fenced capital grant from the Ministry of Housing, Communities & Local Government (MHCLG) of up to £100m awarded to the WMCA, as part of the £350m Housing Deal announced in March 2018. The fund is to be deployed by WMCA, monitored by Homes England on behalf of MHCLG, to deliver new homes on brownfield land where market failure can be demonstrated. 2019/20 is the first year where material transactions have taken place, and as a result management have proposed an accounting treatment for these transactions that the audit team have considered.</p>	<p>Officers provided the audit team with a paper considering the likely accounting treatment of the Land Fund. They reviewed the asset using the following sections of the Code;</p> <ul style="list-style-type: none"> • 4.1 Property, Plant and Equipment, section 4.4 investment property, section 4.9 Non-current assets held for sale, and • 5.1 Inventories. <p>Officers concluded that the asset created by the Land Fund should be classified as an asset under construction, as this asset class appears to be the most appropriate and depicts the nature and objectives of the Land Fund and CIPFA's 'Telling the Story'. The transactions have been included in Assets Under Construction in the draft financial statements.</p>	<p>We have challenged the treatment of the Land Fund assets as Assets Under Construction (AUC). Our review of the Code, and accounting standards has suggested that the asset is more closely aligned to classification as Inventory. In particular, the nature of the asset is in our view more closely aligned with International Public Sector Accounting Standard (IPSAS 12), paragraphs 11 and 22 (see below).</p> <p>We recognise that this is an unusual transaction, and also that any accounting treatment agreed this year, sets a precedent for future years, and therefore we have sought the advice of our national technical team.</p> <p>We await the outcome of this consultation, and would intend to report this to the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.</p> <p>If the view was to remove the transactions from Assets Under Construction, this would impact on the balance sheet as follows;</p> <ul style="list-style-type: none"> • Reduction in AUC - £12.4m • Increase inventories - £12.4m <p>Additional disclosures would be needed for inventories in the financial statements and an accounting policy would need to be added.</p>

Inventories

Extracts from IPSAS 12

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| 11. | Inventories encompass goods purchased and held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in-progress being produced, by the entity. Inventories also include (a) materials and supplies awaiting use in the production process, and (b) goods purchased or produced by an entity, which are for distribution to other parties for no charge or for a nominal charge, for example, educational books produced by a health authority for donation to schools. In many public sector entities, inventories will relate to the provision of services rather than goods purchased and held for resale or goods manufactured for sale. In the case of a service provider, inventories include the costs of the service, as described in paragraph 28, for which the entity has not yet recognized the related revenue (guidance on recognition of revenue can be found in IPSAS 9, <i>Revenue from Exchange Transactions</i> .) | 22. | For example, the allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings could include costs relating to landscaping, drainage, pipe laying for utility connection, etc. |
|-----|--|-----|--|

Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>2 Accounting estimates</p> <p>The Authority have been one of the first Local Government bodies to close down their financial statements. As a result the Authority has made a number of estimates in relation to claims they were expecting to receive from other local authorities.</p>	<p>During late June, officers had receipt of information from other local authorities that indicated the original estimate made was likely to be materially misstated.</p> <ul style="list-style-type: none"> In the first instance, a claim of £16.5m was to be made in respect of costs for the Commonwealth Games Athlete's Village and this was to be included in the financial statements of Birmingham City Council. Officers of WMCA had chased this during the closedown of the accounts, but had not been able to obtain the latest position, and therefore accrued £6.5m, which was based on the best estimates. Following this claim being received, officers have decided to increase the creditor by £10m, to match the value of the claim made. In the second instance, the year end reconciliation on the investment programme accruals, which happens every year, demonstrated a variance of £4.9m in relation to one scheme. In most years, variances identified are trivial, however this year, officers have decided to amend for this over accrual. <p>The net impact of these changes is to reduce the creditors balance by £5.1m</p>	<ul style="list-style-type: none"> At the time of writing officers have provided initial evidence to support these adjustments. Given their material nature we have requested further evidence to support these adjustments. We will verbally update the Audit, Risk and Assurance Committee during the meeting on 14 July and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.
<p>3 IFRS 16 implementation has been delayed by one year</p> <ul style="list-style-type: none"> Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases 	<p>Officers have removed reference to IFRS 16 in note 4 to the financial statements, following the guidance in CIPFA Bulletin 05</p>	<p>Auditor view</p> <ul style="list-style-type: none"> Audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – £3,472k	<p>The majority of the value associated with Land and Buildings, as disclosed in Note 17 is in relation to the property at 16 Summer Lane.</p> <p>Land and buildings are revalued at least every five years at current value and a full valuation was carried out as at 31 March 2019.</p> <p>These are not specialised land and buildings and therefore required to be valued at existing use in value (EUV) at year end. The Authority has engaged Bruton Knowles to complete the valuation of properties as at 31 March 2020 on a five yearly basis, with desktop reviews carried out between valuations for indications of material changes.</p> <p>This year, saw Bruton Knowles carry out a desktop valuation to confirm there were no material changes to the valuation used.</p>	<p>We have considered the estimate applied by management and the use of their expert, Bruton Knowles.</p> <ul style="list-style-type: none"> The valuation methodology applied is consistent with the prior year and professional standards. The disclosure in the financial statements at Note 17 is adequate. The valuation report states that the valuation does not reflect any impact on values due to the current Covid-19 pandemic. We have considered this, in light of the type of asset and overall value compared to materiality and concur with the view of management that this does not present a material risk of misstatement. 	 Green

Assessment

-  **Red** - We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  **Amber** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  **Yellow** - We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  **Green** - We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																						
Page 169	<p>Net pension liability – £47,276k, revised to £39,902k</p> <p>The Authority's total net pension liability at 31 March 2020 per the draft accounts was £47,276k. This was based on an estimated asset position. Following receipt of a revised actuary report to take account of the final asset position, this was amended to £39,902k. The financial statements have been amended in this regard.</p> <p>The Authority uses Barnett Waddingham LLP to provide actuarial valuations of the Authority's assets and liabilities derived from the Local Government Pension Scheme in which it participates, (which is the West Midlands Pension Fund, administered by the City of Wolverhampton Council).</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions, such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p>	<p>PwC were engaged by the Audit Commission (and subsequently the NAO) as consulting actuary to undertake a central review of the actuaries used by the Local Government Pension Scheme (LGPS).</p> <p>They produce a report designed to provide support to auditors when assessing the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the LGPS, Police, and Fire schemes as at 31 March 2019.</p> <p>We use this report to inform our assessment of the valuation of the pension fund liability in the Authority's accounts.</p> <p>We have compared the assumptions used by the Authority's actuary against industry benchmarks. Based on the work performed we are able to conclude that management's assumptions overall are reasonable.</p>	<p></p> <p>Green</p>																						
	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.35%</td> <td>2.35%</td> <td></td> </tr> <tr> <td>Pension increase rate</td> <td>1.95%</td> <td>1.85%-1.95%</td> <td></td> </tr> <tr> <td>Salary growth</td> <td>3.0%</td> <td>1.5%-2.2% above CPI</td> <td></td> </tr> <tr> <td>Life expectancy – Males from age 65</td> <td>21.9</td> <td>21-4-23.3</td> <td></td> </tr> <tr> <td>Life expectancy – Females from age 65</td> <td>24.1</td> <td>23.7-24.7</td> <td></td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.35%	2.35%		Pension increase rate	1.95%	1.85%-1.95%		Salary growth	3.0%	1.5%-2.2% above CPI		Life expectancy – Males from age 65	21.9	21-4-23.3		Life expectancy – Females from age 65	24.1	23.7-24.7	
Assumption	Actuary Value	PwC range	Assessment																						
Discount rate	2.35%	2.35%																							
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Life expectancy – Males from age 65	21.9	21-4-23.3																							
Life expectancy – Females from age 65	24.1	23.7-24.7																							
		<p>We have also reviewed the:</p> <ul style="list-style-type: none"> • Completeness and accuracy of the underlying information used to determine the estimate and the adequacy of disclosure of estimate in the financial statements and have no findings to bring to your attention in this regard. <p>We are yet to conclude on the following as we await the work of the pension fund auditor.</p> <ul style="list-style-type: none"> • Reasonableness of the Authority's share of LGPS pension assets. 																							

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2 borrowings	<p>The Authority have borrowings with the Public Works Loans Board, Barclays, and transferred debt (arising from the West Midlands County Council) comprising of PWLB debt and LOBOs.</p> <p>There are significant observable inputs to determine the value of these borrowings, being the discount rates calculated based on the contractual cash flows.</p> <p>Therefore these borrowings are disclosed as being Level 2: significant observable inputs.</p>	We consider the approach taken by the Authority is reasonable and agree with the conclusions drawn.	 Green

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Preparation of income and expenditure budgets for the year ended 31 March 2020 and for a further 3 years as part of the MTFS.

Cashflow forecast to the end of the financial year.

Auditor commentary

Going concern is defined as ‘the concept that the local authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations’

The Authority's financial statements are prepared on a going concern basis on the grounds that budgets are in place and are being measured and managed to ensure that liabilities can be met as and when they fall due.

A detailed Business Plan for the Combined Authority is approved on an annual basis. Regular management reporting is produced for the Combined Authority indicating the trading performance of the business, which is reported to the WMCA Senior Leadership Team, Transport Delivery Committee, Programme Board and WMCA Main Board.

The impact of Covid-19 has had significant negative impact on the income streams for the authority, particularly in relation to transport, and officers are currently working through the impact of this on the budget for the current year and MTFS.

Work performed

Auditor commentary

We have reviewed the budgetary processes in place and would note the following:

The West Midlands Combined Authority Delivery budget requirement for 2020/21 of £142m comprises of six elements:

- £125.8m Adult Education spending to be funded from Adult Education Budget funding devolved by the Department for Education;
- £8.3m to be funded from other devolution deal grants;
- £4.6m to be funded from Constituent Authority fees;
- £0.4m to be funded from non-Constituent Authority and observer fees;
- £2.2m to be funded from other income; and
- A transfer from reserves of £0.8m

We have also reviewed the outturn report, and not a favourable variance of £4.397m against budget (excluding transfers to reserves). The proposal is to transfer £3.053m to the efficiency reserve to support the 2020/21 budget (as agreed in the 2020/21 budget) and then the remaining £1.2m to a Covid-19 reserve to help support expenditure that will be needed in the recovery phase of Covid-19. The general fund balance remains at £2.3m.

Concluding comments

Auditor commentary

- We note that for 2020/21 the budget was balanced with the use of a transfer from reserves. Reserves can only be used once, and the level of reserves needs to remain under review, particularly in the current climate.
- There continues to be a funding gap on the investment programme. We are aware that officers are reviewing and monitoring this. This is likely to be even more critical as plans for the Covid-19 recovery take shape.
- While we wait to receive the further work undertaken by officers in relation to the MTFS following the impact of Covid-19, we do not consider that this would cast significant doubt on the entity's ability to continue as a going concern and therefore we agree that the Authority's conclusion to prepare the accounts on a going concern basis is appropriate.

Other communication requirements

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

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit, Risk and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Authority, including specific representations in respect of the Group, which is appended.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to all the Authority's bank, investment and loan counterparties. This permission was granted and the requests were sent. With the exception on two investments, we have received positive confirmation of the balances. For the two investments where positive confirmation was not received we have performed alternative procedures to gain assurances over these balances.
6	Disclosures	<ul style="list-style-type: none"> Our review identified a small number of changes to the disclosures in the financial statements. These are listed at appendix A
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management was provided.

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Other responsibilities under the Code

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters. However, the Annual Governance Statement will need to cover the period up to the date of publication and will therefore need to be kept under review.</p>
3 Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As at the time of writing we are yet to receive the WGA group audit instructions, but we anticipate no work being required due to the Authority not exceeding the expected threshold.</p>
4 Certification of the closure of the audit	<p>We intend to certify the closure of the 2019/20 audit of West Midlands Combined Authority in the audit report.</p>

Value for Money

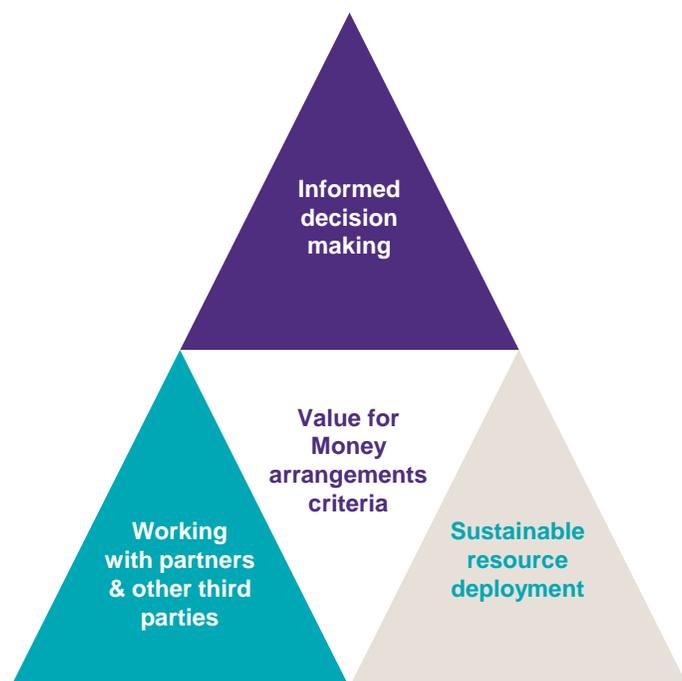
Background to our VFM approach

We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



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Risk assessment

We carried out an initial risk assessment in December 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated January 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Authority's arrangements. In arriving at our conclusion, our main considerations were the progress the Authority had made throughout 2019/20.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 and 21.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Overall conclusion

Based on the work we performed to address the significant risks, and subject to the outstanding work being completed, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

1	Significant risk	Findings	Conclusion
	<p>Investment Programme Delivery</p> <p>The Authority has identified the financial assumptions for the investment programme as a risk. This is being mitigated by a review of the governance and appraisal process associated with the investment programme. The spend to date remains behind forecast, and a cap has been placed on the programme at £801m to keep it within the current affordable limit based on income secured to date.</p>	<p>As noted by the initial risk assessment failure to deliver the Investment Programme may risk achievement of the overall strategic objectives of the Authority. Steps have been taken to leverage in more investment, but the £801m cap remains in place to ensure that the programme remains affordable.</p> <p>To help the Authority ensure that objectives were being met an enhanced assurance framework has been developed, and this was reported to ARAC in January 2020.</p> <p>Alongside the enhanced assurance framework, enhancements were also made to the performance management and reporting framework. This included a review of the dashboard used to report to the Investment Programme Board. The revised dashboard has since been implemented, with the first reporting to the meeting in April 2020. The Chair welcomed the greater clarity provided by this updated dashboard.</p> <p>As part of the enhanced assurance framework the intention would be to review all projects, including those within the capital programme. An update on this report was due to ARAC in April 2020, however due to the global events this has been delayed.</p> <p>Discussion with officers confirm that significant work is now needed in relation to the investment and capital programme as the Authority plans how it will support the Covid-19 recovery. Existing schemes are being reviewed to determine the risk associated with them and while new contracts are being entered into, the Authority have introduced an additional layer of scrutiny to them with a specifically designed checklist.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> We have seen from our review of relevant Board and Combined Authority papers and regular discussions with management and key officers that work remains ongoing to review the Investment Programme and how this will impact on the ability of the Authority to deliver its strategic objective in the longer term. The changes to the economy as a result of Covid-19 are likely to have a significant impact on the nature of the projects in the programme. Our review has identified that there are appropriate arrangements in place around this risk.
	<p>We will review the Authority's arrangements for managing the Investment programme.</p>		

Key findings continued

Significant risk	Findings	Conclusion
<p>2 Governance of WM5G</p> <p>WM5G has been set up as subsidiary company of the Authority to deploy 5G and fibre networks to areas with poor coverage. 5G is new technology and a new funding stream for the Authority. Our initial risk assessment has demonstrated that funding from central government is lagged, and therefore alternative sources of start-up funding is also needed.</p> <p>We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.</p>	<p>Our discussion with internal audit has identified that this work is due for reporting to the July ARAC, and therefore at the time of writing we have not seen a copy of the draft report.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> We will review the work of internal audit and provide an updated Audit Findings Report in September to take account of our conclusions in this area thereafter.
<p>3 Delivery of Adult Education workstream</p> <p>One significant new workstream for 2019-20 is the Adult Education Budget. The budget has £84m in relation to this, but the actual allocation is in the region of £120m. Given the introduction of this in the year we are keen to understand the arrangements in place for the delivery of this service.</p> <p>We will review the outcomes of the internal audit work that is planned in this area, and then consider if any further work is needed against the identified risk.</p>	<p>Given this is the first year of a new area of service delivery, both officers and members have been keen to understand how this service has been delivered and what improvements needs to be made going forward.</p> <p>A review of Board minutes confirms that there has been reporting through Overview and Scrutiny Committee. In April 2019, the Committee agreed a series of recommendations in relation to Adult Education. An update on the recommendations was reported in March 2020.</p> <p>There is clear evidence of progress being made in this area, with a reduction from over 400 providers to 94. This has enabled the Authority to work much more closely with the providers and ensure a clear focus on meeting priorities and getting better progression for learners. There is a much greater focus on encouraging learning that leads to improved employments chances.</p> <p>There is a clear plan in place for improvements in the service and to make the most of the new arrangements. Work remains ongoing against the detailed recommendations first made in April 2019 that were put in place from the initial review.</p> <p>Our discussions with officers and internal audit have confirmed that there remains an external investigation ongoing in relation to one provider. This is a joint investigation with the Education and Skills Funding Agency and is in line with the terms of the contract. As a result of this ongoing investigation the work of internal audit has been put on hold until the outcome of these reviews is known.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> We have seen from our review of relevant Board and Combined Authority papers and regular discussion with management and key officers that work remains ongoing in terms of the delivery of the Adult Education workstream. Our review has identified that there are appropriate arrangements in place around this risk.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix B

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority . No non-audit services were identified which were charged from the beginning of the financial year to current date.

Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Officers accrued for a claim in relation to the Athlete's village to the value of £6.5m. After the draft accounts were produced the claim was received for £16.5m. Given the material nature of the difference, officers have agreed to increase the creditor accrual by £10m.	10,000	10,000	10,000
2 The year end reconciliation on the investment programme accruals demonstrated a variance of £4.9m in relation to one scheme. Given the value officers have decided to amend for this over accrual.	(4,900)	(4,900)	(4,900)
3 The authority received a revised IAS19 valuation report which updated the value of the net pension liability from £47,276k to £39,902k	(7,374) (but reversed through MIRS)	7,374	(7,374)
Overall impact	(£2,274)	(£2,274)	(£2,274)

Impact of unadjusted misstatements

There are no unadjusted misstatements to report.

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
1 We identified a transaction amounting to £280k during our cut-off testing which had not been accounted for in 2018/19 but was relating to that financial year.	DR grant income 280 CR grant income 280	-	-	This was not adjusted on the grounds of materiality and that it has a net nil impact.
Overall impact	-	-	-	

Audit Adjustments

Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
Note 13 – Grants received in advance	A grant was incorrectly allocated, and therefore the Future Mobility Zones in the draft financial statements needs to increase by £10m to £18.265m, with a corresponding reduction in the Transforming Cities Fund to £28.674m	✓
Note 7 – Transport services	On the final transport outturn, the allocation of reserves movements and revenue contribution to capital between categories was changed. £1,007k was removed from Rail and Metro Services, with £210k removed from Policy and Strategy and Elected Member Services and £287k removed from Network Resilience. This was reallocated to Concessions (£914k), Bus Services (£228k) and Finance charges (£362k). The net impact was nil.	✓
Note 9 – Investment programme	The narrative in the note states that the prior year balances have been restated. To demonstrate that this is not a material misstatement officers have agreed to amend the narrative to reflect that the totals remain unchanged.	✓
Note 4 – PBSE disclosures	Officers have agreed to add some additional narrative in respect of Covid-19	✓
Note 6 – Contingent liabilities and guarantees	<p>Following new information coming to light officers have agreed to amend the wording to the following; Following the merger, the Authority is discharged from the excess liabilities of Preston Bus Limited which is guaranteed by Preston City Council but remains liable to meet any excess liabilities of West Midlands Travel Limited (WMTL) if National Express Group plc is unable to meet their guarantee. In the event that WMTL exit the pension fund (either directly or through the guarantee arrangement with National Express Group plc) without fully discharging its liabilities, the Authority will subsume the assets and liabilities of WMTL pension fund with its own assets and liabilities in the WMPF.</p> <p>The market value for WMTL is only available at each triennial valuation and was valued at a deficit of £92.5m at the last triennial valuation as at 31 March 2019.</p>	✓
Note 28 – Pension Schemes	The narrative at the beginning of the note refers to 2020/21, officers have agreed to amend to demonstrate the position in 2019/20.	✓
Note 17 - PPE	A disclosure note was omitted that relates to the rolling valuation cycle. Officers have agreed to include this note in the revised set of financial statements.	✓
Note 18 - Investments	One loan of £1.013m was reclassified from long term to short term as there was an error on the working papers in relation to the termination date of the loan.	✓
Note 2 – Significant accounting policies	The draft financial statements include a policy for soft loans. The balance is not material and therefore the policy has been removed.	✓

Fees

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

Audit Fees	Proposed fee	Final fee
Authority Audit	£46,500	TBC
Total audit fees (excluding VAT)	£46,500	TBC

The proposed fees reconcile to the financial statements, where they are shown in Note 16 as £47k.

Additional fees proposed

The impact of Covid 19 has resulted in an additional significant risk to the audit and the issuing of an audit plan addendum. This has resulted in additional work to that originally planned and reported in the audit plan communicated in January 2020. Further to this, we have also incurred additional costs to resolve a technical issue in relation to the land fund. We will review the total additional costs incurred and discuss a proposed fee variation with the Finance Director once the work has concluded. This would constitute a fee variation, and would be subject to approval from PSAA.

Management Letter of Representation

West Midlands Combined Authority

Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertakings for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the Authority financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the group and parent Authority financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and parent Authority and these matters have been appropriately reflected and disclosed in the group and parent Authority financial statements.
- iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the group and parent Authority financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Authority financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Authority has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the group and parent Authority financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosure changes schedules included in your Audit Findings Report. The group and parent Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. The group and parent Authority financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Authority financial statements.

Management Letter of Representation

- xiv. We believe that the group and parent Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Authority's needs. We believe that no further disclosures relating to the group and parent Authority's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the group and parent Authority's financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the group and parent Authority's financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Authority and involves:
- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and parent Authority's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Authority's financial and operating performance over the period covered by the group and parent Authority financial statements.

Approval

The approval of this letter of representation was minuted by the Audit, Risk and Assurance Committee at its meeting on 14 July 2020.



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Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

Dear Sirs

**West Midlands Combined Authority
Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of West Midlands Combined Authority and its subsidiary undertakings for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the Authority financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the Authority's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the group and parent Authority financial statements are fairly presented in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting the group and parent Authority and these matters have been appropriately reflected and disclosed in the group and parent Authority financial statements.
- iii. The Authority has complied with all aspects of contractual agreements that could have a material effect on the group and parent Authority financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Authority financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.



- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vi. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Authority has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix. All events subsequent to the date of the group and parent Authority financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Authority financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi. The group and parent Authority financial statements are free of material misstatements, including omissions.
- xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Authority financial statements.



- xiv. We believe that the group and parent Authority's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Authority's needs. We believe that no further disclosures relating to the group and parent Authority's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the group and parent Authority financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- xvi. We have communicated to you all deficiencies in internal control of which management is aware.
- xvii. All transactions have been recorded in the accounting records and are reflected in the group and parent Authority financial statements.
- xviii. We have disclosed to you the results of our assessment of the risk that the group and parent Authority financial statements may be materially misstated as a result of fraud.
- xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Authority and involves:
- a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the group and parent Authority financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Authority's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the identity of the group and parent Authority's related parties and all the related party relationships and transactions of which we are aware.



- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Authority financial statements.

Annual Governance Statement

- xxiv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Authority's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- xxv. The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Authority's financial and operating performance over the period covered by the group and parent Authority financial statements.

Approval

The approval of this letter of representation was minuted by the Authority's Audit, Risk and Assurance Committee at its meeting on 14 July 2020.

Yours faithfully

Name.....

Position.....

Date.....

Signed on behalf of the Authority



Audit, Risk & Assurance Committee

Date	14 July 2020
Report title	WMCA Strategic Risk Register
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Julia Goldsworthy, Director of Strategy Email: Julia.Goldsworthy@wmca.org.uk Tel: (0121) 214 7941
Report has been considered by	

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) Consider and note the strategic risks contained within the WMCA Strategic risk register.
- (2) Note the additional consideration of Covid19 risks shown in the updated Register.

1. Purpose

- 1.1 This report provides an update on the current status of the strategic risk register as presented as Appendix 1 to support Audit, Risk and Assurance committee (ARAC) in its function to monitor the operation of risk management at West Midlands Combined Authority.

2. Background

- 2.1 Senior Leadership Team (SLT) monitors WMCA's risk environment on a regular basis to ensure key risks are captured on the Strategic Risk register and effective mitigation measures are in place to actively reduce or eliminate the resulting effects.
- 2.2 Risk management has been a key driver in the identification and management of the challenges resulting from the current public health emergency and this has been managed at a local level with a Covid 19 risk register being established at an operational level.
- 2.3 The pandemic has required a further review of risks already identified and contained within the strategic risk register and this has been reflected as additional entries to the register under the heading of 'Covid 19 effects to risk and response', and are recorded alongside the associated risk where relevant. A new risk has also been added to the register to reflect the WMCA's resilience and response to the pandemic overall. Unfortunately, at this stage of the Pandemic it is only possible to identify some risks from an interim point of view as further work is ongoing to understand some of the longer-term impacts on the organisation and the region.
- 2.4 The register continues to record a number of high-level risks with 8 set as high risks including Financial Assumptions of the Investment Programme (ref. S01) and External Factors (ref. S11) which are recorded with the highest scoring of 25.
- 2.5 Detailed analysis of the financial forecast is ongoing, and Members will be aware of media coverage of the financial pressures that are facing public authorities at this time. SLT are working closely with Central Government as part of the financial and economic support for the region including its response to policy developments that will be required to be stalled for the immediate future.

3. Financial Implications

- 3.1 N/A

4. Legal Implications

- 4.1 N/A

5. Equalities Implications

- 5.1 N/A

6. Inclusive Growth Implications

- 6.1 N/A

7. Geographical Area of Report's Implications

7.1 N/A

8. Other Implications

8.1 N/A

9. Schedule of Background Papers

9.1 Appendix 1 - Strategic Risk register

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WMCA Strategic Risk Register - May 2020

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Current risk score			Further actions required to mitigate risk
						Likeli-hood	Impact	Current Score	
S01	Director of Finance	Financial	 OPEN 5/5	Financial Assumptions for Investment Programme There is a risk that assumptions of the Devolution deal, that have been made against expected economic growth, local precepts, business rate retention and interest rate levels, do not prove to be achievable. If these assumptions are not regularly monitored and reviewed to ensure assumptions and budgets remain valid, then should these prove to be incorrect, insufficient funds will be available to meet the Investment Programme funding requirements, the model will not meet financial expectations, a number of delivery schemes will not be achievable, or members of the Combined Authority will be liable for outstanding financial commitments.	Close working with Government to understand the ongoing financial position and its effects on the region. Assessing opportunities to turn grants to loans and / or maximise 3rd party contributions and land value capture. The 2020/21 budget and management of the Investment Programme funding has been approved by Leaders.	5	5	25	Update on Investment Programme provided in January to Leaders. Further work ongoing to consider whether prioritisation is appropriate. Continuation of working with Government and constituent authorities regarding the assumptions relating to business rates. Alternative funding and financing streams are being explored with HMT. Future (post 2020) precept options to be explored. A review of investment programme governance and appraisal processes has been commissioned to ensure effective arrangements are in place to support the delivery of the Investment Programme. Proposals have been presented to investment Board and will be brought forward for consideration by WMCA Board mid 2020. External economic uncertainty leaves high residual risks despite further mitigating actions.
				Covid 19 effects and response to risk Due to affects of Covid 19, it is impossible to predict on the outcome of financial assumptions but the current situation means it is highly unlikely the previous economic expectations will be met.	SLT continue to work with Central Government on financial issues arising from this situation, ensuring the voice of WMCA is heard by Government as part of discussions around financial and economic support for the region.				The 2020 spending review is likely to be suspended but work continues on supporting funding for the region.
S11	Senior Leadership Team	Economic	 OPEN 3/5	External Factors There is risk that external challenges or changes in policy from global, EU or government / political or financial change are not factored into WMCA plans, which could make delivery ambitions more difficult to achieve. Following the General election there is now potential for significant change in emphasis on a wide range of policy considerations including economic policy, investment and potential further devolution .(levelling up) There is now a greater degree of certainty over brexit (in the short term) however the outcome of trade negotiations which will dictate the shape of UK/EU trade are still unknown so uncertainty still remains. Risks to the regional economy have not necessarily been reduced over the medium term. There is still a requirement to monitor the situation on a continued basis since a no-deal brexit still remains a possibility.	All parties remaining cognisant of external factors including the short, medium and long term effects of the exit from the EU. WMCA supports wider regional EU exit planning activities, and leads the Economic Contingency Group in the region. Close monitoring of economic indicators will help with early identification of an economic downturn. Established monthly monitoring process (in collaboration with CityREDI the University of Birmingham) as a recommendation of the Brexit Economic Contingency group, summarising economic conditions. Regular statistical releases are circulated to inform decision making and are kept under annual review through the publication of the yearly "State of the Region" report. Awareness is maintained of existing and new legal and environmental regulations to ensure compliance at all times. Innovative programme delivery mechanisms are under active exploration, working towards joint venture modelling (similar to the Metro Alliance) working collectively with the private sector on sharing of risk and costs with partners.	5	5	25	Working closely with MHCLG, HM Treasury and the Department for Business, Energy and Industry Strategy (BEIS) to ensure the CA has access to the latest intelligence and government priorities. Brexit implications continue to be closely monitored and the organisation remains cognisant of its developments and the emerging risks. Discussions are continuing with Whitehall to understand new Government priorities and to ensure the Region's views are taken into account.
				Covid 19 effects and response to risk There is significant risk that other policy developments must be stalled due to the Covid response. Particular risks associated with EU exit negotiations will have serious implications if not addressed in a timely manner.	Daily meetings are being held with SLT members to monitor the situation and are fully engaged in regional and national discussions on the response to Covid 19.				Continued development and delivery of appropriate responses as the situation develops as advised by Government, including the development of a strategy to support the recovery of the economy within the region.
S04	Senior Leadership Team	Political	 OPEN 4/4	Stakeholder & Political Relations There is a risk that as WMCA continues to expand and absorb new remits and accountabilities that WMCA's stakeholder & political relations become more pressured. Positive stakeholder and political relations are needed to deliver the ambitions of the organisation. The potential devolution of new powers and budgets from government to the Combined Authority under the Government's "levelling up" proposals will increase pressures on financial, operational, governance and scrutiny functions. There may be challenges in maintaining the relationships across the Region which helped to deliver the WMCA. Mayoral elections have been cancelled until May 2021. Political relations will need to be managed in these circumstances.	Ongoing close working with LEPs, constituent and non-constituent members with regular communications in place to ensure all parties are fully engaged. Collaborative working to be maintained and extended where opportunities allow. Arrangements are being put in place to ensure all stakeholders are kept informed & involved with any Devolution discussions. The expectations of all members is to be clearly understood and shared with ongoing engagement with all partners and businesses at all stages of the Portfolio delivery. WMCA are developing more regular stakeholder and political engagement to discuss both inflight and emerging opportunities for the wider benefit of the region. This has been supported by detailed stakeholder mapping and engagement activities being undertaken including protocols being established with local authorities.	4	4	16	Regular communication exists and is maintained at various levels. Wide representation at Governance Boards are to be maintained. New opportunities being identified by Leadership Team to maintain and improve relations. Induction process for newly elected political members of WMCA in place. External political uncertainties are likely to contribute to residual risks despite mitigating actions.

WMCA Strategic Risk Register - May 2020

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S03	Senior Information Risk owner (MD, TfWM) / Head of Governance	Operations Core Functions	OPEN 4/4 ↔	<p>Data Protection & Information Security</p> <p>The risk that data protection requirements and/or ICT system security are not maintained, causing the loss or misuse of personal data and ICT systems including opportunities for cyber crime and will result in legal challenges and an inability to maintain operations.</p> <p>Cyber terrorism is an increasing threat and public sector bodies are regular targets. National advice sets the risk at substantial. Failure to maintain adequate response has the potential for severe reputational, operational and regulatory impact on WMCA. Financial penalties for breach of Data Protection obligations are now significantly increased.</p>	<p>The WMCA has an Information Assurance Framework in place supported by a suite of Information Security/Management and Data Protection policies. The IA Frameworks, ratified at Senior Leadership level, sets out the organisation commitment and response to the mitigation of identified information threats and risks.</p> <p>In accordance with the IA framework, the WMCA is committed to counter cyber threats and appropriately protect its business and Data Protection relevant information assets. To enable this, the organisation has adopted and continues to monitor adherence to all standards, warnings, advice, guidance and best practice as indicated by the CPNI, NCSC and other external experts.</p> <p>The Information Assurance framework provides an internal information governance hierarchy for risk owners, whose function it is to consider and manage information risk at strategic and operational levels.</p> <p>Mandatory requirement in place for all staff to complete Information Security training, including GDPR, with regular staff awareness and monitoring in place.</p>	4	4	16	<p>Increasing organisational maturity surrounding the employment of baseline HMG standards of physical and Environmental, Policy and Procedural, and Personnel security, including staff training and awareness of Information Security and Data Protection.</p> <p>Comprehensive review of ICT strategy and service delivery in progress.</p> <p>Regular scenario and resilience based exercises in place to support response preparedness.</p> <p>Covid 19 response: Guidance has been issued to all staff to support continued conformity of data security in line with WMCA remote working protocols including completion of mandatory cyber security and GDPR training by all. Government guidance has been issued to respond to the continued security of personal data with all National Cyber Security Centre advisories being actively managed within the organisation</p>
S02	Senior Leadership Team	Operations Core Functions	↔ OPEN 3/3	<p>Capacity and Capability</p> <p>There is a risk that capacity and skills amongst managers and officers are insufficient, or conflicts with other priorities, which will impact on the ability to deliver the WMCA's strategic deliverables and will impinge on the organisation's ability to secure future funding opportunities.</p>	<p>Recruitment and retention of high quality resources is a focus of WMCA Board and resource structures are regularly monitored at departmental, Leadership and board level. With a growing remit of new and additional priorities, the pressures on staff requirements needs close monitoring and planning to deliver these new ambitions.</p> <p>Governance structure and monitoring provides for early warning of possible pressures and required interventions to be sourced.</p> <p>Regular communications in place with all staff to maintain engagement across all levels of the organisation. Staff personal objectives and development plans are also aligned to organisational business plan requirements.</p> <p>The budget process is aligned to the Business Plan, incorporating resource and capacity requirements to the budget to ensure delivery of known commitments.</p>	4	4	16	<p>Senior Leadership Team has completed the review of the Corporate Services with new structures currently being implemented to meet the future aspirations of the organisation.</p>
				<p>Covid 19 effects and response to risk</p> <p>The organisation has moved to a predominantly home working environment. There is a risk that operational efficiency and staff morale and wellbeing could be affected in the long term. Normal control measures could also be strained during this time due to unusual working conditions.</p>	<p>Measures have been put in place to ensure regular staff briefings are completed, including guidance, written updates and video links with the Chief Executive and the Mayor. Policies have been reviewed to ensure they take account of the current situation.</p>				<p>Recruitment of key roles continue to be managed remotely.</p>
S15	Senior Leadership Team	Economic Political Financial	OPEN 4/4 ↔	<p>Overall Delivery of Devolution Objectives</p> <p>As a result of political and economic uncertainty, there is a risk that the overall objectives underpinning the establishment of WMCA to deliver Devolution are compromised. This is both a delivery risk but also a reputational and functional risk.</p> <p>Ability to deliver on programmes that are not secured in full may be affected by funding pressures, political uncertainty and changing priorities of central government.</p> <p><i>Please refer to comments on risk ref.S11 for information on Covid 19 response</i></p>	<p>We continue to maintain close relationships with central government at both political and civil service levels.</p> <p>We make strong arguments for funding on all appropriate occasions. We are involved in regional and national review and planning exercises e.g. Brexit contingency planning.</p> <p>Devolution objectives are monitored and managed by Officers, thematic Boards and also WMCA Board.</p> <p>WMCA has active Overview & Scrutiny and Audit committees, monitoring progress and delivery of Devolution.</p> <p>The Annual Plan is produced based on Devolution priorities.</p>	4	4	16	<p>High residual external risks given current political and economic uncertainty</p>

WMCA Strategic Risk Register - May 2020

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S14	Senior Leadership Team	Political & Programme Delivery	OPEN 3/5 ↔	<p>Delivering the 2041 Carbon Budget reduction</p> <p>There is a risk the WMCA members and partners will not meet the region's carbon budget reduction net-zero CO2 by 2041 (and attendant interim targets) due to a variety of structural and operational factors - including the pace of transition within key industries and sectors, and the scale of government investment and legislation.</p> <p>This is a collective regional commitment (relevant across the three LEP areas) underpinned by a number of pre-conditions and determinants that are outside of WMCA's direct control.</p> <p>There are profound implications for the region as part of a headline global risk of severe warming which evidence suggest will be costly in human and economic terms.</p>	<p>Monitoring is provided annually by Sustainability West Midlands. The latest figures, based on 2017 data demonstrates current targets have been achieved with a 21.8% reduction recorded since 2010. But the scale of the renewed commitment of WMCA (alongside that of its members and partners) requires a step change.</p> <p>Commitment has been made to support businesses including our regional response to the clean growth opportunities set out in the Local Industrial Strategy and through close working with LEPs.</p> <p>Supporting progress with sustainability partners in aligning the five-year budget cycles required under the UK Climate Change Act.</p> <p>TfWM continues work to effect 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.</p>	3	5	15	<p>An Action Plan was presented to WMCA Board in January 2020 providing a set of actions, policies and investments required to adhere to the carbon reduction timetable which will be consulted on with the public and stakeholders. Progress to be reported to Board in June.</p> <p>We continue to press the Government for additional funding for the Carbon Reduction Plan in connection with the forthcoming Budget and any review of public spending</p>
S12	Senior Leadership Team	Programme Delivery & Devolution Commitments	OPEN 3/5 ↔	<p>Project/Programme Appraisal & Assurance</p> <p>The risk that new project and programme proposals are not effectively appraised or assured. This could lead to poor investment decisions and failure to realise anticipated benefits or value for money, hence it will have an adverse financial and reputational impact.</p>	<p>A WMCA Assurance framework is in place and currently under review to provide guidance and further enhance the supporting processes.</p> <p>Internal Audit providing up to date assessment of current performance</p> <p>The Investment Director is establishing a commercial approach to funding opportunities.</p>	3	5	15	<p>A plan to develop and implement an enhanced Governance and Assurance Framework was endorsed by the Investment Board on 10th December 2018. Reflecting updated MHCLG guidance, the CA is developing a Single Assurance Framework.</p> <p>A Strategic Hub has been created with operations currently being established to provide a single framework for programme oversight and assurance.</p>
S07d	Investment & Commercial Activities Director	Programme Delivery & Devolution Commitments	Open 3/4 ↔	<p>Delivery - West Midlands 5G</p> <p>5G is a complex, multi-stakeholder project which is part of the national TestBeds and Trials programme within DCMS. There is managed risk inbuilt within the programme as to the market response, the technical requirements of a hitherto largely untested (at scale) technology, and the extent to which we as a region can build the mix of supply and demand that will be needed to realise maximum economic and social value for the region.</p>	<p>WMCA and DCMS are developing robust assurance frameworks for the programme. Finances throughout the project will be drawn down subject to robust business case criteria within both DCMS (via an over-arching grant agreement) and within WMCA (via investment programme mechanisms). The governance structure further reinforces this - via an arms length, wholly owned subsidiary company of WMCA, overseen by an independent chair held ultimately to account by a joint-venture board - each with senior representation from WMCA, DCMS and other stakeholders.</p>	3	4	12	<p>We will continue to ensure that finance, governance and assurance processes reflect the commitments as to ensuring maximum regional benefit made to WMCA Board. Nonetheless, the region is participating in a 'testbed and trial' project which due to its innovative nature carries an inherent element of risk (and commensurate reward)</p> <p>We will continue to monitor the programme according to market realities and the profile of funding available - and adapt accordingly within the governance framework created for this purpose</p>
S07f	Director of Housing and Regeneration	Programme Delivery & Devolution Commitments	Open 3/4 ↔	<p>Delivery - Housing</p> <p>The Combined Authority's Housing & Regeneration priorities and objectives are contingent on the deployment of funding secured through Devolution and subsequent agreements with HMG including both acquisitions by WMCA directly and joint ventures and investments. The impact of the Covid-19 pandemic on the property market may have consequences for programme delivery, progress towards HMG targets, and the financial risk profile of the CA's investments and acquisitions.</p> <p>The updating, where necessary, of local plans for constituent and non-constituent members is a core element of Government support for the Housing Deal agreed in 2018 and the Housing and Land Board are regularly updated on progress. With the impact of Covid-19 on local authority priorities and resourcing, there is a risk that progress with local plans could be hampered, which is a risk the Combined Authority does not control, with a consequence for securing continuing funding, support and confidence from Whitehall to achieve the Combined Authority's outcomes. In addition, there are potential consequences for developer investment, alongside maintaining relationships with local authorities, delivery of objectives and reputational and political damage.</p>	<p>WMCA is in ongoing dialogue with officials in MHCLG, Treasury and No 10 to maintain relationships and confirm progress towards the Housing Deal goals. This includes updates on Local Plan progress and delivery of housing and wider inclusive growth ambitions in the region. The Single Commissioning Framework approved by the WMCA to guide deployment of devolved housing and land funds and its associated gateway process is used by WMCA to ensure value for money, risk management, effective due diligence and ensuring WMCA is intervening where there is demonstrable market failure to secure additionality and wider inclusive growth objectives. Additional checks and balances have been included in the governance process during the pandemic to ensure the appropriate risk analysis and assurances are in place.</p> <p>The Housing and Land Board consists of elected Members from all local authorities in the WMCA geography, alongside representation from LEPs, Homes England and the housing industry. Housing & Regeneration team members at all levels are in regular contact with colleagues at local authorities and all reports are considered by an officers steering group. This collective approach is in place to ensure all parties are fully engaged in the strategic approach of the WMCA.</p> <p>The WMCA, its local authority partners and business sector representatives are currently co-developing the Housing and Land Board Portfolio's Economic Recovery Strategy and Interventions Plan, as commissioned by the Housing and Land Delivery Board. These documents assess and analyse the challenges and opportunities brought about by Covid-19 and a series of interventions, including asks of HMG to mitigate risk and maximise public value.</p>	3	4	12	<p>Co-development of Housing and Land Board Portfolio's Economic Recovery Strategy & Interventions, including asks of HMG, with local authority partners, private sector leaders and industry groups. Regular dialogue with civil servants to establish WM progress and delivery Development of stakeholder engagement tools</p> <p>Close working relationships with Members and Officers at local authorities</p> <p>Meetings of officer Steering Group to include workshops and task and finish sessions.</p> <p>Communications plan for Housing & Regeneration to ensure consistent messaging and that LAs and other partners are included and engaged in relevant work.</p> <p>Housing & Regeneration business plan to set out consistent approach to targets, measures and reporting</p>
S05	Head of Governance	Operations Core Functions	↔ OPEN 4/4	<p>Governance Arrangements</p> <p>The risk that a lack of, or non-adherence to, formal governance arrangements will result in a risk of ineffective or unsuccessful delivery of WMCA objectives and possible legal challenge, impacting on the WMCA's ability to meet its obligations and future aspirations.</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 delivery of the organisation's objectives. With new devolved budgets, different government departments have specified different assurance requirements which are adding to pressures to develop bespoke governance arrangements.</p>	<p>Comprehensive governance arrangements are in place and contained in the WMCA constitution, approved by the Board.</p> <p>The Head of Governance and Monitoring officer has direct access to the Leadership Team and WMCA Board, and responsibility for oversight of all assurance activities, including Internal Audit.</p> <p>WMCA assurance framework in place and currently under review. Governance requirements for Adult Education Budget, Housing and 5G have, or are being established to ensure the adoption of streamlined approaches where required.</p> <p>Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements.</p> <p>Statutory Officers Group has been established to moderate and review compliance of governance arrangements. Membership includes the CEO, Section 151 officer, and the Monitoring Officer.</p>	3	4	12	<p>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.</p> <p>Corporate Assurance Team and Governance continue to liaise with new functions to establish appropriate assurance and governance arrangements.</p> <p>A governance review including a full review of the Constitution is currently underway.</p>

WMCA Strategic Risk Register - May 2020

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
				<p>Covid 19 effects and response to risk Government guidance on social distancing has resulted in formal meetings having been suspended. There is a risk that decision making will not be possible for a period of time resulting in inevitable issues for programme delivery where decisions are delayed.</p>	<p>An interim process to enable urgent decision making to be made under delegated powers has been agreed, ensuring transparency measures are in place.</p> <p>Government has set regulations in place to allow participants into remote decision making activities within Parliament via Online meetings and has been implemented within WMCA with the successful delivery of a number of formal meetings having taken place.</p>				
S09	Senior Leadership Team	Operations Core Functions	OPEN 3/4 ↔	<p>Capacity of Leadership Team The risk that the capacity of the Leadership team is not sufficient to enable business decisions to be made in a timely manner, for instance due to difficulties in recruitment or excessive workloads.</p> <p><i>Please refer to risk ref. S02 for information on Covid 19 effects and response.</i></p>	<p>Leadership team is fully established with key individuals who have an expertise in their specific field and have established relations with key stakeholders to support the continued delivery of the WMCA agenda.</p> <p>Continued oversight of all functions is maintained by the CEO with weekly individual and Leadership Team review meetings to enable early intervention.</p> <p>A Corporate Management Team of Heads of Service has been established to provide additional leadership capacity and support to the Strategic Leadership Team by providing regular oversight of organisational policy, development and performance.</p> <p>An integrated Performance Management Framework has been established to provide SLT with early trigger warnings affecting delivery.</p>	3	4	12	Close working arrangements in place with member authorities in order for all parties to provide mutual support as required.
S13	Head of Governance / Managing Director TFWM	Operations Core Functions	OPEN 3/4 ↔	<p>WMCA Resilience The risk that WMCA cannot respond in an effective and timely manner to events that disrupt operations and activities, which could lead to financial loss (or failure to realise expected benefits or funding) reputational damage, legal or regulatory breach.</p> <p><i>Please see below re: Covid 19 effects</i></p>	<p>A business continuity framework and programme exists and continues to be advanced to ensure that WMCA can respond to any business disruption in a timely manner.</p> <p>An incident management team and out of hours On Call arrangements are in place with alternative workspace identified at alternative WMCA locations.</p> <p>Independent review by Internal Audit provided 'substantial' rating for corporate business continuity arrangements.</p>	3	4	12	<p>Raising business continuity awareness and embedding the programme within the business.</p> <p>ICT to review disaster recovery plan to ensure consistency between ICT and operational requirements are met and to update following Covid-19 and in light of the new remote working policies and procedures.</p> <p>WMCA Assets Team are working on an updated Business Continuity Plan and ICT have asked to be part of the group for this to look at the IT DR plan in conjunction with business requirements</p>
S18	Senior Leadership Team	Economic Financial Capacity Delivery	New	<p>WMCA Resilience - Covid 19 There is a risk WMCA cannot respond in an effective or timely manner to respond to the national and regional effects of the Covid 19 pandemic. This will result in significant challenges to the deliverability of the devolution programme within expected timescales, including a detrimental impact to the national economy, programme delivery, an inability to maintain robust governance arrangements and the capacity and wellbeing of it's staff.</p>	<p>Strategic team established by SLT to consider and manage the organisational response to the outbreak of Covid 19.</p> <p>Assessment of critical business activities, ensuring the prioritisation and continuation of the organisation's critical path.</p> <p>Revision of rules or suspension of statutory and constitutional obligations following government advice and instruction, including the suspension of the 2020 mayoral election and public meetings.</p> <p>Engagement with local and regional resilience forums and Civil Contingency groups to provide a consistent and consolidated response to the external effects of the pandemic response.</p> <p>Working with economic and other local strategic groups to mitigate the economic effects, disseminating their views to Government for onward consideration.</p>	5	5	25	<p>Situation updates appraised daily with active engagement to ensure the safety and wellbeing of staff is a priority, ensuring work demands and practices do not create additional risk, following Government and Public Health England guidelines.</p> <p>Plans being established for the reopening of 16 Summer Lane to accommodate critical roles only, fulfilling all health and safety requirements when allowed by Government guidelines.</p>
S08	Senior Leadership Team	Programme Delivery & Devolution Commitments	OPEN 3/4 ↔	<p>Reputation The risk that the reputation of the WMCA will be compromised if the organisation does not present itself as, or deliver an effective and efficient organisation resulting in negative media coverage and an inability to deliver expectations.</p> <p>Where the WMCA has significant monetary investment and proposals run by partners, for example the Commonwealth Games, the operation of Arms Length Companies or high profile sporting or cultural events in the region; the WMCA needs to manage the additional indirect reputational risks that are posed by association with these projects/proposals.</p> <p>There is reputational risk involved in that there is a wider perception that the WMCA is accountable for more than it is, i.e. Delivery of the Commonwealth Games.</p>	<p>The Communications department is engaged in all business activity, providing regular liaison with the Mayor's office to ensure a pro-active and consistent messaging is delivered by all, at all times.</p> <p>Communications Director and all WMCA spokespersons provided with media training.</p> <p>Regional Communications Group established ensuring access to media facilities for all WMCA members and stakeholders.</p> <p>Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges.</p> <p>Close engagement with wider organisations with ongoing management and forward planning of all Communication activities.</p>	3	4	12	<p>Ensure that major Regional initiatives e.g. Commonwealth Games have clear and transparent governance arrangements in place.</p> <p>External political and economic uncertainties will contribute to residual risk.</p>

WMCA Strategic Risk Register - May 2020

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S06	Director of Finance	Financial	OPEN 2/4 ↔	<p>Commerciality</p> <p>The risk that, 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:</p> <p>a) commercial models not being able to deliver expected benefits and commercial revenue targets and/or</p> <p>b) the structure exposes the Combined Authority to greater financial risk if the delivery model is unsuccessful.</p>	<p>Formal governance structures in place between WMCA and commercial bodies.</p> <p>CA directors appointed to companies providing regular interface between parties.</p> <p>Compliance of all financial accounting arrangements.</p> <p>Assurance & Governance checklist in place to review and confirm satisfactory arrangements are in place for all 'Arms Length companies'</p> <p>The Investment Director provides a commercial perspective on funding opportunities that are presented to WMCA.</p>	2	4	8	Adopting commercial models will allow the WMCA to become less dependent on government as it can diversify funding income.
				<p>Covid 19 effects and risk response</p> <p>There is a risk the current economic situation will have a greater impact on the commercial arrangements currently in place or being established.</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>				
S07e	Managing Director, TfWM	Programme Delivery & Devolution Commitments	OPEN 2/4 ↔	<p>Delivery</p> <p>Commonwealth Games Regional and Spectator Transport Operations (TfWM)</p> <p>There is a risk that the cost of resources to strengthen the local and regional transport network under the extraordinary one-off demands of the Commonwealth Games cannot be met entirely by the Organising Committee (OC) operations budget. A robust budget and funding agreement was reviewed and agreed by TfWM and the OC Jan 2020.</p>	<p>TfWM chairs the multi-agency Joint Transport Group (JTG) which includes relevant central Government departments (DCMS, DfT), Local Authorities and the OC. WMCA CEO and TfWM MD are members of the Chief Executive Officers Group (CEOG) for the Games. Budget for Transport Operations was agreed with HMG as part of its major Project Review Group and TfWM continues to work in partnership with B2022 to develop and deliver a successful transport operation across the region for Spectators for Games time. An Integrated Transport Programme, cost plan and financial management processes have been developed that supports the formal funding agreement and progresses the delivery of operations that fall under TfWM's remit for Games.</p>	2	4	8	We will continue to work in partnership with Government, the Organising Committee, Birmingham City Council and other authorities to ensure a successful games for the region
S10	Managing Director, TfWM	Operations Core Functions	OPEN 2/4 ↔	<p>Health & Safety</p> <p>There is a risk that Health & Safety procedures to ensure safe working conditions for staff, visitors and users of all WMCA facilities are absent or inadequate. Failure to provide a safe environment for all users will result in potential legal challenges and reputational damage due to unsafe, or unreliable infrastructure particularly on the transport network.</p> <p>The WMCA is now accountable for the delivery of Metro Operations & a number of project construction sites with the growing number of infrastructure projects in delivery.</p>	<p>Health & safety duties are delivered to ISO18001 standard with ongoing compliance externally assessed 6 monthly.</p> <p>Quarterly inspections of all assets undertaken to ensure H&S compliance is maintained including review of accident reports.</p> <p>Monthly H&S position statement provided to satisfy Boards of the Organisation's Corporate responsibilities.</p> <p>Health & safety obligations are considered in the development of all projects and programmes. Strategic and operational Safety, Health, and Environment (SHE) committees established providing operational and Director engagement.</p>	2	4	8	<p>Ongoing engagement with all WMCA departments to ensure adherence of H&S policies by all.</p> <p>Immediate engagement with emergency services and /or HSE to provide pro-active management of H&S incidents.</p> <p>Further plans will need to be developed to ensure all H&S requirements are developed for the continuing growth of the WMCA portfolio.</p> <p>Covid 19 response: : Covid-19 Risk Assessments have been produced for all operational environments, with particular attention paid to Transport Operations as the network re-mobilises. Operational Guidelines have been produced for Transport Operations setting out new operational norms. A DSE Self-Assessment tool is available to assist staff with Remote Working. Latest HM Government guidance has been reviewed and feedback provided on its application within the organisation. Guidance has been produced setting out the management framework and procedure for "Covid-19 Secure" safe workplaces. H&S impacts to de-mobilisation and re-mobilisation of projects due to Covid-19 continue to be considered, working closely with stakeholders to ensure ongoing compliance with Covid-19 requirements. Ongoing work with Strategic Assets in relation to the recovery of 16 Summer Lane</p>
S07c	Director of Productivity and Skills	Programme Delivery & Devolution Commitments	OPEN 3/4 ↔	<p>Delivery - Adult Education Budget</p> <p>Devolution of AEB represents a significant opportunity to demonstrate the impact of local control of skills funding on communities, through the ability to align £126m p.a. of skills funding to better meet the needs of residents and businesses in line with the priorities as set out within the Regional Skills Plan. There is a risk that this opportunity will not be taken if not managed appropriately.</p>	<p>Priorities for AEB agreed as set out within the Regional Skills Plan with further local tailoring agreed with local authorities. The initial procurement process has been concluded with just over £25m awarded. Where gaps in provision against priorities have been identified further conversations are being undertaken to identify how they can be addressed - either through grant funded providers within their allocation or through additional procurement.</p> <p>Approximately £100m will continue to be Grant funded to local authorities and local colleges and delivery agreements are in place to demonstrate how funding will be used to meet regional and local priorities. The remainder of provision has been secured through competitive tenders and awarded to a range of private and voluntary organisations.</p> <p>The Productivity and Skills team have reviewed service levels and requirements with corporate service teams to ensure that the appropriate resource is scheduled to support the business needs.</p>	2	3	6	We will continue to ensure that finance, governance and assurance processes support the commitment to ensure that AEB delivers regional priorities. Review of capacity to be undertaken on a termly basis to ensure that sufficient resources are in place to successfully manage AEB.
				<p>Covid 19 effects and response</p> <p>There is a risk Adult education delivery targets will not be achievable due to the necessary closure of training providers with success rates also reducing from the loss of existing learners.</p>	<p>Provision has been reconfigured in a number of cases to provide a response to the current situation enabling providers to deliver a different set of provision.</p> <p>A payment profile minimum has been agreed for all contracted providers for April, May and June to ensure capacity. Grant providers will be paid full allocations if they continue to deliver services to all learners in the best way they can. Modelling of impact by provider is being undertaken.</p>				Continued engagement with training providers to support their response and to recovery.

WMCA Strategic Risk Register - May 2020

Risk ID	Risk Owner	Category	Status & Previously reported score	Risk Description	Controls and measures already in place	Likeli-hood	Impact	Current Score	Further actions required to mitigate risk
S16	Managing Director, TfWM	Economic	OPEN ↔ 3/4	<p>HS2 economic and programme impacts</p> <p>HS2 is expected to bring economic benefits to the region both during construction and beyond. If the Oakervee review results in HS2 being stopped, regional benefits will be lost with a detrimental impact on the anticipated regeneration of the region and WMCA's ability to meet its strategic priorities.</p>	<p>Working with partners to continue advocating of HS2 as a fundamental building block on which the regions economic growth, transport sustainable growth strategies are based.</p> <p>HS2 connectivity plans continue to be established including close working with the HS2 Growth Delivery Board.</p>	3	4	12	We continue to work closely with all HS2 stakeholders, assessing the outcome of the Oakervee review to determine its effects on, and WMCA's response to achieve delivery of its strategic aims
S17	Managing Director, TfWM	Operations Emerging	OPEN 4/3 ↓	<p>Rail services Industrial Action</p> <p>Industrial action could arise on the rail network as a result of proposals by the local rail franchisee to make changes to current operational arrangements. This would impact on the rail service provision and the reputation of TfWM as the co-ordinator of public transport services within the West Midlands.</p>	<p>Dispute resolution agreed on the 23rd December though continual monitoring is in place</p>	3	3	9	Close engagement with the rail franchisee to understand direct effects on passengers and working with other transport operators to mitigate impact on all.
S19	Investment & Commercial Activities Director Director of Finance	Programme Delivery & Devolution Commitments	New	<p>Programme overspend / Budgetary management</p> <p>As a result of economic uncertainties and unexpected outcomes arising during project construction and delivery, there is a risk of cost increases from approved budgets. This will result in a need to realign funds with potential for financial, reputational and political impact to the organisation.</p>	<p>Comprehensive programme management arrangements in place for all projects to ensure early visibility and consideration of all of risk and issues.</p> <p>Independent monitoring programme in place through Transport Delivery Committee, Investment Board and WMCA Board.</p> <p>Contingency provision has been applied to budget requirements and is aligned to the protocols set out within the HMG Green Book.</p>				<p>Ongoing consideration being given to programme costs arising from the impact on delivery of programmes due to resourcing and supply chain effects of Covid 19.</p> <p>Increased monitoring and due diligence being undertaken at Procurement stage to ensure delivery objectives can be achieved due to economic conditions.</p>



West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Date	14 July 2020
Report title	Adoption of a Revised Single Assurance Framework
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Julia Goldsworthy, Director of Strategy Email: JuliaGoldsworthy@wmca.org.uk Tel (0121) 214 7941 Tim Martin, Head of Governance, Clerk and Monitoring Officer Email: Tim.Martin@wmca.org.uk Tel (0121) 214 7435
Report to be considered by	Audit, Risk & Assurance Committee Senior Leadership Team

Recommendation(s) for action or decision:

The Audit, Risk & Assurance Committee is recommended to:

- (1) Note the work that has been undertaken to date on developing the Single Assurance Framework and the decision-making process and the intent behind the proposed way forward as detailed in Appendix A.
- (2) Endorse the Single Assurance Framework for approval by WMCA Board.

1. Purpose

- 1.1 The purpose of this report is to provide ARAC with an update on progress in delivering the Single Assurance Framework Project, arising from the drivers for change outlined in previous reports to ARAC in September and November 2019.
- 1.2 To request that ARAC provide comment on the attached revised DRAFT Single Assurance Framework document and endorse the intent to submit the document to WMCA Board for approval on the 24 July 2020.

2. Objectives and Intent of the Project

- 2.1 In September 2019 and November 2019, the Investment Programme Governance Audit Update report provided ARAC with an update on work undertaken to address previously agreed audit actions and provide details of proposals agreed by SLT to enhance the Assurance Framework through delivery of a number of key governance improvements.
- 2.2 Those reports also provided significant background details regarding the Governance and Assurance Project entitled 'the Single Assurance Framework Project' and how the project draws together several drivers for change from outside and within the WMCA and seeks to address these drivers through a single connected project.
- 2.3 The objectives of the Single Assurance Framework Project have been set out in previous reports to this Committee, that being to deliver:
 1. Improved Strategic Planning processes
 2. Golden Thread from strategic objective through project development and delivery
 3. Consistent project development processes that meet specific WMCA and National standards across all WMCA activity
 4. Enhanced Assurance Framework document and processes to reflect improvements to project development, are compliant with requirements of Governments National Local Growth Guidelines and deliver ARAC and Internal Audit recommendations
 5. Creation of a WMCA wide Activity Register with supporting Portfolio Project Pipelines
 6. Enhances support Panel for Investment Board to assist in delivery of a higher threshold of consideration of Investment Programme proposals
 7. Effective purpose and link into formal governance mechanisms provided through Thematic Boards
 8. Creation of strategic data capture and Monitoring & Evaluation regime to support Performance Management Framework and ensure WMCA Boards/ Committees have access to required data to perform their roles effectively
- 2.4 As well as responding to the drivers for change highlighted in previous reports a Single Assurance Framework will deliver the following:
 - Provide WMCA with Financial and Governance Protections for stewardship of public funds
 - Improve standards of project initiation, development, delivery and oversight
 - Trust and empower WMCAs officer expertise
 - Provide the necessary consistency, controls and clarity that will deliver confidence in the WMCAs decision-making and ability to deliver

- Embed appropriate Assurance and lines of defence within project development and decision-making process
- Manage political and reputational risks

3. The Single Assurance Framework Document

- 3.1 A considerable amount of progress has been made since the last report to ARAC on the Governance Model and its definitions and purpose, as well as its supporting artefacts, all of which will inform the new Single Assurance Framework document.
- 3.2 This progress has been broken down into key elements as follows:
- Governance improvements required to deliver Single Assurance Framework
 - Engagement with Central Government
 - The Single Assurance Framework Document

Governance improvements required to deliver Single Assurance Framework

- 3.3 Throughout December 2019 up until March 2020 a number of key approaches, processes and recommendations were developed for the purpose of supporting delivery of the Single Assurance Framework. This information was presented to WMCAs Senior Leadership Team and discussed over 4 meetings across February and March 2020 and resulted in the endorsement of the approach to Single Assurance Framework under development.
- 3.4 The SLT endorsed approach included the following:
- 3.4.1 **Officer Scheme of Delegations** - The intended Value to be added through the new scheme of delegations is as follows:
- Provide clarity on Officer delegation levels
 - Improve Officer delegation levels to assist effective decision-making within agreed level of Officer Delegations limit (< £5million as per previous scheme)
- 3.4.2 **Project Development process** – SLT has endorsed new approach to project initiation, development, business cases and assurance that will replace the TAP process. This involves:
- Initiation – Consistent process to drive strategic justification and early finance and assurance considerations
 - Development – Compliant and proportionate business cases built around Green Book and five case model
 - Monitoring & Evaluation and National Local Growth Guideline requirements delivered
 - Assurance Offer – Business case Assessment Tool to guide project development and provide maturity assessment of business cases
 - Legal, Finance, collaboration and inclusive growth considerations and early engagement requirements in all business cases
 - Executive Director accountability for all projects developed

- 3.4.4 **Investment Board** - Enhanced the functions and terms of reference of the Investment Board to identify changes that would assist delivery of the project key principles and a Single Assurance Framework. This has resulted in new Terms of Reference and supporting processes that were endorsed by the Investment Board in April 2020.
- 3.4.5 The intended Value to be added through the amendments to the Investment Board are:
- To enhance the role and functionality of the Investment Board
 - To enable ability to monitor and report on Investment Programme outputs
 - To introduce additional controls to monitor and evaluate delivery, creating ability to review projects that failing to deliver
 - To ensure appropriate documentation exists for all approvals
- 3.4.6 **Replace IAG with an Investment Advisory Panel** – SLT has endorsed creation of an Investment Panel to support the Investment Board.
- its remit will be the Investment Programme
 - it will provide observations to the Investment Board
 - its function will be to validate, challenge, support and examine proposal content
 - it will provide an output, identifying key lines of enquiry and key risks as well as making recommendations to enhance the proposal content
 - it will also provide support to the Investment Board in undertaking a review of performance and delivery if required
 - it will undertake formal reviews of projects and instruct change requests if determined as necessary by the Investment Board
 - the membership will consist of core roles that reflect HMTs 5 case elements for Business Cases. The intention is to use these roles to drive home the quality of information within Business Cases and ensure they are processed in line with HMTs guidance.
- 3.4.7 **Support Non-Investment Fund Project Approvals through an Advisory Panel** – In seeking to deliver a Single Assurance Framework the WMCA needs to have a consistent approach to approvals. The functionality of the Advisory Panel will mirror that of the Investment Panel and will add a significant second line of defence activity to proposal consideration.
- 3.4.8 The Advisory Panel will support decision-making at WMCA Board in the same way that the Investment Panel will support the Investment Board.
- 3.4.9 **Non-Delegated Decision-Making** - Clear pathway being proposed for Investment Programme approvals and Non-Investment Programme approvals, these are designed to focus the Investment Board on the Investment Programme and ensure the required considerations are introduced to Non-Investment Programme approvals. The value this approach seeks to deliver is as follows:
- Increased focus on Investment Programme
 - Clarity on decision-making
 - Better informed decision-making process

3.4.10 **Thematic Board Oversight and Support** – The Single Assurance Framework has implications for and provides opportunities to Thematic Boards. SLT has accepted the need to provide a consistent role and purpose for all Thematic Boards to help support effective, clear and accountable decision-making by and within the Combined Authority.

Engagement with Central Government

- 3.5 The SAF Project Group have been engaging with the Cities and Growth Unit, Department for Transport and Department for Education in developing the Single Assurance Framework, this engagement has involved regular meetings and review of documentation to ensure that the new Assurance Framework document will be fully compliant with National Local Growth requirements.
- 3.5 Significant progress has been made resulting in the DRAFT Single Assurance Framework document being submitted to the Cities and Local Growth Unit for review on the 25 June 2020. The Cities and Local Growth Unit have previously indicated that it will take 1 to 2 weeks to review the DRAFT.
- 3.6 An update on progress with the Central Government clearance process will be presented to ARAC at the meeting on 14 July.

The Single Assurance Framework Document

- 3.7 As stated above the DRAFT Single Assurance Framework document has been submitted to the cities and local Growth Unit for review with the intention of working towards a version cleared by Central Government in time for the WMCA Board meeting on the 24 July 2020.
- 3.8 The DRAFT document has been pulled together following extensive work by the Project Group as previously outlined to ARAC in the September and November 2019 meetings. In addition, the DRAFT document has been reviewed by the WMCAs statutory Officers and Director of Strategy.
- 3.9 The Project Group are confident that the DRAFT document will be fully compliant with the National Local Growth Assurance Framework.
- 3.10 A copy of the DRAFT Single Assurance Framework is attached at APPENDIX A. Section 5 outlines the enhancements to the Project Lifecycle previously discussed at this Committee, these enhancements are intended to address outstanding ARAC recommendations and Audit actions as well as respond to the drivers for change outlined in previous reports.
- 3.11 ARAC Members should note that the diagram in section 3.1 of the DRAFT Single Assurance Framework document is not complete, this diagram will be updated and completed once WMCA Board has discussed potential amendments to Thematic Boards.

4. The Single Assurance Framework Project

- 4.1 The Single Assurance Framework Project is not just about developing a new project lifecycle and an enhanced Assurance Framework, the project has been separated into 3 development tranches with the current focus on delivering Tranche 1.

- 4.2 Tranche 1 focuses on delivering an enhanced Single Assurance Framework document as well as:
- Consistent Project Initiation Process driven by Directorates
 - Consistent Project Development Process with WMCA Minimum Standards and guidance to apply to all projects to replace TAP
 - Thematic Board political oversight and purposeful core roles
 - Financial Delegations appropriate to support effective decision-making
 - Directorate accountability for quality and content of projects being developed
 - Investment Panel to replace IAG
 - Advisory Panel to support non-investment programme approval considerations
 - Enhanced focused role and terms of reference for Investment Board
 - Enhanced Assurance offer from Strategic Hub
 - Creation of WMCA Activity Register and supporting Portfolio Pipelines
- 4.3 Tranche 2 will seek to deliver the following:
- Consistent process for identifying new opportunities that ensures political and organisational buy-in to approach, prevent silo mentality and involves appropriate finance involvement
 - Initial review of impact of Tranche 1
 - Identify skills and training requirements for Boards and Committees resulting from Tranche 1
 - Identify and develop strategic data feeds for Boards and Committees
 - Identify and develop performance reporting requirements for Boards and Committees
- 4.4 Tranche 3 will seek to deliver the following:
- Develop how WMCA and the region sets strategic objectives, ensuring that strategic data is utilised to inform future objective setting
 - Develop strategic prioritisation process
 - Develop enhanced Annual Business Planning process
 - Explore pre-qualification criteria
 - Enhance exception reporting mechanisms
 - Embed IAAP
 - Develop and deliver M&E regime
 - Develop and deliver data intelligence regime
 - Enhance or renew Performance management Framework
 - Review implications, successes and failures of Tranches 1 and 2
 -
- 4.5 There is also various workstreams associated with the Economic Recovery efforts following COVID-19 in play, this may also have implications for how the Single Assurance Framework operates. Once these are better understood an update can be provided to ARAC.
- 4.6 If the Single Assurance Framework is approved by WMCA Board on 24 July then a phased transition period will begin as the WMCA begins to implement the document and the associated governance improvements. Work will then begin on developing Tranche 2 and 3 of the project.

5. Financial Implications

- 5.1 The cost of implementing the changes detailed within the report are being managed within existing resources.

6. Legal Implications

- 6.1 The WMCA is required to maintain an assurance framework which ensures that investment and spending decisions are made in the light of relevant considerations and proper stewardship of public monies is provided. This report outlines development work which is in progress with the overall objective of ensuring this objective continues to be met.

7. Equalities Implications

- 7.1 There are no equalities implications arising from this report.

8. Inclusive Growth Implications

- 8.1 There are no inclusive growth implications arising from this report although it should be noted that Inclusive Growth considerations have been built into the enhanced project lifecycle contained within the Single Assurance Framework.

9. Geographical Area of Report's Implications

- 9.1 There are no geographical area implications arising from this report.

10. Other Implications

- 10.1 There are no other implications arising from this report.

11. Schedule of Background Papers

- 11.1 September 2019 ARAC – Investment Programme Governance Audit Update
- 11.2 November 2019 ARAC - Investment Programme Governance Audit Update

12. Appendix

- 12.1 APPENDIX A – DRAFT Single Assurance Framework

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WEST MIDLAND COMBINED AUTHORITY ASSURANCE FRAMEWORK



2020

Version 2.0
6 July 2020

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1. Introduction and Overview

1.1 Purpose of the Assurance Framework

The aim of this document is to set out how the West Midlands Combined Authority (WMCA) will use public money responsibly, both openly and transparently, and achieve best value for money. This document outlines:

- The respective roles and responsibilities of the WMCA Mayor, the Mayoral Combined Authority (MCA), the 3 Local Enterprise Partnerships (LEPs), and other elements of the decision-making and delivery structure;
- The key processes for ensuring accountability, probity, transparency, legal compliance and value for money
- How potential investments will be appraised, prioritised, approved, and delivered; and
- How the progress and impacts of these investments will be monitored and evaluated.

The Assurance Framework sits alongside several key WMCA governance and policy documents – most notably the WMCA Constitution, the Financial Regulations, the Strategic Economic Plan (SEP), the Local Industrial Strategy, and ANNUAL WMCA Business Plan the Monitoring and Evaluation Framework and the 3 LEP Terms of Reference.

In January 2019, HM Government published a revised Assurance Framework, the ‘National Local Growth Assurance Framework’, which replaced the previous Local Enterprise Partnership National Assurance Framework and incorporates Single Pot Assurance Frameworks where operated by a Mayoral Combined Authority.

This Assurance Framework has been developed in response to the National Local Growth Assurance Framework and will take effect from *[insert date here once clearance has been provided]*. The 2020 Assurance Framework applies to all existing and new funding regimes, funding bids and projects from this date forward. For continuity purposes, some existing projects which are already part way through the previous Assurance Framework process, will conclude their approval through that route.

For clarity this is a Single Assurance Framework, it applies to all bids, projects and programmes that place a financial liability onto the WMCA that are not classed as business as usual (BAU) revenue expenditure. It covers all capital proposals. For clarity it covers the WMCA and all its subsidiaries. A Single Assurance Framework provides consistency of approach, standards, appraisal, assurance and decision-making across all funding pots. It also allows for additional proportionality within the development of business cases and in the development routes that are undertaken.

1.2 What is an Assurance Framework

An Assurance Framework is a set of systems, processes and protocols designed to provide an evidence-based and independent assessment of the governance, risk management, and control processes of an organisation. The independence inherent to the Assurance Framework is derived from the separation between the sponsorship of projects/programmes and their appraisal and evaluation.

The Assurance Framework enables organisations to monitor, measure and scrutinise how well objectives are being met and risks managed. It also implements processes to ensure an adequate response if risks or performance are perceived to be unacceptable.

HM Treasury define Assurance Frameworks as “an objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation.

WMCA continues to operate according to the Local Government Financial Framework, as set out in the Ministry of Housing, Communities and Local Government’s (MHCLG) Local Government System Statement. This document does not replace any of the checks and balances prescribed by the existing accountability systems and local authority statutory responsibilities.

The Assurance Framework will help WMCA to allocate public resources in accordance with the law and correct standards, in an efficient and effective way that delivers both desired outcomes and value for money.

1.3 Who is the Assurance Framework for?

The Assurance Framework provides assurance to the Departmental Accounting Officer by explaining how funding that is granted or devolved to the WMCA is allocated, and that there are robust local systems in place which ensure resources are spent with regularity, propriety, and value for money.

The Assurance Framework is also designed to provide assurance about the Combined Authority's activities and spending to the Constituent and Non-Constituent Authorities and to the taxpayer. It sets out a set of clear and transparent arrangements for all stakeholders in the Combined Authority area including local authorities, citizens and businesses about how WMCA will conduct itself.

1.4 Updating the Assurance Framework

The WMCA Assurance Framework is approved by the WMCA Board, it will be reviewed as and when required by the Audit, Risk and Assurance Committee (ARAC).

The WMCA Assurance Framework is reviewed and updated on an annual basis, the next annual review of this document is scheduled for April 2021.

Any proposed changes that would result in a significant divergence from the approved Assurance Framework will be submitted to the relevant government departments.

This document was signed-off by the Cities and Local Growth Unit in MHCLG on ? and by WMCA Board on 24 July 2020.

1.5 Overview

This document is split into several sections, they are as follows:

- **About the West Midlands Region:** Provides details on the geography of the region.
- **Governance and Decision-Making:** Outlines the governance and decision-making systems that underpin the WMCAs Assurance Framework.
- **Accountable and Transparent Decision-Making:** Outlines the apparatus and safeguards in place to ensure that the WMCAs decision-making is transparent and that decision-makers are held accountable for their decisions.
- **Project Lifecycle and Value for Money (VfM):** Outlines the processes that will be followed in order to ensure a rigorous and robust appraisal of projects and programmes.

This Assurance Framework should be read alongside the WMCA Constitution.

1.6 The Seven Principles of Public Life

The Seven Principles of Public Life, also known as the Nolan Principles, underpin this Assurance Framework. The WMCA seeks to uphold the highest standards of conduct and operation according to these principles and ensure robust stewardship of the resources that the WMCA has at its disposal.

The WMCA is committed to establish a culture in line with these principles which are as follows:

- **Selflessness:** Holders of public office should act solely in terms of the public interest;
- **Integrity:** Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships;
- **Objectivity:** Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias;
- **Accountability:** Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this;



- **Openness:** Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing;
- **Honesty:** Holders of public office should be truthful; and
- **Leadership:** Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

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2. About the West Midlands Region

2.1 Combined Authority

A combined authority is an accountable public body set up using national legislation that enables a group of two or more councils to collaborate and take collective decisions across council boundaries. It is far more robust than an informal partnership or even a joint committee. The creation of a combined authority means that member councils can be more ambitious in their joint working and can take advantage of powers and resources devolved to them from national government. The core purpose of a Combined Authority is to deliver better outcomes for local communities as a result of closer joint working and collaboration at a local level.

While established by Parliament, combined authorities are led by locally elected politicians and typically by a directly elected Mayor.

Devolution provides the West Midlands Combined Authority with greater freedom to direct resources to address key local needs and plan public spending as a whole to deliver more and better jobs and homes, improved transport services and infrastructure, better skills, training and public services

2.2 Geography

The Authority was established on 17 June 2016 as the Combined Authority for the West Midlands (WMCA), with the aim of improving the quality of life of everyone who lives and works in the West Midlands.

The WMCA is responsible for a range of transport, economic development and regeneration functions across the West Midlands Region. The functions of the WMCA provided or delegated to it by The West Midlands Combined Authority Order 2016 (the Order) and subsequent Orders are set out in the WMCA Constitution.

The WMCA exercises all its powers and duties in accordance with the law and the Constitution and agrees policies and delegates responsibilities to conduct its business. These latter delegations provide for the day to day management, supervision and control of services provided for by the WMCA, including the responsibilities of the statutory officers, Head of Paid Service, Section 151 Officer and Monitoring Officer.

The Leadership of the WMCA comes from the Mayor and the seven constituent local authorities, which have full voting rights and provide 2 members each on the Board. The Constituent Councils of the WMCA are the Metropolitan Councils for the local government areas of the West Midlands. Non-Constituent Authorities also support the Authority and participate as appropriate.

They are:



That makes the West Midlands Combined Authority (WMCA) as geographically defined as consisting of the following Constituent Authorities:

- Birmingham City Council
- Coventry City Council
- Dudley Metropolitan Borough Council
- Sandwell Metropolitan Borough Council
- Solihull Metropolitan Borough Council
- Walsall Metropolitan Borough Council
- City of Wolverhampton Council

The WMCA also covers the geography encompassing some parts or all of the areas of the regions 3 Local Enterprise Partnerships (LEPs), they are business-led organisations building relationships with local authorities and are non-constituent members of the WMCA. They are:



Black Country LEP



Coventry & Warwickshire
Local Enterprise Partnership

Coventry & Warwickshire LEP



Greater Birmingham & Solihull LEP

In addition the WMCA has Non-Constituent representation from Local Authorities outside of the West Midland Constituent areas which can sign up for more than one Combined Authority but have less voting rights. They are:

- Cannock Chase District Council
- North Warwickshire Borough Council
- Nuneaton & Bedworth Borough Council
- Redditch Borough Council
- Rugby Borough Council
- Shropshire Council
- Stratford-on-Avon District Council
- Tamworth Borough Council
- Telford & Wrekin Council
- Warwickshire County Council

2.3 Annual Review of the Assurance Framework

This is a 'live' document and will be subject to a detailed annual review of its content in order to ensure that material is kept up to date and to provide quality assurance on the Assurance Framework itself.

The National Local Growth Assurance Framework and further guidance and policy set by Government may also evolve over time, in addition further funding and powers could be provided to the WMCA.

The annual review will also refer to any periodic updates of the documents referenced in the appendices to the Assurance framework, including the business case templates and evaluation criteria, monitoring and evaluation procedures and the risk log.

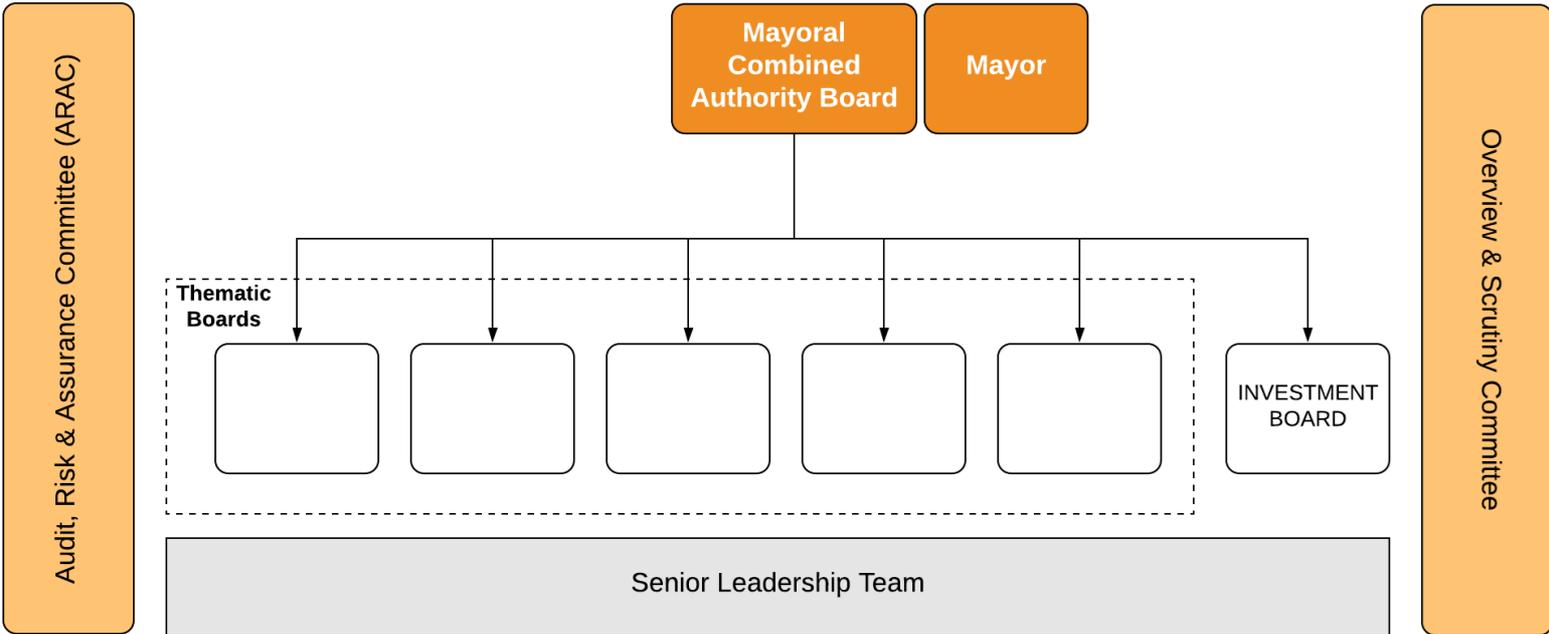
The Annual Review of the Assurance Framework will be led by the Audit, Risk & Assurance Committee and the WMCAs Statutory Officers.

It is anticipated that the Assurance Framework will continue to evolve and develop.

3. Governance and Decision-Making

3.1 West Midlands Combined Authority Governance Structure

The diagram below depicts the WMCA’s governance structure. This governance structure will be the framework under which all WMCA decisions are made and is designed to maximise transparency and democratic accountability. The terms of reference for each element of the WMCA’s governance structure are detailed in the Governance Arrangements. This document provides specific reference to the role of the different elements of the governance structure within the investment and funding allocation process.



3.1.1 The Mayor

The WMCA Mayor is directly elected by the electorate across the West Midlands WMCA Constituent area, the Mayor has a manifesto of commitments on which they were elected. The Mayor is a member, and Chair, of the Mayoral Combined Authority.

The functions of the Mayor are detailed in the West Midlands Combined Authority (Functions and Amendment) Order 2017.

The Mayor may allocate a portfolio of responsibility to WMCA Board Members, the details of which should be provided to the Annual General Meeting of the WMCA. Any changes made to the allocation of responsibilities during the municipal year shall be notified to the next ordinary meeting of the Authority. A Member allocated a portfolio of responsibility shall be referred to as a ‘Portfolio Lead Member’.

The above allocation of responsibility does not constitute a delegation of powers to a Portfolio Lead. Portfolio Leads have no delegated authority to take decisions on behalf of the WMCA or the Mayor save to the extent detailed in the [WMCA Constitution](#).

The Mayor votes as a member of the WMCA Board as specified in the [WMCA Constitution](#).

3.1.2 The WMCA Board

The WMCA Board is the legal and accountable body for funding devolved to the WMCA, including all money allocated through the Investment Programme. The WMCA Board will monitor and evaluate non-investment programme decisions directly with the Investment Board fulfilling this function as it relates to the investment programme.

The WMCA Board is responsible for a range of transport, economic development and regeneration functions across the West Midlands Region. The functions of the WMCA provided or delegated to it by The West Midlands Combined Authority Order 2016 (“the Order”) and subsequent Orders are set out in the WMCA Constitution.

The WMCA exercises all its powers and duties in accordance with the law and the Constitution and agrees policies and delegates responsibilities to conduct its business. These latter delegations provide for the day to day management, supervision and control of services provided for by the WMCA, including the responsibilities of the Head of Paid Service, Section 151 Officer and Monitoring Officer.

The remit of the WMCA Board is detailed in the [WMCA Constitution](#) along with details on voting arrangements and quoracy.

The WMCA Board meets on a bi-monthly cycle and the meetings are held in public.

The WMCA is also the Local Transport Authority for the West Midlands Region. This role is defined in the [WMCA Constitution](#).

3.1.3 The WMCA Strategic Economic Development (SED) Board

The role of the SED Board is to advise the WMCA on overarching economic strategy and narrative, to prepare Strategic Plans as necessary and to oversee the performance and evaluation of progress in delivering against those Plans.

The LEPs are key members of the SED Board.

The Terms of Reference for the SED Board are detailed in the [WMCA Constitution](#).

3.1.4 The WMCA Investment Board

The role of the Investment Board is to make investment decisions and make recommendations on investment decisions to the WMCA Board as appropriate, relating to applications made in accordance with the Investment Programme that underpin devolution agreements and any other investment proposals and other investment funds that the WMCA receive in line with its terms of reference.

The WMCA will monitor and evaluate the investment decisions it makes. This will be done through continual monitoring of the Investment Programme concluding in the agreement of the annual budget for the WMCA. The finalisation of this budget will involve prioritisation of the programme which could see elements of the Programme accelerated or otherwise.

The Terms of Reference for the Investment Board are detailed in the [WMCA Constitution](#).

3.1.5 The WMCA Overview & Scrutiny Committee

The Overview & Scrutiny Committee comprises members appointed by the WMCA’s constituent and non-constituent member authorities and has the power and responsibility to:

- Undertake pre-decision scrutiny of a matter yet to be determined when it has been invited to by the decision-maker, or where it considers that such pre-decision scrutiny would provide for a more considered and informed decision to be made than would otherwise be the case.
- Make a report and recommendations on any issue affecting the WMCA’s area or inhabitants and which falls significantly within the powers of the Mayor, the WMCA Board or one of its committees.
- Contribute to the delivery of the WMCA’s policies and strategies by undertaking work that is tailored to help support the WMCA Board in its own work programme. It might do this by undertaking research or scrutiny into a policy area, the outcomes of which will help in the delivery of a particular corporate workstream.
- Review and scrutinise any decision taken by the Mayor, the Portfolio Lead Members/WMCA Board or its committees and to make recommendations back to the decision-maker when it considers that there has been a significant flaw in the manner in which the decision was taken (Call-in)

Overview & Scrutiny Committee performs a key role within the governance arrangements of the WMCA and is publicly accountable for the effective exercise of these responsibilities. Members appointed to sit on the

committee undertake this role principally to ensure that the decisions of the Mayor, Portfolio Lead Members/WMCA Board and its committees effectively and efficiently deliver the strategic objectives of the WMCA set out in its Annual Plan and other corporate strategy documents.

The WMCA Overview & Scrutiny Committee plan to initiate a new sub-group, the Transport Scrutiny Sub-Committee, with an intention to start this new sub-group in September 2020.

The Terms of Reference for the Overview and Scrutiny Committee are detailed in the [WMCA Constitution](#).

3.1.6 The WMCA Audit, Risk & Assurance Committee (ARAC)

The WMCA has an Audit, Risk and Assurance Committee (ARAC) which is responsible for approving the statement of Accounts and reviewing the Authority's Risk Register and Annual Governance Statement. ARAC also debates and agrees Audit Actions that require implementation by the WMCA.

The WMCA Constitution details the membership of ARAC, the process for selection of a Chair and the Committees functions and procedures.

The Terms of Reference for the Audit, Risk & Assurance Committee are detailed in the [WMCA Constitution](#).

3.1.7 Governance Protocols

The Governance Protocols for the WMCA are outlined in the WMCA Constitution, these include details relating to the proceedings of the Annual Meeting and Ordinary Meetings, and the circumstances in which extraordinary meetings are required or can be called. The Constitution also details procedure rules as well as details on public access.

Of particular relevance to the Assurance Framework, the Constitution outlines the protocols under which the governance of the WMCA can evolve and change through the creation of Committees, Sub-Committees and Working Groups of the WMCA.

3.1.8 Thematic Advisory Boards and WMCA Board Sub-Groups

The WMCA Board may establish a number of Thematic Advisory Boards and Sub-Groups to advise, make recommendations and co-ordinate activity and engagement on fulfilling its Strategic Objectives.

3.1.9 Statutory Officers

The Statutory Officer roles are defined in the [WMCA Constitution](#) and comprise of:

- **Head of Paid Service** – The WMCA Chief Executive fulfils the role of the Head of Paid Service, discharging the functions in relation to the WMCA as set out in section 5 of the Local Government and Housing Act 1989.
- **Section 151 Officer** – The WMCA Director of Finance fulfils the role of Section 151 Officer in accordance with section 151 of the Local Government Act 1972.
- **Monitoring Officer** – The WMCA Monitoring Officer discharges the functions in relation to the WMCA as set out in section 5 of the Local Government and Housing Act 1989.

3.1.10 Review of Governance

The WMCA will publish its Annual Governance Statement (AGS) on an annual basis alongside its annual accounts. This statement is prepared following an internal review of the WMCA's governance arrangements and provides details of key areas where improvements can be made. The AGS will be discussed and approved by ARAC and will also be examined by the WMCA's external auditors.

ARAC and the WMCA Overview and Scrutiny Committee will monitor and review governance arrangements within the WMCA and make recommendations on any issues raised through this process. These Committees will also play a role in considering how the Assurance Framework is operating in practice.

3.2 Cross-Combined Authority Working and Engagement

3.2.1 Cross-Combined Authority Working

Cross-Combined Authority working arrangements between members of the WMCA are detailed in the WMCA Constitution along with the Scheme of Delegations and additional delegations.

3.2.2 Engagement

Engagement with and feedback from neighbouring authorities, key stakeholders and the public is key to shaping and defining the Combined Authority's activities on an ongoing basis. This has particularly been the case during the creation and development of the Combined Authority through engagement with neighbouring authorities and the three Local Enterprise Partnerships that cover the area (The Black Country, Greater Birmingham and Solihull, and Coventry and Warwickshire).

The WMCA and the 3 LEPs are committed to working collaboratively, sharing economic intelligence and to co-ordinate and monitor investment programmes to help ensure the effective use of public resources. The WMCA Strategic Economic Plan provides the basis for investment decisions and is developed in partnership with the 3 LEPs, in addition the SED Board which provides oversight, delivery support and policy development to the Strategic Economic Plan and the Local Industrial Strategy engages the 3 LEPs in key Board roles.

The 3 LEPs attend the WMCA Board as Non-Constituents, are represented on Investment Board, Thematic Boards and Overview and Scrutiny Committee. They also have officers represented on the Investment Panel and Advisory Panel

The WMCA will continue to take this approach to engaging with neighbouring authorities, key stakeholders and the public. Channels for engagement include the formal consultation process, as well as the communication and dissemination of information as set out in 4.1

3.2.3 Mechanisms for Dispute Resolution

In the event of dispute between Constituent and/or non-constituent members relating to a relevant Combined Authority matter, a dispute resolution process will be implemented. The focus of this process will be threefold:

- to understand why dispute has occurred;
- to determine/understand the potential implications of the dispute; and
- to resolve where possible.

A key principle of the dispute resolution procedure is that disputes will be resolved at the most appropriate place level, i.e. for organisation with a singular district footprint the issue will be resolved at a locality level following consideration by the Chairs and Leaders of all of the stakeholders in the locality. Where disputes cannot be resolved at place level, a group comprised of an agreed number of Chairs and Leaders from each stakeholder group outside of the locality representing each of the stakeholder groups will be formed to arbitrate and make recommendations to the parties in dispute. It is intended that the recommendations made by the dispute resolution group are binding on those parties in dispute.

3.3 Interacting with 'existing; Assurance Frameworks

A number of bodies, such as the Seven Constituent Councils, that make up the WMCA may have their own Assurance Frameworks. This raises the question of how the WMCA Assurance Framework will interact with these other Assurance Framework.

There are two cases where overlap may occur:

1. Local Growth Funding (LGF): This is currently administered through the LEPs, therefore the respective LEP Assurance Frameworks will continue to apply to this funding under the National LEP Assurance Framework.
2. A project being funded by two or more organisations (cocktail funding): It may be the case that the WMCA provides funding to a project which requires funding from a number of organisations that have their own Assurance Frameworks. Where this is the case the WMCA's portion of the investment should be treated in the same way as a standalone project and tested through using the WMCA's Project Lifecycle and Assurance Framework. This is because the WMCA's objective is to provide assurance to itself that its portion of the investment in a project is appropriate and will deliver value for money. In such a circumstance every effort should be made to utilise the work undertaken by other bodies to avoid duplication wherever possible.

3.4 Dealing with Pre-Existing Projects

Pre-existing projects and programmes that require WMCA funding will be subject to the full Project Lifecycle process. This is to ensure that the funding contributed by the WMCA is appropriate and that it delivers Value

for Money. The specific method of evaluation will be determined by the cost of the project, which is in line with the Combined Authority's approach to proportionality outlined in 5.1.4.

3.5 Treatment of Risk at the WMCA Level

A key role of the Assurance Framework is to ensure that risk is identified, monitored and managed appropriately, both at a strategic level (that is, the risks facing the WMCA as an organisation), and at a project and programme level (that is, the risks involved in any one specific investment, or group of investments). Treatment of project-specific risks are discussed in more detail in 5.1.5.

To identify, monitor, manage and mitigate risks at the strategic level, the WMCA has a Strategic Risk Register. The risk register is aligned to the strategic objectives of the Combined Authority. The key principle of the Strategic Risk Register is to account for risks that face the WMCA as a whole, to determine where and by whom such risks are borne, to establish controls to prevent the identified risk (such as funding shortfall) from materialising (such controls could also include ways to reduce the impact such as use of reserves or insuring against the shortfall). The Register is not limited to financial risks and will also consider issues such as a major divergence of interests between two or more Constituent Authorities.

In addition to the Strategic Risk Register the WMCA has developed risk management procedures that apply to activities at all levels within the organisation (generally classified as project/programme and Directorate levels to inform Strategic Risk). These procedures are part of the WMCAs broader Risk Management Framework which is separate to this document. The Risk Management Framework also considers how risks in the constituent bodies could impact the WMCA and includes a clear set of escalation procedures.

4. Accountable and Transparent Decision-Making

4.1 Stakeholder Engagement and Transparency

A Mayoral update is distributed to stakeholders throughout the West Midlands informing them of current and planned WMCA activity and how they can get involved.

Regular social media updates concerning relevant activity are provided via the WMCA Twitter handle.

A calendar of events will be developed and made available on the [WMCA website](#).

A continuous public relations campaign will also inform the public and stakeholders of WMCA activity.

Stakeholders and the public can contact the WMCA via the WMCAs website contact section (www.wmca.org.uk/contact-us/) or through social media.

Meeting papers and minutes, scheme business cases and evaluation reports, funding decision letters with funding levels and conditions and regular programme updates on delivery and spend against budget will be published on the [WMCA website](#) in accordance with the Access to Information Rules.

The public and stakeholders will be able to provide input via the [WMCA website contact section](#). Stakeholders will be made aware of how to provide input to the WMCA through a newsletter which will be made available online.

The WMCA will adhere to the Local Government Transparency Code.

The principles of decision-making and statement on how investment decisions will be made can be found in the [WMCA Constitution](#).

FOI and EIR requests will be dealt with in the first instance by the WMCAs Freedom of Information Officer.

4.2 Availability of Information Online

The WMCA is subject to the same Transparency Code that applies to Local Authorities. To deliver the responsibilities under the Code the WMCA has developed a robust, but proportionate, approach to sharing and publishing information so that it is accessible to the public.

The WMCA website contains a comprehensive set of information and there are links to the WMCA website on the Constituent Council and LEP websites. Core information regarding activity being undertaken by the WMCA and the Mayor is available on the WMCA website. The website has been designed for ease of navigation and to enable members of the public to locate and download information on meetings, decisions and activities.

Transport schemes will upload scheme designs and business cases to the WMCA website for 30 days ahead of any approval of such documents. Additional to this the WMCA will upload all of its evaluation of interventions documents and they will be visible to external stakeholders so that external comment is possible.

The WMCA Constitution includes a publication scheme which sets out how and when agendas, minutes, papers and other documents produced by the WMCA will be made available to the public. It also sets out any exceptions to publishing information, such as not disclosing information that is prohibited by law or which is exempt under the Local Government Act 1972 Schedule 12A or Freedom of Information Act 2000.

The WMCA is subject to the Local Government Act 1972, the Freedom of Information Act 2000, Data Protection Acts of 1998 and 2018, the General Data Protection Regulations (GDPR) and the Environmental Impact Regulations 2004.

The public are made aware of their right to access information through the WMCA website. Requests for information are dealt with in accordance with the relevant legislation and information is not unreasonably withheld.

4.3 Meeting Papers

The schedule of Committee meetings for the calendar year ahead are published on the WMCA website.

The notice of meetings, the agenda and the accompanying papers are published five clear working days in advance of the meeting. Where papers contain commercially sensitive information or are subject to one of the exemptions under the Local Government Act 1972 Schedule 12A or the Freedom of Information Act 2000, they are not published and are categorised as a private item. Decisions on whether individual agenda items are private items are made by the Monitoring Officer using existing local authority regulations.

Draft minutes of meetings are published no more than ten working days after the meetings on the WMCA website. All WMCA Board minutes are signed at the next suitable meeting and published within ten clear working days.

4.4 Notice of Decisions

The WMCA publishes a Forward Plan of Key Decisions that will be taken by the WMCA at least 28 days before the decision is made to enable members of the public the opportunity to view and comment on them.

Details of all project approvals made by the WMCA are recorded in the appropriate meetings minutes. In addition, the WMCA maintains an Activity Register to support the Senior Leadership Team and a Contracts Register which provides details of all contracts and agreements signed by the WMCA.

4.5 Information on WMCA Board Members

The WMCA website contains information relating to the Mayor and to WMCA Board Members, as well as Constituent, Non-Constituent and Observer Members of the WMCA.

4.6 Publication of Financial Information

A range of budgetary and financial information is published on the WMCA website so that it is transparent and accessible to the public, this includes the Annual Statement of Accounts. The WMCA will ensure that this information is complete and up to date.

4.7 Transparency of Pay for Senior Employees

As part of its Annual Statement of Accounts the WMCA will publish information on the pay and benefits of senior employees.

4.8 Status and Role of Accountable Body

The WMCA is a local authority for the purposes of the Local Government Act 1972 (and the Local Democracy, Economic Development and Construction Act 2009) and is the Accountable Body for public expenditure that supports the WMCA Vision, facilitating collective decision making between constituent partners in economic development, regeneration and transport.

The WMCA is the Accountable body for all the devolved funding streams set out in the Devolution Deals and which as a consequence are paid to the WMCA. The WMCA will therefore be responsible for:

- Prioritising projects against the available resources
- Ensuring value for money
- The evaluation of outcomes
- Risk management

The WMCA holds all funding, enters into contractual arrangements and processes payments. The WMCA also provides programme management to account for the funding and ensures that the impact of investment is assessed.

In performing this role the WMCA will ensure that it acts in a manner that is lawful, transparent, evidence based, consistent and proportionate. The detailed process is set out in Section 5 of this Assurance framework.

The WMCA has appointed a statutory Chief Finance Officer under section 73 of the Local Government Act 1985 and a statutory Monitoring Officer under section 5 of the Local Government and Housing Act 1989. The Chief Finance Officer role will ensure that resources are used legally and appropriately and that they will be subject to the usual checks and balances by making sure there is a sound system in place for financial management. The Monitoring Officer role will ensure that all legal responsibilities are adhered to.

The WMCA will comply with the audit and scrutiny requirements set out in the 2009 Act and the Combined Authorities (Overview and Scrutiny Committees, Access to Information and Audit Committees) Order 2017 and the NTCA will ensure that it acts in a manner that is lawful, transparent, evidence based, consistent and proportionate.

This Assurance Framework will be reviewed on an annual basis to ensure that it remains relevant to the operations of the WMCA.

4.9 Responsibilities of the Section 151 Officer

The responsibility for the financial affairs of the WMCA rests with the Section 151 Officer.

The Section 151 Officer is responsible for:

- Ensuring that funds are used legally, appropriately and are subject to the usual local authority checks and balances, including discharging financial duties under the Financial Regulations 2018;
- after consulting with the Head of Paid Service and the Monitoring Officer, report to the Authority and the Authority's external auditor if they consider that any proposal, decision or course of action will involve incurring unlawful expenditure, or is unlawful and is likely to cause a loss or deficiency or if the Authority is about to enter an item of account unlawfully;
- have responsibility for the administration of the financial affairs of the Authority and undertake the functions under any enactment (whenever passed) of a chief finance officer, proper officer or responsible officer (or other designation used in the enactment) concerning the Authority's accounting practices, audit arrangements or its financial affairs and arrangements;
- Ensure the publication of the Annual Accounts;
- Certifying that funding can be released under the appropriate conditions (in line with statutory duties);
- Ensuring that the established professional codes of practice are applied;
- Signing off value for money statements for all funding applications as true and accurate;
- contribute to the corporate management of the Authority, in particular through the provision of professional financial advice;

- provide advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to the Mayor, Members and Officers and support and advise Members and Officers in their respective roles;
- provide financial information to the media, members of the public and the community;
- act as the Proper Officer for the Authority in relation to:
 - section 115(2) of the Local Government Act 1972 – receipt of money due from Officers;
 - Section 73 of the Local Government Act 1985 – administration of the financial affairs of the Authority.
- VfM is achieved for all proposals and that this is in line with HMTs VfM principles

4.10 Responsibilities of the Monitoring Officer

The responsibility for legal and governance affairs of the WMCA rests with the Monitoring Officer.

The Monitoring Officer is responsible for:

- providing advice on, and maintaining an up-to-date version of, the Constitution and ensuring that it is widely available for consultation by members, employees and the public;
- after consulting with the Head of Paid Service and Chief Finance Officer, report to the Authority if they consider that any proposal, decision or omission would give rise to unlawfulness or if any decision or omission has given rise to maladministration. Such a report will have the effect of stopping the proposed decision being implemented until the report has been considered;
- contributing to the promotion and maintenance of high standards of conduct through provision of support to the Standards Committee (formed as a Sub-Committee of the Audit and Risk Assurance Committee);
- oversee investigations into complaints made under the Members Code of Conduct and, where appropriate, make reports or recommendations in respect of them to the Standards Committee;
- ensuring that decisions, together with the reasons for those decisions and relevant officer reports and background papers are made publicly available as soon as possible;
- advising whether decisions are within the budget and policy framework and whether any particular decision or proposed decision constitutes a key decision;
- providing advice on the scope of powers and authority to take decisions, maladministration, financial impropriety, probity and budget and policy framework issues to the Mayor, Members and Officer, and generally support and advise Members and officers in their respective roles;
- act as Secretary and Clerk to the Authority;
- act as the Proper Officer in relation to the relevant sections of the Local Government Act 1972
- discharging the functions under any enactment (whenever passed) of a Monitoring Officer, Proper Officer or responsible officer (or other designation used in the enactment) concerning the Authority's legal affairs and arrangements, including compliance with the law.

4.11 Audit and Scrutiny

The Cities and Local Government Devolution Act 2016 imposes the statutory requirement upon the WMCA to establish both a Scrutiny Committee and an Audit Committee. Full details of the requirements of the Act can be viewed at www.legislation.gov.uk/ukpga/2016/1/contents/enacted

The WMCA Overview and Scrutiny Committee has the power to:

- Review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of the Mayor and/or the Authority;
- Make reports or recommendations to the Authority and/or the Mayor with respect to the discharge of any functions that are the responsibility of the Authority and/or the Mayor;
- Make reports or recommendations to the Authority and/or the Mayor that affect the Authority's area or the inhabitants of the area
- Direct that a decision is not implemented while it is under call-in; and
- Recommend that a decision be reconsidered.

The full details of the powers and responsibilities of the Overview and Scrutiny Committee can be viewed at www.legislation.gov.uk/ukpga/2016/1/schedule3/enacted and the terms of reference of WMCAs Overview and Scrutiny Committee are detailed in the WMCA Constitution.

The WMCA Overview and Scrutiny Committee has powers to call-in decisions not yet implemented for scrutiny, these powers are set out in the [WMCA Constitution](#).

The WMCA Audit Committee is the Audit, Risk and Assurance Committee (ARAC). The functions of ARAC are:

- Approving the Annual Accounts
- Reviewing and scrutinising the WMCAs financial affairs
- Reviewing and assessing the WMCAs risk management, internal system of controls and corporate governance arrangements
- Reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging the WMCAs functions
- Making reports and recommendations to the WMCA in relation to the above points.

The Terms of Reference for both the WMCA Overview and Scrutiny Committee and ARAC are detailed in the [WMCA Constitution](#).

4.12 Internal and External Audit

The WMCA has established processes for internal and external audit. The Strategic Hub produces an Integrated Assurance and Approval Plan that outlines the planned assurance activities for projects and programmes across a 3 lines of defence model and will therefore be inclusive of audit activity in the 3rd line of defence. In addition, the Statutory Officers produce an Annual Audit Plan that will include any audit activity for assessing wider WMCA systems of control as well as activity relating to projects and programmes that ARAC approves.

4.13 Checks and Balances

The use of resources by the WMCA are subject to standard local authority checks and balances. In particular, this includes the financial duties and rules which are required councils to act prudently in spending and to ensure transparency that annual accounts are published. The development of these checks and balances is overseen and managed by the WMCAs Section 151 Officer.

4.14 Strategic Objective and Purpose

The Strategic Objectives and purpose of the WMCA directed by the Strategic Economic Plan, Local Industrial Strategy and other strategic plans are set out on an annual basis in the WMCA Annual Plan. The purpose of this Annual Plan is to:

- Set out the WMCA priorities for the municipal year so that partners and stakeholders are clear on the key areas of focus
- Provide a strategic context for the WMCA as an organisation so that service plans and operational activity are aligned to the overall vision and priorities
- Enable the WMCA to articulate what is being delivered, and be able to oversee and review progress against priorities

The strategic economic plan (SEP) sets out the founding vision, objectives, strategy and actions to improve the quality of life for everyone who lives and works in the West Midlands. It has been developed and agreed by a wide partnership of people, organisations and businesses who share a pride in, and ambition for, an area with unique assets, challenges and opportunities. This has been further developed through the Local Industrial Strategy.

The SEP is based on an understanding of what makes the West Midlands different; its uniqueness is not simply based on its location in the heart of the country and a long and proud history of manufacturing excellence, but its cultural diversity, its track record in innovation and its potential to support a young, diverse population to flourish across its cities, towns, villages and countryside.

The SEP's ambition is based on the recognition that, through devolution, the West Midlands' assets can be enhanced to benefit not only its residents and businesses, but the entire nation. Economic growth across the West Midlands delivers a better, more successful and more vibrant UK economy, playing a key role in maintaining and improving the UK's global competitiveness.

Devolution and the creation of the West Midlands Combined Authority (WMCA) have provided the region with a once in a lifetime opportunity to transform the area through a robust and focused programme of change. The WMCA's vision-led approach to transformation enables ambitious, yet achievable outcomes focused on the issues that matter; the issues that make the biggest differences to the quality of life of the people who live in the area.

The SEP has been developed through a powerful collaboration of organisations who have played to their strengths and shared their expertise to ensure the WMCA's vision is robust, achievable and ambitious. In particular, the leading role universities play in economic development has been a key factor in the development of the SEP.

It sets the context for the WMCA's first devolution agreement with Government and explains how devolved powers and resources will be used. It also sets the scene for subsequent devolution agreements with this and future governments.

The WMCA provides the scale and capacity to respond to the opportunity of devolution and go further and faster in enabling economic growth. It also enables the area to contribute to, and benefit from, the ambitious Midlands Engine programme with its focus on skills, innovation, transport and inward investment.

The area's innovation infrastructure will play a crucial role in increasing productivity and reforming public services, with the recommendations of the Midlands Engine Science and Innovation Audit informing the WMCA's approach.

The strategy uses the economy plus model to deliver the vision and is based on the strengths, challenges and opportunities faced across the area and the development of a strategic approach that focuses on priority actions, channels and principles.

The eight priority actions are:

1. New manufacturing economy: harnessing the biggest concentrations of high value manufacturing businesses in Europe and their supply chains.
2. Creative and digital: further developing the area's vibrant and flourishing sector.
3. Environmental technologies: securing transformational environmental improvements.
4. Medical and life sciences: enabling the further growth of the medical and life sciences sector and supporting other businesses to diversify and become part of the sector's supply chain.
5. HS2 growth: maximising the benefits of the largest infrastructure project in Europe.
6. Skills for growth and employment for all: ensuring the skills needs of businesses are met and everybody can benefit from economic growth.
7. Housing: accelerating the delivery of current housing plans to increase the level of house building to support increased level of growth.
8. Exploiting the economic geography: making the most of the scale and diversity of the West Midlands' geography to enable economic growth and community wellbeing throughout the urban core and rural areas.

This approach has been complemented by the development of the Local Industrial Strategy, co-designed in partnership with the region and government. It sets out the actions the West Midlands is taking to support

growth in productivity and earning power for all. It considered the economy from two perspectives, which led to the identification of new market driven opportunities for growth and specific barriers and opportunities that exist for each of the foundations of productivity, together with their spatial distribution, proposing actions that will support the whole of the West Midlands to take advantage of strategic opportunities ahead.

The WMCA is also the Transport Authority for the West Midlands, delivered through Transport for West Midlands (TfWM).

Transport for West Midlands (TfWM) co-ordinates investment to improve the region's transport infrastructure and create a fully integrated, safe and secure network. It is also responsible for assessing and planning for the region's future transport needs so the network can meet the demands of businesses and a growing population.

The expansion of the Midland Metro tram system is just one of the many projects that TfWM is delivering to help meet those future needs. Working in partnership with bus and train operators, TfWM develops integrated and smart ticketing while providing free fares for the elderly and disabled and half price travel for children. Funding is also used to support the Ring and Ride service and provide socially necessary bus services on those routes or at those times that are not commercially viable for the private bus companies.

By forging voluntary partnerships and agreements with bus and train operators, TfWM helps drive through improvements to services while providing other benefits for passengers. These include free Park and Ride facilities at stations and travel information through mobile apps and real time information as well as the traditional paper timetables at bus stops.

Alongside new ways of working, performance management and governance frameworks, this will ensure resources are focused in the right places at the right times to deliver fast, flexible and dynamic change for residents, businesses, their employees and cities, towns and villages across the West Midlands.

The WMCA is focused on taking swift action to deliver its vision and a first phase of activity is already underway; the creation of a growth company working with the private sector and across the area will support and help accelerate the delivery of the SEP.

This SEP outlines in more detail the strengths, challenges and opportunities facing the area and the strategic approach the WMCA will take to deliver its vision.

At the heart of the strategy is the drive to accelerate an improvement in productivity and enable the West Midlands to become a net contributor to the UK exchequer - while improving the quality of life for everyone who lives and works in the area.

4.15 Equality and Diversity

When exercising public functions, the Mayor and/or WMCA will take into consideration section 149 of the Equality Act 2010 and consider the impact upon people/ groups with protected characteristics and specifically will consider how the project had had regard to:

1. The need to eliminate unlawful discrimination, harassment, victimisation and other conduct prohibited by the Act
2. The need to advance equality of opportunity between people who share a protected characteristic and people who do not
3. The need to foster good relationships between people who share a protected characteristic and people who do not.

During the application process for WMCA funds, project sponsors will be required to provide evidence to this end, this will be assessed through an evaluation of the business cases submitted by applicants.

In addition, the WMCA has developed its own standards that it wishes to drive through its projects and programmes, one of which is consideration and development of Inclusive Growth. Continued regional inequalities and the impact of Covid-19 on some groups (e.g. BAME individuals and elderly people) reinforces the need for the WMCA to continue to develop processes and initiatives to drive inclusive growth, such as:

INCLUSIVE GROWTH

Inclusion Strategy	Publish an inclusion strategy which outlines the actions the WMCA will take to support better outcomes for marginalised and minority groups.
Inclusive Initiatives	The WMCA should lead by example and deliver initiatives that supports the development of those from deprived areas.
Broader Outcomes	The WMCA project appraisal process should go beyond traditional Green Book cost benefit analysis and demonstrate wider benefits such as those that positively impact marginalised and minority communities. The development of the 'West Midlands Way' approach to business cases will help drive WMCA specific considerations around inclusive growth.
BAME Business Engagement	The WMCA should utilise additional communications channels to ensure further engagement with BAME owned businesses.

4.16 Whistleblowing

The WMCA Constitution sets out how the WMCA Complaints and Whistleblowing Policy, including how concerns can be raised in confidence and how those concerns will be dealt with.

The WMCA Whistleblowing Policy can be viewed at <https://www.wmca.org.uk/media/2033/whistleblowing-policy.pdf>

Further details on the WMCA's Complaints Procedure can be viewed at: <https://www.wmca.org.uk/policies/>

4.17 Registration and Declaration of Interests

Members of the WMCA must register their interests. Elected Members will have already undergone this procedure within their own local authority and each local authority register of interests will be applicable, supplemented by a request for the need to make any additional declarations to reflect the application of the code across the WMCA geography (i.e. interests that arise within the WMCA area but outside the elected member's own local authority area).

A collated register of interests of all members of the WMCA will be maintained and will be by Governance Services, details of the Mayoral register of interests and the wider register can be accessed via the WMCA website. The register of interests procedure will follow the code of conduct for Members which is set out in the [WMCA Constitution](#).

Members must act in the interest of the whole WMCA area and not solely in the interest of their geographical area.

Completed registration of interest forms are accessible via the [WMCA website](#).

4.17.1 Conflict of Interests Policy

Members of the WMCA are expected to act in the interests of the West Midlands region as a whole when making decisions. The WMCA has a Code of Conduct which covers the declaration and registration of interests. Members are called upon to declare any interests that arise at meetings of the WMCA and to take appropriate action, further details can be found in the [WMCA Constitution](#).

4.18 Gifts and Hospitality

The code of conduct for Members outlines the specific terms for the declaration of gifts and hospitality received as a Member including the notification process to the WMCA Monitoring Officer by which all Members must abide.

4.19 Complaints Procedure

Complaints from stakeholders and members of the public will be dealt with and resolved in accordance with the WMCAs Customer Care Charter and Complaints Procedure.

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5. Project Lifecycle and Ensuring Value for Money

5.1 Principles and Objectives

The purpose of the Project Lifecycle is to provide a framework for the WMCA to initiate, develop, appraise and make rigorous assessments regarding the quality and value for money of its projects, programmes and investments.

Specifically, the Project Lifecycle assesses projects against a range of strategic, economic, financial, commercial and management objectives and criteria. This assessment is primarily undertaken using HMT's Five Case Business Case Appraisal Process, it has been further enhanced to specifically tailor it to the needs and requirements of the WMCAs objectives and requirements to create the 'West Midlands Way'.

The intent of the project lifecycle is to deliver consistent processes and decision-making that are proportionate, comply with a Single Assurance Framework approach (and National Local Growth Assurance Framework guidelines) and deliver increased confidence in the WMCAs ability to make sound decisions.

The objectives of this Assurance Framework are to:

- Provide WMCA with Financial and Governance Protections for stewardship of public funds
- Improve standards of project initiation, development, delivery and oversight
- Trust and empower WMCAs officer expertise
- Provide the necessary consistency, controls and clarity that will deliver confidence in the WMCAs decision-making and ability to deliver
- Embed appropriate Assurance and lines of defence within project development and decision-making process
- Manage political and reputational risks

The project lifecycle model is supportive to Portfolio's and Directorates, delivering WMCA specific standards such as ensuring earlier input to project development for Legal and Finance and ensuring earlier opportunities for cross portfolio developments and inclusive growth considerations.

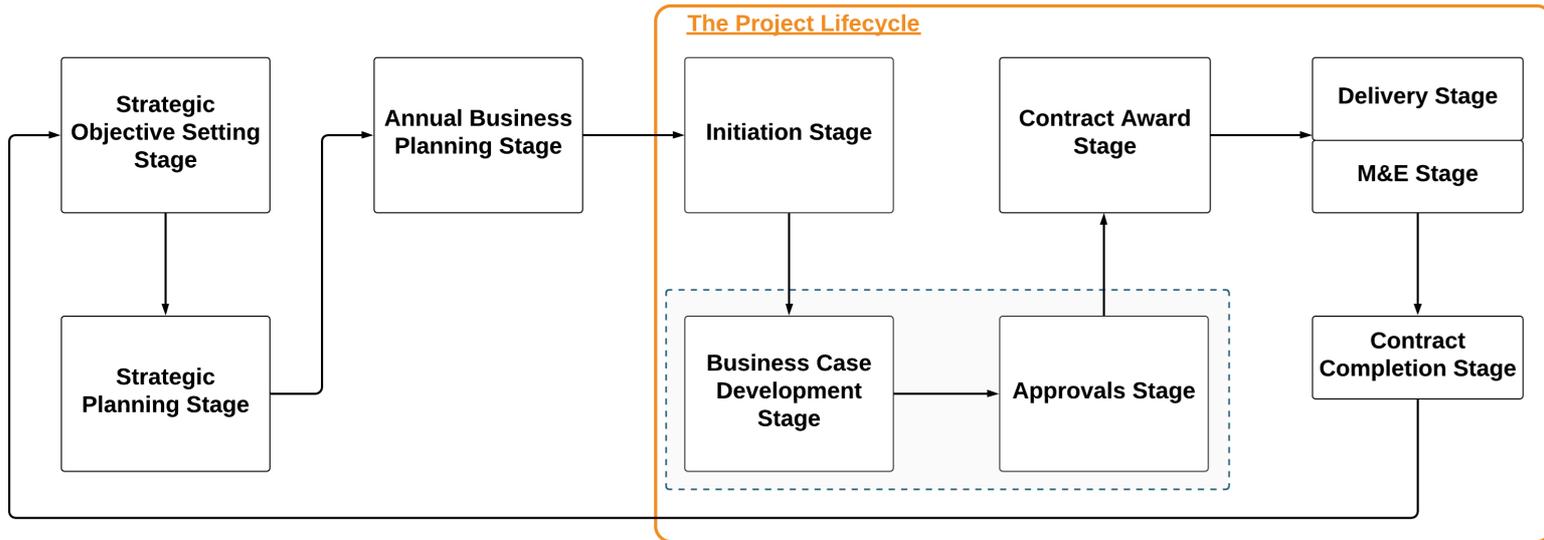
The project lifecycle has been developed to support external assurance requirements from Central Government and others to avoid the need for duplication of efforts.

The principles and objectives of the WMCAs Project Lifecycle are based around 'the golden thread'. The golden thread refers to the approach of aligning strategic organisational objectives with the outputs and actions of the organisation. The golden thread seeks to connect the organisational vision with analysis, processes, systems and people; leading to a common understanding as to how the vision, goals and values of the organisation are intrinsically linked to everyday tasks.

Ensuring that projects and programmes will clearly contribute to the delivery of the WMCAs agreed strategic objectives is a key principle of the Single Assurance Framework, embedding strategic fit considerations right from initiation through the Funding Initiation Document (FID), which requires clear consideration and justification of strategic fit and alignment in order to achieve initiation.

The need to demonstrate with evidence the strategic justification of a proposal from concept, through initiation, through development, through approval and through monitoring and evaluation is a key principle of the project lifecycle.

The Project Lifecycle can be illustrated as follows:



5.1.1 Appraisal and Evaluation

The project lifecycle is built around the role of appraisal and evaluation which is to provide objective analysis and support decision-making. The WMCA requires all schemes requiring a form of investment from the WMCA to develop proposals in line with this Assurance Framework. That requires schemes to undergo a proportionate appraisal to assess the merits of the application, its strategic fit (delivering the golden thread) and value for money.

The project lifecycle, the business case components and criteria for consideration, have been developed using HMT's Green Book guidance on how to appraise policies, projects and programmes. In addition, the project lifecycle has been developed to reflect guidance provided by further HMT guidance such as:

- Managing Public Money – provides guidance on the responsible use of public resources
- Aqua Book – sets out standards for analytical modelling and assurance
- Magenta Book – provides detailed guidance on evaluation methods

In addition, the project lifecycle reflects guidance specific to transport projects and programmes provided by Department for Transport (DfT) such as the Transport Business Case, WebTAG and DfT Value for Money Framework.

There is a single process to be applied through the Assurance Framework to projects and programmes developed across the WMCA, whether they be Housing, Transport, AEB or other schemes.

5.1.2 Value for Money

A key objective of the Single Assurance Framework, and of the project lifecycle more specifically, is to support the WMCA in making judgements about the Value for Money (VfM) of potential investments and to accept or reject investments accordingly. This will be conducted via a single approach and methodology and is aligned to the guidance in HMT's green book.

An assessment of VfM is derived through a process under which the WMCA procurement, projects and processes are systemically evaluated and assessed to provide confidence about suitability, effectiveness, prudence, quality, value and avoidance of error and other waste, judged for the Exchequer as a whole (HMT Guidance – Managing Public Money). This is conducted in a proportionate way so for example for schemes that have total costs in excess of £20 million; have a benefit cost ratio (BCR) below 2; or have notable local opposition to implementation, the scope of the scrutiny will be extended.

Value for Money will be assessed using three principles of criteria:

- Economic (i.e. minimisation of resource usage or spending less so utilisation of the appropriate resource both capability and capacity);
- Efficiency (i.e. the relative level of outputs and the resources used to produce them or spending well); and,
- Effectiveness (i.e. the relationship between the intended and actual results of public spending or spending wisely).

WMCA will also consider whole life costs in relation to asset management and OPEX costs, additionally it will review road maps and future development of innovation and technology to ensure there are no threats around products becoming obsolete.

Questions and criteria have been embedded into the project lifecycle to test projects against VfM requirements. When assessing VfM the WMCA will follow HMT Green Book business case guidance, ensuring that there is a clear audit trail of decisions. WMCA will also follow any additional relevant departmental supplementary guidance such as MHCLG guidance relating to housing and commercial development interventions. VfM statements will be provided to decision-makers at each approval stage.

The project lifecycle will seek to apply proportionality to the level and detail of information required, in line with the appropriate guidance, dependent upon the value and complexity of the proposed intervention. This is accounted for through applying proportionate levels of criteria to the development of business cases.

For all projects and programmes, accountable decision-making authorities need to ensure that there is a named individual with overall responsibility for ensuring Value for Money, at WMCA the named individual is the Section 151 Officer. They are responsible for signing off the VfM requirements have been met for all schemes and for the scrutiny and recommendations for each business case

Transport Schemes

For Transport Scheme there will also be a requirement to conduct appraisals and value for money assessments based on WebTAG guidance.

Transport for West Midlands (TfWM) will ensure that scheme traffic/public transport modelling and appraisal is robust and meets this guidance at the time a business case is submitted for each stage of approval. The assessment of the scheme traffic/public transport modelling and appraisal will require expert resources which are independent of each scheme sponsor. Appropriate resource will be commissioned with suitable experience of major Transport scheme business case development and independent of the scheme sponsor in question, this may be an internal SME or alternatively where required a consultant (i.e. a transport SME could not sit on a panel assessing scheme traffic/public transport modelling if it has been commissioned (in whole or part) to develop the traffic model in question).

The scope of the scrutiny will be dependent on the type and scale of the scheme. All schemes will be assessed against a set of core requirements by an independent panel and as such will be subject to independent scrutiny. These are detailed in the table below.

TOPIC	REQUIREMENT
Modelling approach	Has the scheme promoter applied the proportionate modelling methodology that was discussed and agreed with TfWM /DfT at the start of business case development?
Model validation and calibration	Has the traffic or public transport model been validated and calibrated in line with WebTAG guidance?
Central case assessment	Is the central case assessment based on forecasts which are consistent with the definitive version of the National Trip End Model?
Modelling reports	<ul style="list-style-type: none"> ▪ Have the following reports been provided and do the reports articulate a robust case for investment: - ▪ Data Collection Report; ▪ Local Model Validation Report; ▪ Demand Model Report; and ▪ Forecasting Report?
Business Case	Have all five components of the business case been completed in line with WMCA guidance to scheme promoters as detailed in 5.2: - <ul style="list-style-type: none"> ▪ Strategic case; ▪ Economic case; ▪ Commercial case; ▪ Financial case; and ▪ Management case
Appraisal Summary Table (AST)	Has a completed AST been provided

Delivery	Has an existing delivery framework been identified?
Risk	Has a QRA been undertaken using @Risk software to model the Monte Carlo simulation and obtain the P50 value?
Value for Money	Does the scheme have a value for money assessment of 'high' or 'very high' based on the information provided by the scheme promoter?
Evaluation	Has a monitoring and evaluation approach been agreed with the WMCA?
Planning Dataset	Compliance and utilisation of NTEM

The level and detail of required modelling for transport schemes will be applied proportionally in line with WebTAG guidance and the WMCAs approach to business case development as detailed in the project lifecycle.

For schemes that have total costs in excess of £20 million; have a benefit cost ratio (BCR) of less than 2:1 but an adjusted value for money assessment of 'high'; or have notable local opposition to implementation, the scope of the scrutiny will be extended. This will require the external scrutiny to analyse the data presented by the scheme promoter in more detail by auditing all components of the business case and confirming (or otherwise) WebTAG compliance.

For these schemes, TfWM will develop a scrutiny brief that is specific to the scheme in question. An independent panel will be appointed to undertake this work in line with an agreed timetable.

The output of standard or extended scrutiny will be presented to TfWM, who will inform the scheme of the findings and make a recommendation regarding further action. The recommendations are likely to be focused on the following responses: -

- Acceptance of the scrutiny findings and agreement that no further work required;
- Further dialogue with the scheme promoter (this is likely to involve posing questions and then assessing the responses to these);
- Commissioning a 'second opinion' from a suitably qualified person or persons; or
- Additional work is specified for the scheme promoter to conduct and an appraisal of this work is undertaken on completion.

Any additional technical work generated by this process will be commissioned and monitored by TfWM. Scrutiny findings will be reported to the WMCA as part of the decision-making process. The WMCA will be asked to approve the scrutiny findings based on a recommendation from TfWM, once all the required work has been completed.

No full approval decision will be made until acceptance and approval of the scrutiny findings has been agreed by TfWM.

Central case assessments will be based on forecasts that are consistent with the definitive version of the Department for Transport's National Trip End Model (NTEM) and accessed using TEMPRO software. The forecasts include population, employment, households by car ownership, trip-ends and simple traffic growth factors based on data from the National Transport Model (NTM).

This approach will be supplemented with locally specific land use change figures set out in the WMCA Strategic Economic Plan, Individual Core Strategies and supporting Local Development Frameworks. These will include housing and employment growth forecasts.

All schemes will be subject to a formal review process at the end of each major stage of the project lifecycle. This is in addition to the regular reviews of progress which are undertaken throughout the life of the project.

The key stages at which reviews will take place include: -

- TfWM appraisal of business case (programme entry approval)
- Detailed design
- Statutory orders and acquiring land/property
- Procurement
- TfWM appraisal of business case (full approval)
- Construction

Reviews will include consideration of the project management process and quality plan (risk management) procedures. The work supporting the review process will be undertaken by the scheme sponsor and be submitted to the WMCA Managing Director of TfWM, who will appraise submissions on behalf of the Combined Authority. This may necessitate using external resource if reviews cannot be appraised from within the Authority.

The review findings will be reported to the scheme sponsor and TfWM.

Scheme sponsors will be required to seek early technical advice (i.e. at the start of business case development) from officers working on behalf of TfWM regarding modelling approach and assessing the social and distributional impacts (SDI) of schemes. These work streams can have significant lead times and the intention is that the overall approach is approved at an early stage in order to prevent any abortive work (with significant cost implications) being undertaken.

The Scheme Promoter will produce a Value for Money (VfM) statement for each scheme put forward for approval summarising the overall assessment of the economic case for the scheme. This statement will be in line with WebTAG guidance.

The VfM statement will include: -

- Value for money category of the scheme (and explanation for this);
- Present Value of Benefits (PVB), Present Value of Costs (PVC), and Benefit Cost Ratio (BCR);
- Summary of the benefits and costs that have been assessed, including any assumptions that influence results;
- Assessment of non-monetised impacts; and
- Identification of any key risks, sensitivities and uncertainties.

The initial value-for-money appraisal, which is based on an assessment of the scheme's monetised impacts in line with WebTAG (e.g. journey time savings and accident reductions), will result in each scheme being placed in one of five categories: -

- Very High – where benefits are greater than 4 times costs;
- High – where benefits are between 2 and 4 times costs;
- Medium – where benefits are between 1.5 and 2 times costs;
- Low – where benefits are between 1 and 1.5 times costs; and
- Poor – where benefits are less than costs.

Whilst the benefit/cost ratio (BCR) (or initial VfM assessment) is not the only consideration impacting on scheme approval (scheme affordability being another key determinant, for example), TfWM policy will be to consider funding: -

- Schemes with very high VfM; and
- Schemes with high VfM.

Schemes with a BCR of 2 or above, accounting for significant non-monetised impacts and key uncertainties will be given priority. However schemes with medium, low or poor VfM will still be eligible for investment.

In order to articulate a comprehensive set of reasons for making an investment, the VfM assessment will ultimately need to take into account the non-monetised costs and impacts of each scheme. This will involve consideration of both quantitative and qualitative assessment of scheme impacts and a judgement as to how they affect the overall VfM appraisal of the scheme.

Consequently, TfWM will take account of other compelling reasons for investing in a scheme (e.g. significant numbers of jobs created or investment unlocked) within the context of a wider VfM appraisal. This may mean, for example, that a scheme may have an initial 'medium' VfM assessment but the non-monetised impacts generated by the intervention elevate this scheme to a final 'high' VfM assessment; equally a scheme with an initial 'high' VfM assessment could have that assessment reduced when non-monetised costs are considered e.g. adverse environmental impacts.

All independent scrutiny and appraisal of VfM statements will be considered by decision-makers at each approval stage, this includes that undertaken through the Assurance Team, Risk & Investment Appraisers,

Statutory Officers, the appropriate Panel (Investment or Advisory) and the parent Board (Investment Board or WMCA Board). This information is detailed in section 5.4.

Business cases must be published (and publicised) before a decision to approve funding is made so that external comment is possible. Opinions expressed by the public and stakeholders must be available to relevant members or boards when decisions are being taken.

As set out in section 4.2, Transport schemes will upload scheme designs and business cases to the WMCA website for 30 days ahead of any approval of such documents. Additional to this the WMCA will upload all of its evaluation of interventions documents and they will be visible to external stakeholders.

5.1.3 Projects vs Programmes

The Assurance Framework project lifecycle has been designed to assess and prioritise WMCA interventions at a programme and project level.

The Assurance Framework recognises that the objectives of the WMCA can only be met through the delivery of effective Programmes that account for and take advantage of the interdependencies between individual projects. However, the role of the Assurance Framework is to provide a 'framework' through which the WMCA can make a judgement about whether each individual project is robust and has been rigorously assessed against a specific set of criteria to ensure that it achieves Value for Money.

To assist with this process the project lifecycle has a Programme Business Case that requires completion to enable a programme to make its way through the project lifecycle.

5.1.4 Proportionality

The Assurance Framework is designed to ensure that all stages of the project lifecycle are undertaken in a proportionate manner relative to the size of the investment required. This is crucial so that project sponsors are not put off by overly burdensome, bureaucratic and costly application processes when applying for small amounts of investment for a low value project. Similarly, it is crucial that large investments that place an additional financial liability on the WMCA are scrutinised and tested appropriately through a higher threshold of assurance and informed decision-making.

WMCA has built set proportionality into the business case templates and appraisal and approval criteria within its project lifecycle. In addition, route identification at the initiation phase will identify the level of proportionality that is required to be applied to the development of an application for funding.

5.1.5 Treatment of Risk at the Project Level

The approach to managing risk is comprehensive and in accordance with HMT's Orange Book principles and other project management guidance. Robust control measures and a Strategic Risk Strategy are in place to provide accountability and support due diligence.

As part of the project lifecycle and business case evaluation process applicants are required to develop a project risk and issues log in line HMT guidance. This will detail all of the project specific risks that have been identified during the development phase of the project.

The WMCA approach to business cases, built on Green Book guidance, requires project risk criteria to be considered and evidence throughout the project lifecycle.

5.2 WMCA Approach to Business Cases

The key principles that underpin the Single Assurance Framework include delivering enhanced evidenced based decision-making across everything that the WMCA does.

Ever increasing demand for public services creates ever more pressure on the public resources available, increasing the need to make better use of these limited resources. The challenge to those preparing and advising on spending decisions has never been greater. In this context, it is vital that spending and investment decisions are based on highly competent professionally developed proposals.

This best practice guidance from the Treasury has been refined and tested over many years, and it provides a clear framework for thinking about spending proposals and a structured process for appraising, developing and planning to deliver best social value for money: all of which is captured through a well prepared business case to support objective, evidence based decisions.

Delivering a well-prepared business case to support objective, evidence-based decisions is a key requirement of the Single Assurance Framework. To support this approach the Single Assurance Framework requires the development of business cases using the Five Case Model in a scalable and proportionate way, incorporating WMCA requirements to demonstrate cross-collaboration and inclusive growth considerations at every opportunity and ensuring the 'golden thread' of the WMCAs strategic objectives is driven throughout the case.

Experience has demonstrated that when this guidance is embedded in public sector organisations, better more effective and efficient spending decisions and implementation plans are produced. At the same time the approach when correctly understood and applied provides a more efficient planning and approval process saving between 30% and 40% in time taken and cost of production of business cases compared with unstructured approaches.

The Project Business Case is important because projects will only deliver their intended outputs and benefits if they are properly scoped, planned and cost justified from the outset.

Preparing a Project Business Case using the five-case model provides decision makers and stakeholders with a proven framework for structured 'thinking' and assurance that the project:

- **Provides strategic fit and is supported by a compelling case for change.**
This dimension of the five cases focuses on business planning and is the 'strategic case' section within the Project Business Case.
- **Will maximise public value to society through the selection of the optimal combination of components, products and related activities.**
This dimension of the five cases focuses on options appraisal and the identification of the preferred option and is the 'economic case' section within the Project Business Case.
- **Is commercially viable and attractive to the supply side.**
This dimension of the five cases focuses on the development and procurement of the potential Deal and is the 'commercial case' section within the Project Business Case.
- **Is affordable and is fundable over time.**
This dimension of the five cases focuses on the whole life costs of the proposed Deal and is the 'financial case' section within the Project Business Case.
- **Can be delivered successfully by the organisation and its partners.**
This dimension of the five cases focuses on the implementation arrangements for the proposal and is the 'management case' section within the Project Business Case.

5.2.1 WMCA Approach to Business Cases

All projects and programmes will be required under the Single Assurance Framework to enable the golden thread principle providing a clear line of sight from project outputs to strategic objectives, whilst delivering Treasury guidance and requirements around the five case elements in their business case production.

In addition, all business cases will be required to demonstrate cross-portfolio collaboration enabling opportunities and inclusive growth considerations as a specific WMCA standard.

Business Cases will be required to take a '**Board Friendly**' approach, this means that they will be required to focus on summary information with detailed information linked to each business case through the appropriate artefact. This will assist decision-makers in considering the relevant information at the relevant point and prevent business cases being submitted to Boards that are several hundred pages long.

This will also support delivery of proportionality to business case submissions with only the required artefacts being completed, or only required elements of artefacts being completed as applicable and as required.

Delivering the '**Board Friendly**' summary focused business case will not prevent detailed information required by external funders (i.e Government Departments) being produced or considered, the '**Board Friendly**' approach will require this information be provided in the appropriate artefacts to support each business case. This approach will therefore prevent any duplication of information.

Each Board Friendly business case will include the following information:

Applicant Details	Sets out key information about the applicant and applicants contact information as well as title/ overview of proposed intervention
Factual Summary	Sets out key financial information relating to costs
Executive Summary	Provides the key summary information relating to that Business Case stage
Five-Case summary element (max 2000 words)	Sets out the summary information for each of the elements of the five-case model
Artefacts	Artefacts provide the detailed information relevant to that Business case stage that support the summary case

5.2.2 Business Case Content

A well-prepared Project Business Case:

- enables the organisation and its key stakeholders to understand, influence and shape the project's scope and direction early on in the planning process
- assists decision makers to understand the key issues, the available evidence base and to avoid committing resources to schemes that should not proceed
- demonstrates to senior management, stakeholders, customers and decision makers the continuing viability of the project, and
- provides the basis for management, monitoring and evaluation during and after implementation.

A Project Business Case is recommended best practice and should be prepared following approval of a proposal or Business Plan item at the Initiation stage by the appropriate Executive Director.

The Project Business Case is a working document which must be developed and revisited over the duration of the scheme.

Developing a Project Business Case applies to all types of projects and requires trained people who have the capabilities and competencies to undertake the tasks involved.

5.2.3 HMTs Five Case Model

All business cases will be based upon HMT and DfT best practice guidance for the development of business cases which is based upon their five-case model. WMCAs business case templates, appraisal criteria and approvals criteria build on this best practice, incorporating WebTAG where applicable.

The business case, both as a product and a process, provides decision-makers, stakeholders and the public with a management tool for evidence based and transparent decision-making and a framework for development, delivery, management, performance monitoring and evaluation of the resultant scheme.

HMTs five case model is a fundamental requirement of all business cases produced within the Single Assurance Framework, the five case dimensions are as follows:

- The Strategic Case
- The Economic Case
- The Commercial Case
- The Financial Case
- The Management Case

Every business case must evidence each dimension of the five-case model.

5.2.4 The Strategic Case

The purpose of the strategic dimension of the business case is to make the case for change and to demonstrate how it provides strategic fit.

Demonstrating that the scheme provides a strategic fit to the agreed WMCA Strategic Objectives is key to demonstrating the golden thread throughout the work and activity of the WMCA.

Making a robust case for change requires a clear understanding of the rationale, drivers and objectives for the spending proposal, which must be made SMART – Specific, Measurable, Achievable, Relevant and Time constrained – for the purposes of post-evaluation.

Key to making a compelling case for intervention is a clear understanding of the existing arrangements:

- the Business As Usual (BAU)
- business needs (related problems and opportunities)
- potential scope (the required organisational capabilities) and
- the potential benefits, risks, constraints and dependencies associated with the proposal.

The challenges are:

- to explain how further intervention and spend on key 'inputs' will deliver 'outputs' that improve the organisation's capability to deliver better outcomes and benefits to stakeholders and customers, while recognising the associated risks
- to ensure the organisation's proposals focus on business needs that have been well researched and are supported by service demand and capacity planning
- to ensure schemes are planned and delivered as part of an approved organisational strategy that has a well-defined portfolio of related programmes and projects.

5.2.5 The Economic Case

The purpose of the economic dimension of the business case is to identify the proposal that delivers best public value to society, including wider social and environmental effects.

Demonstrating public value requires a wide range of realistic options to be appraised (the long-list), in terms of how well they meet the spending objectives and critical success factors for the scheme; and then a reduced number of possible options (the short-list) to be examined in further detail.

The short-list must include the BAU, a realistic and achievable 'do minimum' that meets essential requirements, the preferred way forward (if this is different) and any other options that have been carried forward. These options are subjected to cost benefit analysis (CBA) or cost effectiveness analysis (CEA), where more appropriate, to identify the option that offers best public value to society.

The challenges are:

- to begin by selecting the 'right' options for scope, solution, service delivery, implementation and funding, otherwise options will represent sub-optimal Value for Money (VfM) from the outset
- to justify higher cost options in relation to BAU and the 'do minimum'
- to measure and monetise the benefits and risks.

5.2.6 The Commercial Case

The purpose of the commercial dimension of the business case is to demonstrate that the preferred option will result in a viable procurement and a well-structured Deal between the public sector and its service providers.

Demonstrating a viable procurement requires an understanding of the market-place, knowledge of what is realistically achievable by the supply side and research into the procurement routes that will deliver best value to both parties.

Putting in place a well-structured Deal requires a clear understanding of the services, outputs and milestones required to be achieved and of how the potential risks in the Design, Build, Funding and Operational (DBFO) phases of the scheme can best be allocated between the public and private sectors and reflected in the charging mechanism and contractual arrangements.

The challenge for the public sector is to be an 'intelligent customer' and to anticipate from the outset how best public value can continue to be secured in during the contract phase in the face of inevitable changes to business, organisational and operational requirements.

5.2.7 The Financial Case

The purpose of the financial dimension of the business case is to demonstrate the affordability and funding of the preferred option, including the support of stakeholders and customers, as required.

Demonstrating the affordability and fundability of the preferred option requires a complete understanding of the capital, revenue and whole life costs of the scheme and of how the Deal will impact upon the balance sheet, income and expenditure and pricing arrangements (if any) of the organisation.

The challenge is to identify and resolve any potential funding gaps during the lifespan of the scheme.

5.2.8 The Management Case

The purpose of the management dimension of the business case is to demonstrate that robust arrangements are in place for the delivery, monitoring and evaluation of the scheme, including feedback into the organisation's strategic planning cycle.

Demonstrating that the preferred option can be successfully delivered requires evidencing that the scheme is being managed in accordance with best practice, subjected to independent assurance and that the necessary arrangements are in place for change and contract management, benefits realisation and risk management.

The challenges are:

- to manage the risks in the design, build, funding and operational phases of the scheme and put in place contingency plans
- to deal with inevitable business and service change in a controlled environment, and
- to ensure that objectives are met, anticipated outcomes delivered and benefits evaluated.

5.2.9 Due Diligence

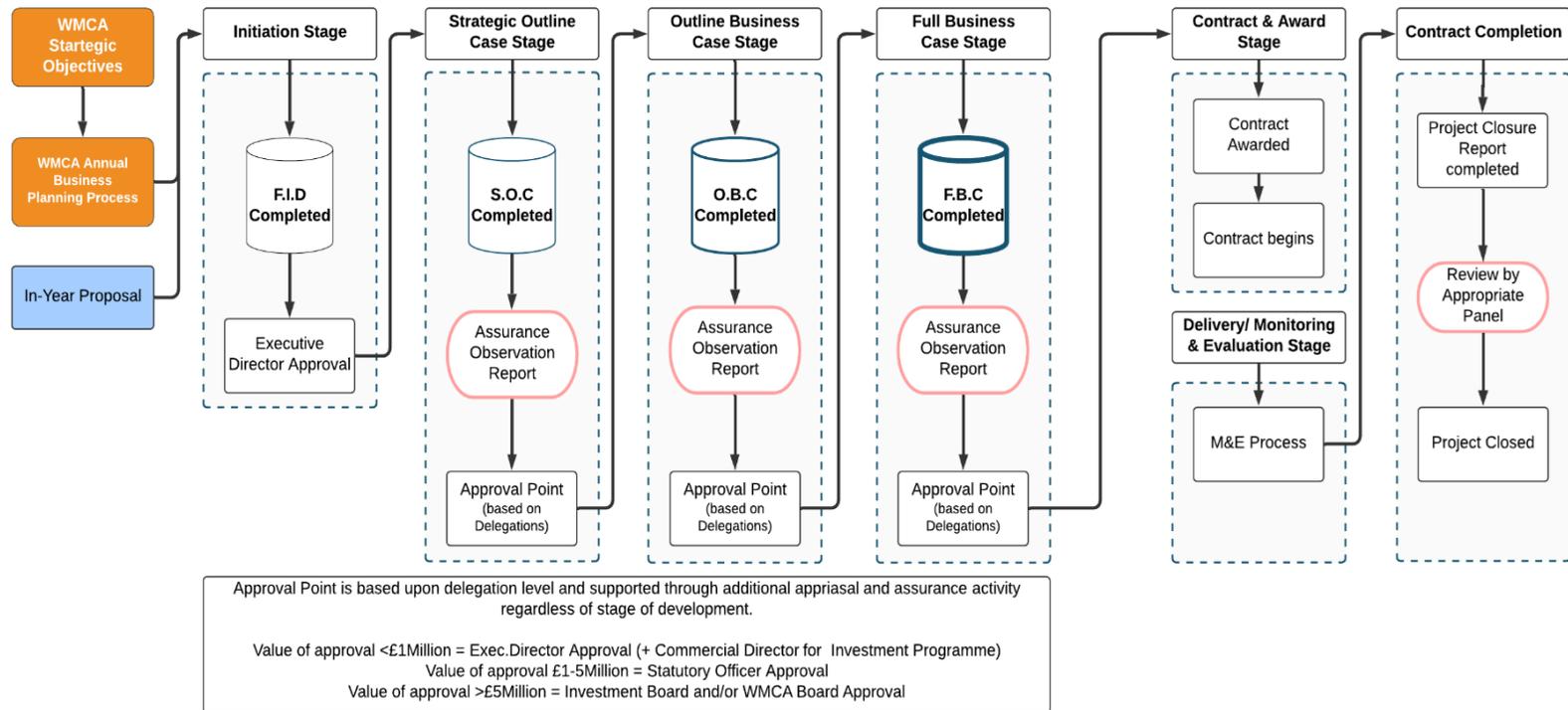
The WMCA is committed to undertaking due diligence activities that support effective and informed decision-making and project appraisal. The specific nature and timing of the due diligence will depend upon the nature of the project, its cost and the potential impact of the project on the WMC itself. The project lifecycle set out in 5.3 below highlights the key stages at which due diligence will occur and what sort of due diligence is required.

The Observation Report produced out of Directorate to advise on project maturity will support the development of due diligence activities. Directorates who will utilise their officer expertise and stakeholder relationships will lead on project development and be responsible for the timing and nature of due diligence activities, guided by the Assurance Framework and the expertise of WMCAs Strategic Hub. Directorates may want to commission external due diligence providers in some instances and will be advised on such requirements and the quality of due diligence undertaken through the Investment panel and Advisory Panel processes.

5.3 The Project Lifecycle Process

This section outlines the method for how projects and programmes will be evaluated and prioritised through the WMCAs project lifecycle. It explains the assessment of and evaluation process at each of the lifecycle stages and the role of different stakeholders at each stage.

The diagram below provides an illustrative example of the project lifecycle process based on a standard SOC to OBC to FBC development process. The project lifecycle allows for numerous development routes to be undertaken.

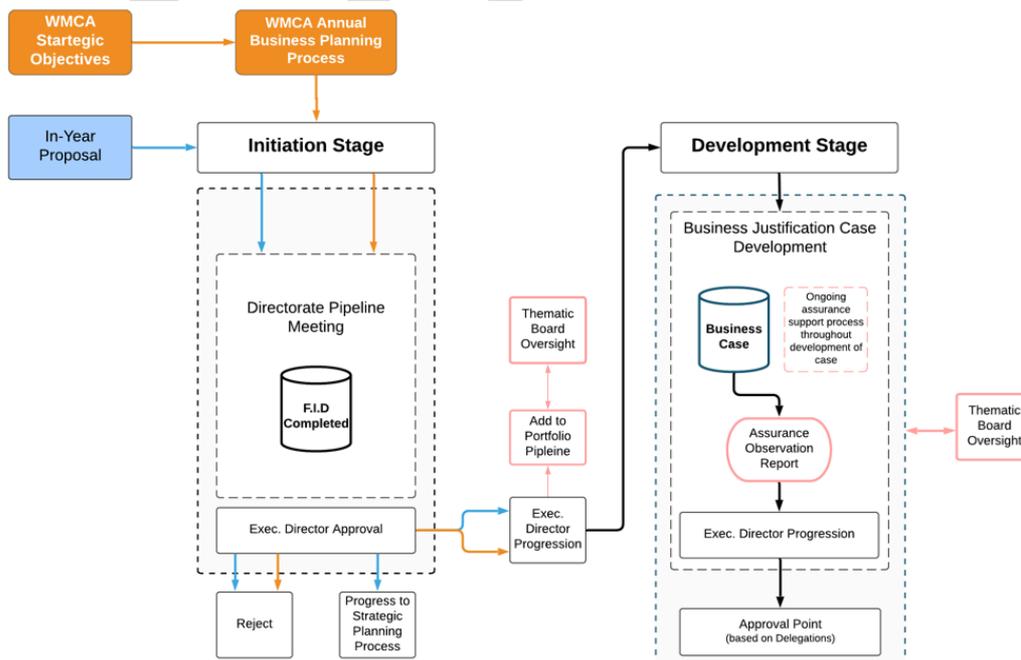


The diagram above provides an overview of the standard project lifecycle, there are additional appraisal and assurance elements within this process that will be explained later in this process.

The diagram illustrates that the typical WMCA project lifecycle is split into seven stages, they are:

- Project Initiation Stage
- Strategic Outline Business Case Stage
- Outline Business Case Stage
- Full Business Case Stage
- Contract Award Stage
- Delivery + Monitoring & Evaluation Stage
- Contract Completion Stage

The diagram below provides an overview of the BJC lifecycle and how the PBC lifecycle could typically operate:



A PBC lifecycle would involve initial consideration of the PBC and Observations Report before projects followed their own routes which could involve SOCs, OBCs, FBCs, BJs or a combination thereof.

Each stage is described in more detailed below.

5.3.1 Strategic Planning Process

Before a project can enter the project lifecycle there are some key processes that need to have taken place and requirements that need to be met, this begins with the Strategic Planning Process.

The Strategic Planning Process has three key elements, they are:

1. Selecting the Strategic Objectives of the WMCA
2. Setting out the Strategic Economic Plan (SEP) and the West Midlands Industrial Strategy
3. Setting out the WMCA Annual Plan and supporting Portfolio Annual Business Plans

Element 1 is the setting of the WMCAs Strategic Objectives. This involves the Mayor and the WMCA Board debating and agreeing, in collaboration with Government and key partners and stakeholders, ensuring a reflection of devolution agreements and political manifestos, the priority deliverables for the region. This process sets the strategic objectives for the WMCA.

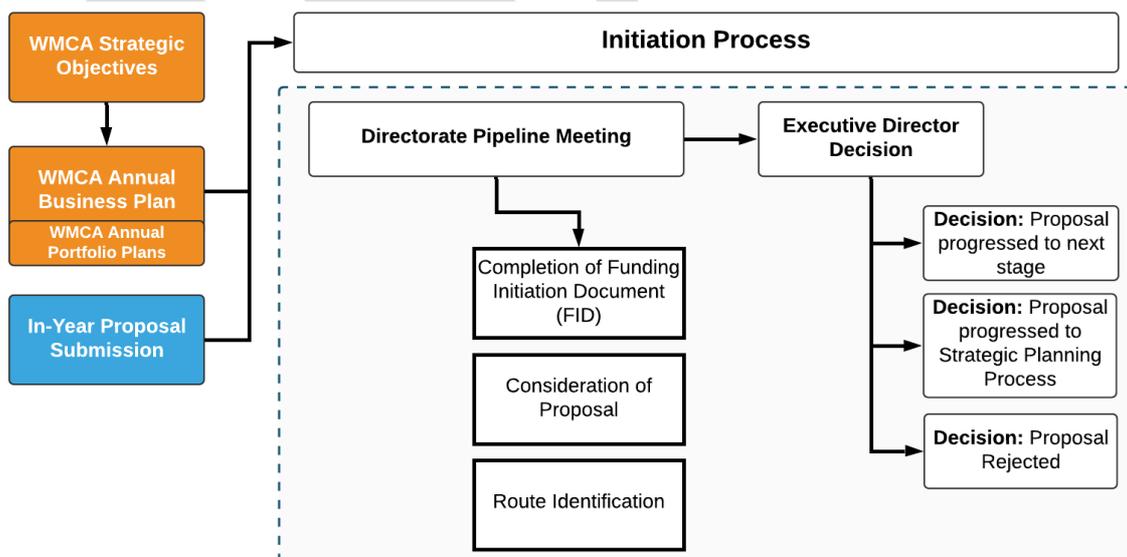
Element 2 is the development and agreement of the key strategic strategy documents for the WMCA. The Strategic documents are set out in 4.14 and are available on the [WMCA website](#).

Element 3 is the breaking down of the SEP and LIS into annual priorities and deliverables to make the WMCAs Annual Business Plan, this is supported by individual Portfolio Business Plans across the WMCA.

5.3.2 The Initiation Stage

The Initiation Stage is a requirement for all proposals and projects, it provides a consistent WMCA wide approach to initiating a proposal in order to ensure that key information exists, that key considerations have taken place, that key stakeholders are engaged and that the 'golden thread' is in existence through a clear strategic justification.

The Initiation Stage can be illustrated through the following diagram:



There are 2 ways that proposals can enter the initiation stage, they are:

- o Entry from Annual Business Plan
- o Project sponsor submits proposal

5.3.1 explained how the Strategic Objectives fed into the WMCA Annual Business Plan, this in turn is supported by various Portfolio specific Annual Business Plans that set have the following purpose:

- o Set out the WMCA priorities for that year for that **Directorate/ Portfolio** so that partners and stakeholders are clear on the key areas of focus

- Provide a strategic context for the **Directorate/Portfolio** and the WMCA as an organisation so that service plans and operational activity are aligned to the overall vision and priorities
- Enable the WMCA **Directorates/Portfolios** to articulate what is being delivered, and be able to oversee and review progress against priorities

Directorates will schedule consideration of items from the Annual Business Plan into the initiation stage in order to consider whether or not to progress that item to the business case development stage. The other way items can enter the initiation stage is for Directorates to receive in-year proposals that are not included in the Annual Business plan.

In both circumstances the appropriate Directorate would consider the item at its Directorate Pipeline Meeting. The Directorate Pipeline meeting is where proposal submissions and project initiation is considered. The Assurance Framework does not specifically require a Pipeline meeting to be set up by each Directorate, just for its purpose to be fulfilled. This means it could take place in existing Directorate governance arrangements or it could be specifically set up by Directorates as a new function.

The Directorate Pipeline Meeting requires the appropriate Directorate arrangements to consider whether an item should be initiated, it does this by completing a Funding Initiation Document (FID) which requires the following considerations to take place and information to be provided:

- Project identification and management information including secured and unsecured funding source details and external assurance requirement details
- Result of route identification tool – this is the WMCA toolkit which assesses what business case route is required for each proposal based on value, complexity and other criteria in order to determine a proportionate development route
- Evidence of meeting pre-qualification criteria if applicable – i.e. for Housing or Land applications the WMCA has pre-qualification criteria which must be met for a proposal to be considered for initiation, this criteria is detailed in the WMCAs Single Commissioning Framework which is available on the WMCA website.
- Intervention Statement – series of problem statement questions to drive consideration behaviour. If a DfT proposal then WebTAG compliance with initial consideration and evaluation of the intervention is required.
- Strategic Justification – Statement required as to how proposed intervention aligns with WMCA Strategic Objectives in order to demonstrate ‘golden thread’, requires proposed deliverables and critical success factors.
- Development Funding – information regarding funding required to get proposal to the next development stage (usually a Strategic Outline Case) with comments from WMCA Finance Department.
- Funding Source – information regarding the proposed funding source with confirmation from Finance that potential funding is still applicable.

All of the information above is considered with the appropriate leads from Legal and Finance for that Directorate present, the result of which is a decision by the Executive Director (or their delegates) on whether or not to progress the proposal to the next stage. This process creates a clear line of accountability with Executive Directorates responsible for the completion and submission of Funding Initiation Documents and for progressing proposals to the next stage. Executive Directors can also reject proposals if there is not a sufficient strategic fit, for in-year submissions they also have an option to progress that proposal into the strategic planning process to see if the WMCA wants to pick it up following further review.

5.3.3 The Strategic Outline Business Case (SOC)

This is the scoping phase for the project, which results in the production of the Strategic Outline Case (SOC).

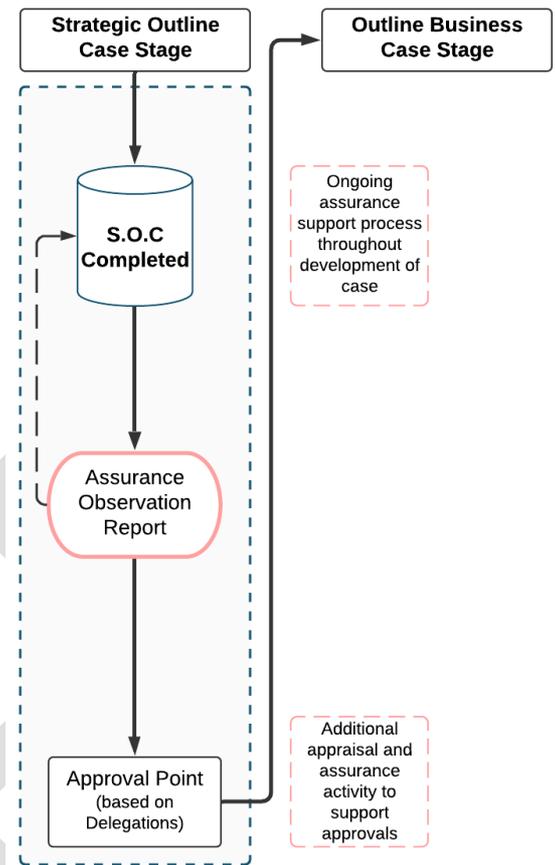
The key purpose of the Strategic Outline Case (SOC) is to:

- establish the strategic context for the spending proposal
- evidence the case for change
- establish the preferred way forward.

The 'Board Friendly' business case will require the SOC to:

- Outline the intervention and spend for which approval is being sought
- Set out alignment with the 'golden thread'
- Set out details of intended initial timeframe
- Detail programme information and review if applicable

The SOC follows the initiation stage where completion of a FID is required to drive early appraisal considerations and ensure the strategic fit to demonstrate the 'golden thread' is clear. The SOC builds on the FID, requiring project sponsors to develop a SOC in line with the business case approach outlined in 5.2.



The SOC primarily focuses on the Strategic Case, supported by initial considerations regarding the Economic Case, Financial Case and Management Case with some general information required for the Commercial Case.

This is to ensure that there is a clearly developed strategic fit for projects that will be taken forward to the OBC stage. Details of the criteria and content required and how to apply further proportionality are detailed in the WMCAs Business Case guidance documents.

There is an Assurance Toolkit that offers advice, guidance and support throughout the development of the SOC with Assurance specialists available to provide direct support if required. This support can advise on when the SOC is mature enough to be submitted for approval to the next stage.

Once an SOC has been completed it receives an 'out of Directorate' appraisal by Assurance specialists which provides a maturity assessment of the Business Case using HMT guidance and WMCA guidance in order to ensure compliance with specific WMCA requirements. This appraisal makes up part of the WMCA Assurance Observations Report which also includes suggestions and guidance on improving the business case and/or issues to consider moving onto the next stage.

An Assurance Observations Report is required for every business case stage.

The SOC plus the Assurance Observation Report is then submitted to the appropriate Executive Director for that portfolio who will consider the information and decide if the SOC requires further development or can be progressed into the Approvals process. If they decide to progress the Business case into the Approvals Phase then the Executive Director must sign a Progression Sheet, confirming that they have considered the Business Case plus the Assurance Observations Report. The Progression Sheet also provides an opportunity for the Executive Director to record any comments in support of the Business case.

The Approvals process offers additional appraisal and assurance activity to assist decision-makers dependent upon the value of approval required, this process is detailed in section 5.4.

The following key review criteria may be applied to an SOC, this is not an exhaustive list:

Key Review Criteria	Main Evidence Required
The Strategic Case	
1. Is the proposed scheme an integral part of the organisation's business strategy?	<ul style="list-style-type: none"> ○ Extracts from business and other relevant strategies. ○ Reference to relevant government and organisational policies.
2. Is the proposed scheme sufficiently large and stand-alone to form a project or could it be more sensibly be undertaken as part of another programme or project?	<ul style="list-style-type: none"> ○ Relevant extracts from business and other strategies. ○ Reference to scoping documentation. ○ Relevant extracts from strategy board minutes.
3. Are the spending objectives and underpinning business needs defined clearly and supported by the key stakeholders and customers?	<ul style="list-style-type: none"> ○ SMART spending objectives. ○ Evidence of stakeholder and customer involvement and support.
4. Is the scope for potential change to current services and business processes clearly defined?	<ul style="list-style-type: none"> ○ Clear statement of business outcomes and service outputs. ○ Statement of any security and confidentiality issues.
5. Have the main benefits been clearly defined by key stakeholders and customers, alongside arrangements for their realisation?	<ul style="list-style-type: none"> ○ Outline of benefits realisation plan. ○ Direct and indirect to the organisation and wider public sector. ○ Cash (£) and non-cash-releasing. ○ Ranking of benefits by key stakeholder.
6. Have the main risks been identified, alongside arrangements for their management and control?	<ul style="list-style-type: none"> ○ Outline of risk management strategy. Business risks. ○ Service risks. ○ Likely probabilities and impact (high, medium or low).
7. Have the key organisational constraints and business dependencies been identified?	<ul style="list-style-type: none"> ○ Evidence of critical path. ○ Related programmes and projects. ○ Assessment of internal and external constraints.
The Economic Case	
8. Have the CSFs for options appraisal been identified?	<ul style="list-style-type: none"> ○ Prioritised CSFs (high, medium or low). ○ Relevant performance measures.
9. Has a sufficiently wide range of options been identified and assessed within the long-list?	<ul style="list-style-type: none"> ○ Use of a feasibility study. ○ 10 to 12 main options – full description. ○ Minimum of three to four options, including: <ul style="list-style-type: none"> ○ Business As Usual (BAU) ○ Preferred way forward ○ Do minimum (if different) <ul style="list-style-type: none"> ▪ Public Sector Comparator (if required) ○ Use of the Options Framework filter for: <ul style="list-style-type: none"> ▪ potential scopes ▪ potential solutions ▪ methods of service delivery ▪ implementation ▪ funding sources.
10. Has a preferred way forward been identified following robust analysis of the available options?	<ul style="list-style-type: none"> ○ SWOT analysis of options against: <ul style="list-style-type: none"> ▪ spending objectives ▪ critical success factors ▪ benefits criteria ▪ evidence of likely support from key stakeholders.

11. Has a short-list with indicative Net Present Social Values (NPSV) been prepared for further examination and appraisal?	<ul style="list-style-type: none"> ○ Include all viable long-list options
The Commercial Case	
12. Has a requirements analysis been undertaken? 13. Has a market analysis been undertaken? 14. Has the project been prepared in accordance with the organisation's arrangements in response to the Government commercial operating standards?	<ul style="list-style-type: none"> ○ Description of potential Deal ○ Market soundings ○ Existing service providers ○ Requirements analysis ○ Government commercial operating standards for: <ul style="list-style-type: none"> ● blueprint and resources ● pipeline and planning ● senior responsible owners and expertise ● early cross-functional analysis of options ● maximising competition ● contracting ● contract management ● Supplier relationships.
The Financial Case	
15.	Has a high-level assessment of affordability and source(s) of required funding been undertaken?
The Management Case	
16. Has a high-level assessment of the achievability and deliverability of the project been undertaken?	<ul style="list-style-type: none"> ○ Indicative time-scales. ○ Use of special advisers. ○ Feasibility study. ○ Peer review.
17. Are all the necessary arrangements in place for the successful completion of the next phase?	<ul style="list-style-type: none"> ○ Outline Programme and Project Board. and reporting arrangements. ○ Project manager and team. ○ Project plan and agree deliverables. ○ Budget allocation and resources.

5.3.4 The Outline Business Case (OBC)

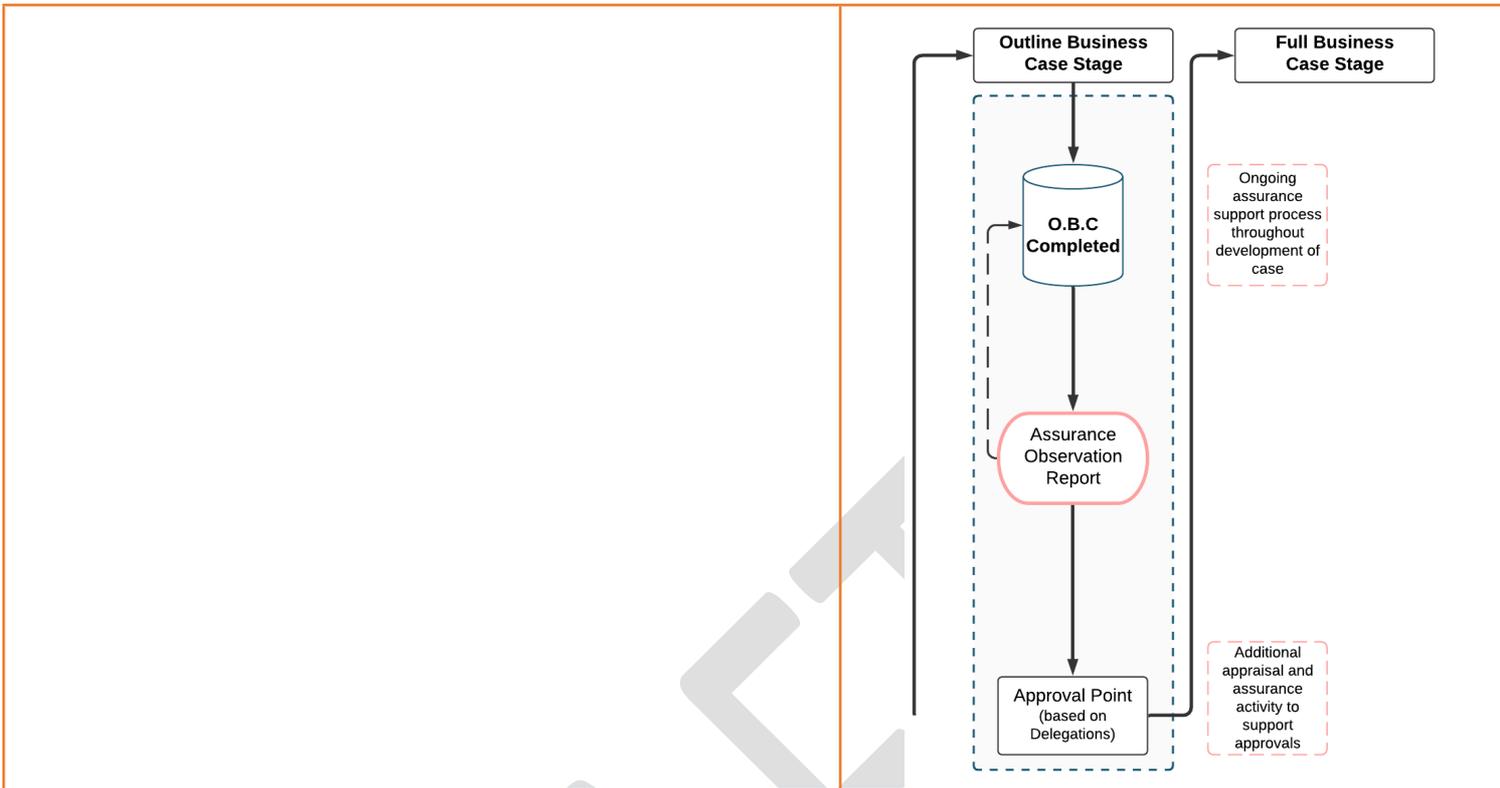
This is the planning phase for the project, which results in the production of the Outline Business Case (OBC).

The key purpose of the Outline Business Case (OBC) is to:

- revisit the SOC assumptions and main findings
- establish the preferred option
- put in place the arrangements for the procurement of the scheme.

The 'Board Friendly' Business Case will require the business case to outline:

- Outline the intervention and spend for which approval is being sought
- Provide an overview of developments since SOC
- Provide an overview of how the preferred option represents value for money
- Explain how the preferred option has been prepared for procurement
- Set out details of the necessary funding and management arrangements to deliver the project



The OBC aims to ensure that only projects that will deliver the Strategic Objectives are taken through to the Full Business Case Stage. The OBC is required to be developed in line with the approached outlined in 5.2.

The core of the OBC is the options analysis which should demonstrate that the preferred option is optimally designed to meet the WMCAs strategic objectives.

There is an Assurance Toolkit that offers advice, guidance and support throughout the development of the OBC with Assurance specialists available to provide direct support if required. This support can advise on when the OBC is mature enough to be submitted for approval to the next stage.

Once an OBC has been completed it receives an 'out of Directorate' appraisal by Assurance specialists which provides a maturity assessment of the Business Case using HMT guidance and WMCA guidance in order to ensure compliance with specific WMCA requirements. This appraisal makes up part of the WMCA Assurance Observations Report which also includes suggestions and guidance on improving the business case and/or issues to consider moving onto the next stage.

An Assurance Observations Report is required for every business case stage.

The OBC plus the Assurance Observation Report is then submitted to the appropriate Executive Director for that portfolio who will consider the information and decide if the OBC requires further development or can be progressed into the Approvals process. If they decide to progress the Business case into the Approvals Phase then the Executive Director must sign a Progression Sheet, confirming that they have considered the Business Case plus the Assurance Observations Report. The Progression Sheet also provides an opportunity for the Executive Director to record any comments in support of the Business case.

The Approvals process offers additional appraisal and assurance activity to assist decision-makers dependent upon the value of approval required, this process is detailed in section 5.4.

The following key review criteria may be applied to an OBC, this is not an exhaustive list:

Key Review Criteria	Main Evidence Required
<p>The Strategic Case</p> <ol style="list-style-type: none"> Are the SOC spending objectives and planning assumptions still valid? 	<ol style="list-style-type: none"> Are they set at an appropriate level and SMART:

	<ul style="list-style-type: none"> ▪ specific ▪ measurable ▪ achievable ▪ relevant ▪ timely <ul style="list-style-type: none"> ○ Still supported by stakeholders and customers.
2. Do the services to be procured in the SOC still provide best fit in relation to organisational needs?	<ul style="list-style-type: none"> ○ Organisational context. ○ Existing and future changes in needs. ○ Expected changes in volumes and mix of services. ○ Other existing, planned or possible services. ○ Security and confidentiality issues.
3. Have any outstanding differences at SOC stage between stakeholders and customers been satisfactorily resolved?	<ul style="list-style-type: none"> ○ Continued stakeholder commitment and involvement. ○ Communication strategy.
4. Has the assessment of likely benefits, risks, constraints and dependencies in the SOC been revisited and examined in further detail?	<ul style="list-style-type: none"> ○ Updated benefits criteria – benefits study. ○ Updated risk assessment – risk study. ○ Ongoing assessment – business strategies and plans.
The Economic Case	
Were the long-listed options in the SOC revisited and subjected to further scrutiny?	<ul style="list-style-type: none"> ○ New options. ○ CSFs revisited. <p>Options ranked, weighted and scored.</p>
Were the short-listed options in the SOC revisited and subjected to robust analysis?	<ul style="list-style-type: none"> ○ Economic appraisals for shortlisted options, including: <ul style="list-style-type: none"> ▪ 'BAU and 'do minimum' ▪ PSC ▪ PFI (PPP) solution(s) ○ Use of appropriate tools: <ul style="list-style-type: none"> ▪ Cost Benefit Analysis (CBA) ▪ sensitivity analysis <p>risk (£) quantification.</p>
Has the PSC been constructed and assessed in accordance with HM Treasury guidance?	<ul style="list-style-type: none"> ○ Realistic solution capable of implementation. ○ Risks identified, apportioned and measured for all project stages: <ul style="list-style-type: none"> ▪ Design ▪ Build ▪ Finance ▪ Operate <p>PFI (PPP) costs, where available.</p>
Does the preferred option provide best public value?	<ul style="list-style-type: none"> ○ Rigorous use of investment appraisal tools and techniques. ○ All assumptions recorded. ○ Achievable benefits streams. <p>Stakeholders and customers support.</p>
The Commercial Case	
Has the procurement strategy for the successful delivery of the required services been considered and prepared in sufficient detail?	<ul style="list-style-type: none"> ○ Consideration of procurement options including: <ul style="list-style-type: none"> ▪ use of preferred bidder ▪ draft advertisement ▪ evaluation criteria ▪ negotiation strategy <p>procurement plan and timetable.</p>

<p>Is there sufficient scope for a potential Deal, which meets organisational needs while offering best VfM?</p>	<ul style="list-style-type: none"> ○ Potential for innovation within the provision of services and solutions. ○ Potential for risk transfer in Design, Build, Finance, Operate stages. ○ Potential for new business and alternative revenue streams. <p>Likely contract length.</p>
<p>Has the potential deal been considered in sufficient detail? The how rather than what.</p>	<ul style="list-style-type: none"> ○ Preparation of Outline Based Specification (OBS) ○ core, desirable and optional services ○ delivery time-scales (phased improvements etc.) ○ potential payment mechanisms ○ ownership of residual assets <p>service levels and performance measures.</p>
<p>Is there a clear understanding of the business change agenda?</p>	<ul style="list-style-type: none"> ○ Change management plans. ○ Proposed mechanisms and milestones. <p>Assessment of personnel implications.</p>
<p>Is the potential Deal still likely to be acceptable and bankable within the private sector?</p>	<ul style="list-style-type: none"> ○ Market research and surveys. ○ Use of standard contractual terms and conditions. <p>Benchmarks – similar projects.</p>
<p>The Financial Case</p>	
<p>Is the solution still likely to be affordable?</p>	<ul style="list-style-type: none"> ○ Financial appraisals for preferred option, including full assessment of: <ul style="list-style-type: none"> ▪ capital and current requirements ▪ net effect on prices ▪ balance sheet impact ▪ income and expenditure account <p>stakeholder and customers agreement.</p>
<p>The Management Case</p>	
<p>Are all the necessary arrangements in place for the successful completion of the next phase?</p>	<ul style="list-style-type: none"> ○ Programme methodology (MSP). ○ Project methodology (PRINCE2): <ul style="list-style-type: none"> ▪ project board and structure ▪ project manager and team ▪ project plan ▪ project resources and budget ▪ reporting mechanisms ○ Use of external advisers <ul style="list-style-type: none"> ▪ legal ▪ financial ▪ other ○ Outline arrangements for: <ul style="list-style-type: none"> ▪ benefits study and realisation plan ▪ risk management strategy and plan ▪ change management strategy and plan ▪ contract management ○ Arrangements for evaluation: <ul style="list-style-type: none"> ▪ peer reviews ▪ Cabinet Office Gateway reviews (if required) ▪ project implementation reviews ▪ post-evaluation reviews

5.3.5 The Full Business Case (FBC)

This is the procurement phase for the project, which results in the Full Business Case (FBC), following negotiations with potential service providers prior to the formal signing of the contract(s).

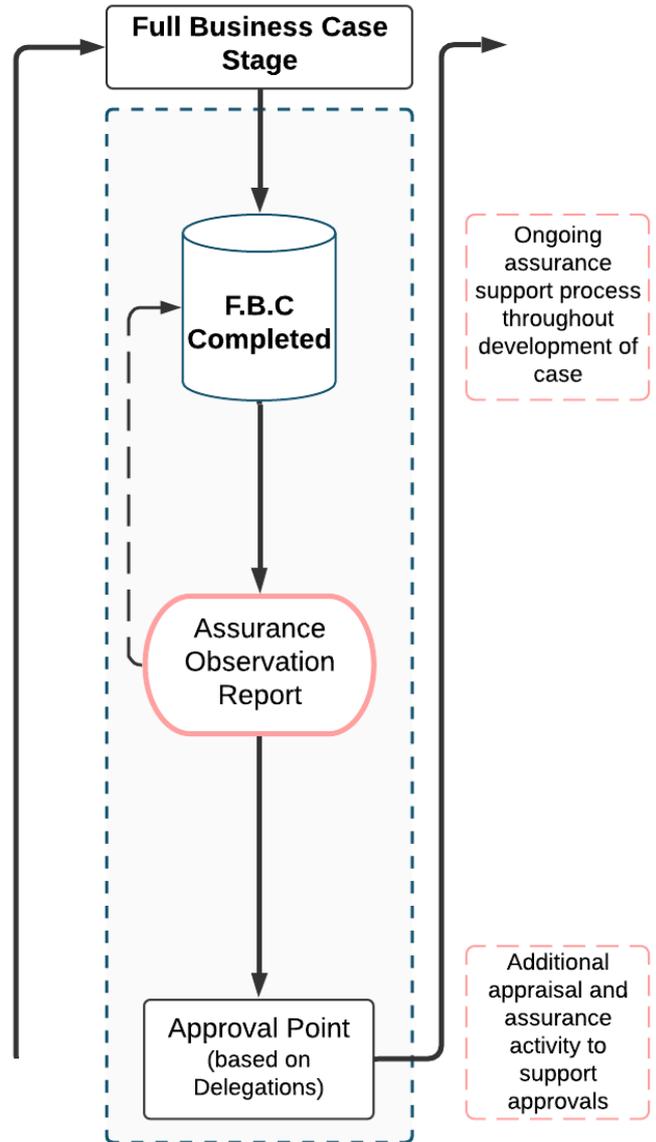
The key purpose of the FBC is to:

- revisit the assumptions and main findings of the OBC
- evidence the most economically advantageous tender (MEAT) for the project
- establish that the management arrangements for successful delivery are in place

The 'Board Friendly' Business Case will require the business case to:

- Outline the intervention and spend for which approval is being sought
- Provide an overview of developments since OBC
- Document the outcome of the procurement
- Identify the market-place opportunity which offers optimum Value for Money (VfM)
- Set out the commercial and contractual arrangements for the negotiated deal
- Confirm the deal is still affordable
- Put in place the detailed management arrangements for the successful delivery and monitoring & evaluation of the scheme

The aim of the FBC is to provide a mechanism for appraising projects against a comprehensive set of criteria



for each of the five cases. The FBC will revisit the assumptions and main findings from the OBC which may have changed for example due to the procurement arrangements but will also bring forward new evidence on issues such as the procurement and management strategy. The FBC is required to be developed in line with the approach outlined in 5.2.

There is an Assurance Toolkit that offers advice, guidance and support throughout the development of the FBC with Assurance specialists available to provide direct support if required. This support can advise on when the FBC is mature enough to be submitted for approval to the next stage.

Once an FBC has been completed it receives an 'out of Directorate' appraisal by Assurance specialists which provides a maturity assessment of the Business Case using HMT guidance and WMCA guidance in order to ensure compliance with specific WMCA requirements. This appraisal makes up part of the WMCA Assurance Observations Report which also includes suggestions and guidance on improving the business case and/or issues to consider moving onto the next stage.

An Assurance Observations Report is required for every business case stage.

The FBC plus the Assurance Observation Report is then submitted to the appropriate Executive Director for that portfolio who will consider the information and decide if the FBC requires further development or can be progressed into the Approvals process. If they do not progress the Business case into the Approvals Phase

then the Executive Director must sign a Progression Sheet, confirming that they have considered the Business Case plus the Assurance Observations Report. The Progression Sheet also provides an opportunity for the Executive Director to record any comments in support of the Business case.

The Approvals process offers additional appraisal and assurance activity to assist decision-makers dependent upon the value of approval required, this process is detailed in section 5.4.

By the FBC stage, it is expected that there is already a clear alignment between the project and a wider programme. As a result the focus of the FBC evaluation will be to scrutinise each component of the five cases to ensure that the project stacks up in isolation and that it will deliver for Value for Money for the WMCA and taxpayers.

The following key review criteria may be applied to an FBC, this is not an exhaustive list:

Key Review Criteria	Main Evidence Required
The Strategic Case	
1. Does the recommended Deal still provide synergy and best fit with other parts of the organisation's business strategy?	<ul style="list-style-type: none"> ○ Notification of any changes during negotiations. ○ Ongoing evaluation of business strategies and plans.
2. Does the recommended Deal still satisfy OBC objectives and business needs?	<ul style="list-style-type: none"> ○ SMART spending objectives (revisited). ○ Notification of any changes during negotiations. ○ Written confirmation of agreement on part of stakeholders and customers.
3. Does the recommended Deal still provide all of the required services – both current and future?	<ul style="list-style-type: none"> ○ Clear statement of service requirements and outputs. ○ Change control arrangements. ○ Notification of any changes during negotiations: <ul style="list-style-type: none"> ▪ additional services ▪ agreement of stakeholders and users ▪ business justification and CBA.
The Economic Case	
Was a wide range of bids received from service providers in response to the invitation to tender	<ul style="list-style-type: none"> ○ Assessment of earlier assumptions. ○ Use of evaluation criteria: <ul style="list-style-type: none"> ▪ long-list of suppliers ▪ short-list of suppliers ○ Description of each bid received at BAFO. ○ Method of treatment for varying bids. ○ Basis for selection of preferred bidder (if applicable).
Was the most economically advantageous offer selected?	<ul style="list-style-type: none"> ○ Preparation and assessment of economic appraisals for: <ul style="list-style-type: none"> ▪ BAU and do minimum ▪ revised PSC ▪ best and final offers and/or ▪ preferred bidder (if selected) ○ Use of appropriate tools: <ul style="list-style-type: none"> ▪ sensitivity analysis ▪ risk (£) quantification ▪ evaluation of qualitative benefits ▪ Use of CBA.
The Commercial Case	Page 249

<p>Was the procurement undertaken in accordance with appropriate procurement legislation?</p>	<ul style="list-style-type: none"> ○ Overview of procurement process. <ul style="list-style-type: none"> ▪ deviations from procurement strategy ▪ use of legal and procurement advice (internal and external advisers).
<p>Can the selected service provider deliver the required deliverables and services?</p>	<ul style="list-style-type: none"> ○ Outline of the agreed Deal <ul style="list-style-type: none"> ▪ services – current and future ▪ delivery time-scales ▪ design ▪ build ▪ operate ▪ payment mechanisms ▪ performance and availability ▪ volume and usage ▪ incentives ▪ future change ▪ new business and alternative revenue streams ;ownership of residual assets ▪ service levels and performance measures. ○ Business, technical and cultural fit – track record.
<p>Have negotiations resulted in a robust and legally enforceable contract?</p>	<ul style="list-style-type: none"> ○ Use of specialist adviser(s). ○ Use of standard terms and conditions. ○ Key contractual terms agreed.
<p>How will business and service change be delivered and implemented successfully over the lifespan of the contract period?</p>	<ul style="list-style-type: none"> ○ Assessment of known and expected change. ○ Formula for handling unexpected change. <ul style="list-style-type: none"> ▪ Benchmarking ▪ market testing arrangements.
<p>The Financial Case</p>	
<p>Is the proposed investment still affordable?</p>	<ul style="list-style-type: none"> ○ Financial appraisals for recommended Deal, including full assessment of: <ul style="list-style-type: none"> ▪ capital and current requirements ▪ net effect on prices ▪ impact on the balance sheet ▪ income and expenditure account. ○ Stakeholder and customers agreement. ○ Confirmation of finance directorate.
<p>The Management Case</p>	
<p>Have the business and cultural implications of the intended service been fully understood and taken into account?</p>	<ul style="list-style-type: none"> ○ Agreed programmes for: <ul style="list-style-type: none"> ▪ change management ▪ business process re-engineering. ○ Staff-side representation. ○ Personnel implications.
<p>Are all the arrangements in place for the successful implementation and delivery of the required services?</p>	<ul style="list-style-type: none"> ○ Contract management strategy, including disputes resolution procedures. ○ Skilled contract management team. ○ Agreed schedules for service streams and outputs.
<p>How will the benefits be delivered and associated business and service risks managed throughout the lifespan of the service?</p>	<ul style="list-style-type: none"> ○ Detailed benefits realisation plan. ○ Robust risk management strategy ○ Monitoring and reporting arrangements- registers and regular audits.

<p>Are all the necessary arrangements in place for Project Monitoring and Evaluation during and after Implementation?</p>	<ul style="list-style-type: none"> ○ Agreed arrangements for evaluation: <ul style="list-style-type: none"> ▪ peer reviews ▪ Cabinet Office Gateway reviews (if required) ▪ project implementation reviews ▪ post-evaluation reviews.
<p>Are contingency plans in place should the recommended Deal fail at any stage?</p>	<ul style="list-style-type: none"> ○ Contingency plans. ○ Arrangements for regular review.

5.3.6 The Business Justification Case (BJC)

There is an additional business case within the project lifecycle that can also be considered, if applicable this business case route will be identified during the Initiation Stage.

The Business Justification Case (BJC) is a 'lighter', single stage business case that is available for the support of smaller, less expensive spending proposals that are not novel or contentious and for which 'firm' prices are available from a pre-competed arrangement, including framework contracts negotiated in accordance with EU/WTO rules and regulations.

The key purpose of the Business Justification Case is to:

- Set out the background to the proposed investment
- Make the case for change from the current arrangements and outline the benefits gained therein
- Recommend a preferred option
- Set out briefly the financing, procurement and management arrangements for that option.

The 'Board Friendly' Business Case will require the following information:

- Outline the intervention and spend for which approval is being sought
- Set out the case for change and alignment with the 'golden thread'
- Set out the potential benefits of the intervention
- Set out details of preferred option
- Set out the finance arrangements for the preferred option
- Set out the procurement arrangements for the preferred option
- Set out the management arrangements for the preferred option

The BJC is required to be developed in line with the approach outlined in 5.2.

There is an Assurance Toolkit that offers advice, guidance and support throughout the development of the BJC with Assurance specialists available to provide direct support if required. This support can advise on when the BJC is mature enough to be submitted for approval to the next stage.

Once an BJC has been completed it receives an 'out of Directorate' appraisal by Assurance specialists which provides a maturity assessment of the Business Case using HMT guidance and WMCA guidance in order to ensure compliance with specific WMCA requirements. This appraisal makes up part of the WMCA Assurance Observations Report which also includes suggestions and guidance on improving the business case and/or issues to consider moving onto the next stage.

An Assurance Observations Report is required for every business case stage.

The BJC plus the Assurance Observation Report is then submitted to the appropriate Executive Director for that portfolio who will consider the information and decide if the BJC requires further development or can be progressed into the Approvals process. If they decide to progress the Business case into the Approvals Phase then the Executive Director must sign a Progression Sheet, confirming that they have considered the Business Case plus the Assurance Observations Report. The Progression Sheet also provides an opportunity for the Executive Director to record any comments in support of the Business case.

The Approvals process offers additional appraisal and assurance activity to assist decision-makers dependent upon the value of approval required, this process is detailed in section 5.4.

5.3.7 Programme Business Case (PBC) Page 251

The key purpose of the PBC is to:

- Revisit the assumptions and main finding of the OBC
- Evidence the most economically advantageous tender (MEAT) for the project
- Establish that the management arrangements for successful delivery are in place

The 'Board Friendly' Project Business Case will provide the following information:

- Outline the intervention and spend for which approval is being sought
- Provide an Organisational overview
- Provide details of Business strategy and aims
- Detail other relevant strategies

The PBC is required to be developed in line with the approach outlined in 5.2.

There is an Assurance Toolkit that offers advice, guidance and support throughout the development of the PBC with Assurance specialists available to provide direct support if required. This support can advise on when the PBC is mature enough to be submitted for approval to the next stage.

Once an PBC has been completed it receives an 'out of Directorate' appraisal by Assurance specialists which provides a maturity assessment of the Business Case using HMT guidance and WMCA guidance in order to ensure compliance with specific WMCA requirements. This appraisal makes up part of the WMCA Assurance Observations Report which also includes suggestions and guidance on improving the business case and/or issues to consider moving onto the next stage.

An Assurance Observations Report is required for every business case stage.

The PBC plus the Assurance Observation Report is then submitted to the appropriate Executive Director for that portfolio who will consider the information and decide if the PBC requires further development or can be progressed into the Approvals process. If they decide to progress the Business case into the Approvals Phase then the Executive Director must sign a Progression Sheet, confirming that they have considered the Business Case plus the Assurance Observations Report. The Progression Sheet also provides an opportunity for the Executive Director to record any comments in support of the Business case.

The Approvals process offers additional appraisal and assurance activity to assist decision-makers dependent upon the value of approval required, this process is detailed in section 5.4.

5.3.8 Contract Award Stage

The primary focus of the contract ready and award stage is the completion and evaluation of any due diligence undertaken at the OBC and FBC stages to ensure that the Project Sponsor meets the WMCAs required standard and criteria.

This process is of particular importance from a financial and legal standpoint.

Where the project sponsor is deemed fit for undertaking the project, the project will progress to contract award and funding will be provided to the project before project delivery commences.

Detailed contract and grant conditions will be reviewed and drawn up by WMCA for each successful bid as part of the contract award stage.

For externally delivered projects, where delivery is being completed externally, to direct WMCA resource a Heads of Terms (HOT) agreement will be written up and entered into the external delivery organisation and WMCA.

5.3.9 Delivery and Monitoring & Evaluation

Project sponsors will have been required to outline their project monitoring and evaluation plans during the business case submission process at the Full Business Case stage.

Individual project sponsors will be required to implement their monitoring and evaluation plans, which, in turn will feed into the WMCA Performance Monitoring Framework and the WMCA Performance Dashboard.

The WMCA will monitor and map the outputs of projects and programmes through the Economic Intelligence Unit, supported by the Strategic Hub. This analysis will be used to inform the evaluation of the quality and impact of the WMCAs investment decisions, and in turn will create the evidence base for the Five Year Gateway Review. Government guidance recognises the fact that local and national economic impact of the investment fund might not be observable after five years. As a result the national evaluation panel will use appropriate metrics at the first gateway, such as whether investments are being delivered to time and budget.

5.3.10 Completion Stage

On completion of delivery of the work the programme or project will be formally closed, there will be however arrangements that are made for continued assessment of benefits and their realisation as well as review of economic impacts for a planned period of time after the formal closure.

Evaluation of the programme or project will be conducted and the output will be lessons learnt that are captured, additionally continuous improvement factors will be identified across themes such as development, contract management, delivery approaches, cost management and resource management aligned to the HMT five-case model.

The lessons learnt and continuous improvement factors will be shared with other projects and stakeholders as deemed appropriate and useful, provided that these are not commercially confidential. They will be utilised to inform WMCAs strategic planning pipeline and the way in which programmes and projects are planned, developed and delivered.

The WMCA is committed to using evidence-based analysis to improve its decision-making processes. As such information collected through Monitoring & Evaluation will be used to inform the future direction of the WMCA and its strategic objectives.

5.4 Approvals Process

The approvals phase is part of the project development life cycle, it is where the WMCAs principles of robust investment decision-making are applied. This is also where additional 2nd line assurance assessment will be undertaken to help better inform those with decision-making responsibility.

The approvals process has been designed to ensure that a higher level of assurance activity is undertaken and considered in informing a higher level of investment decision-making, reflecting the agreed decision-making principles of WMCA and supporting the taking of robust and informed investment decisions.

The approvals process is applied based on the value of approval required, not the stage of development. This approach is designed to provide additional proportionality to the process.

5.4.1 Approval Levels

The approval delegations at WMCA are as follows, it should be noted that accumulative cost is applied to approvals.

Investment Programme Approvals:

Up to £1Million	-	Executive Director + Investment Programme SRO Approval
Between £1-5Million	-	Statutory Officer Panel Approval (Executive Director + Investment Programme SRO + Section 151 Officer + Monitoring Officer)
Between £5-20Million	-	Investment Board
Over £20Million	-	WMCA Board

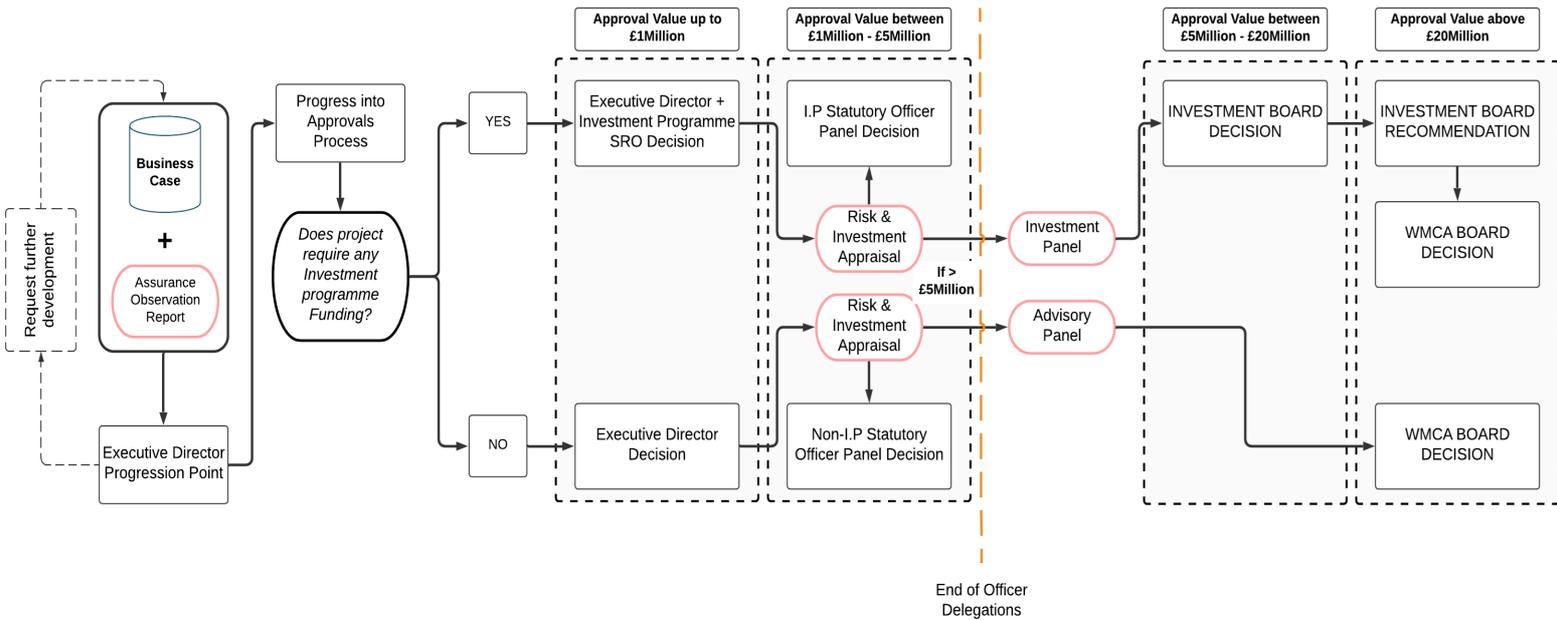
Non-Investment Programme Approvals:

Up to £1Million	-	Executive Director Approval
Between £1-5Million	-	Statutory Officer Approval Panel (Executive Director + Section 151 Officer + Monitoring Officer)
Over £20Million	-	WMCA Board

The Approvals process, and the associated additional appraisal and assurance provided, is illustrated in the diagram below:

ASSURANCE FRAMEWORK

Single Assurance Framework



5.4.2 Ever Increasing Levels of Assurance

The WMCA approach requires an ever increasing level of assurance and appraisal to be delivered and considered for increasing levels of investment.

The scheme of delegations provides Directorates with approval powers up to £1Million at various officer levels and dependent upon the funding source of the approval, to aid them in their decision-making the project development process will deliver the following level of Assurance for all proposals:

- Initiation process to ensure strategic fit, the funding exists and to identify intended outputs that will contribute to delivery of strategic objectives (the golden thread)
- Compliance with highest level of assurance that applies to funding (DfT, MHCLG Business Case requirements)
- Proportionate compliance with HMTs 5 Business Case elements model (Strategic/ Economic/ Commercial/ Financial/ Management)
- Projects developed in line with WMCA standards (i.e. cross portfolio collaboration)
- Legal and Finance sign off requirement
- Guidance provided to Exec. Director to assist approval decision (maturity assessment, observations on compliance with WMCA standards)

This approach ensures that all proposals are subjected to a minimum level of assurance that drives compliance with the five-case model, with Green Book and other Government guidance, with WMCA standards and requirements whilst maintaining a proportionate approach.

This is the minimum Appraisal and Assurance pack for all WMCA approvals regardless of what stage the Business Case is at.

All approvals above £1Million are subjected to an additional level of assurance, this is first delivered through an additional Risk and Investment Appraisal of the business case seeking approval, which is undertaken by Risk and Investment Appraisers within the Strategic Hub.

The purpose of the Risk and Investment Appraisal is to provide an un-bias appraisal of project proposals above £1million that covers the following:

- Detailed appraisal of NPSV and social impact with narrative + score
- Appraisal of validation of content of Economic Case
- Identify/ Provide comment on risks associated with Delivery/ Cost/ Time/ Funding
- Appraise funding arrangements (particularly cocktail funding)
- Review Risk Mitigations and provide opinion

The Risk and Investment Appraisal provides an output which is as follows:

- Appraisal of Project Business Case
- Expert opinion on Observations Report and appropriate response

- Investment Risk Profile
- Recommendations on key lines of enquiry and conditions to add to proposal

The Risk and Investment Appraisal is considered alongside the Business Case seeking approval and the Observations Report, both of which have been progressed into the approvals process by the appropriate Executive Director.

This package of information is presented to the Statutory Officer Panel for approvals between £1Million and £5Million, the Panel consists of the Executive Director progressing the Business Case plus the Section 151 Officer and the Monitoring Officer. For approvals that require an element of funding from the Investment Programme the Panel also involves the Investment Programme SRO.

All approvals above £5Million are then subjected to even further appraisal and assurance by being subjected to challenge and review by the appropriate Appraisal Panel. For Investment Programme approvals this is the Investment Panel whilst for Non-Investment Programme approvals this is the Advisory Panel.

The purpose of the Investment Panel/ Advisory Panel is to drive further consideration of the Business Case. The Investment Panel/ Advisory Panel will challenge projects prior to the appropriate Member Board consideration in order to highlight key lines of enquiry, observations and recommendation to bring to the Member Boards attention in order to assist the them with their deliberations and drive a higher threshold of consideration in the decision-making process.

The membership of the Investment Panel/ Advisory Panel includes senior WMCA representation for each of the five cases (Strategic/ Economic/ Commercial/ Financial/ Management), additional there is representation from Constituent, Non-Constituent and LEPs on the two Panels.

More details on the Investment Panel and the Advisory Panel can be found in the WMCA Constitution, the respective Panels would meet to consider items going to their respective Member Boards in order to:

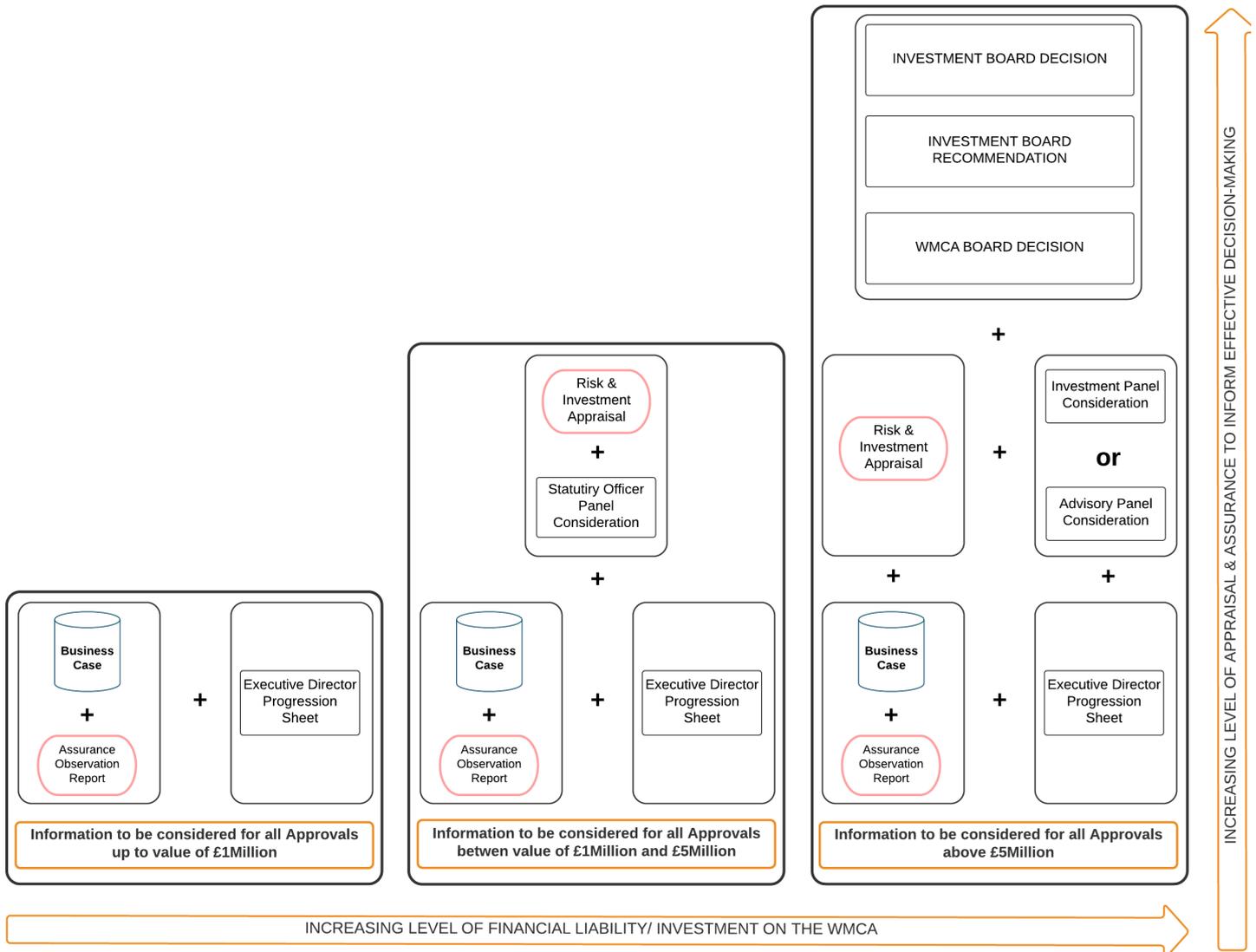
- identify key lines of enquiry for the Investment Board to focus on
- validate and challenge proposal content
- validate and challenge external review of proposal
- validate and challenge the quality and robustness of proposal content
- ensure a consistent approach to challenging HMTs 5 case elements within Business Cases
- examination of Proposal Observation report produced during development that highlights Case Maturity, compliance with guidelines and standards and appraises proposals
- examination of key risks and investment consideration

The Investment Panel/ Advisory Panel would then produce an output for consideration by its respective Member Boards. The outpour would include a summary of the proposal, highlighting the strengths and weaknesses of a proposal and any recommendations for improvement (For example - additional conditions to be added to funding agreements, conditions for withdrawal of support, additions to M&E plans).

Both Panels would also have an additional role in the Project Delivery Process by responding to instructions from their respective Member Boards to:

- Provide oversight of project performance and M&E plans
- Provide oversight of or undertake a formal review of a project if a review is determined to be required by the Parent Board
- Provide a review of the rationale behind any material delay or change in a project
- Instruct where reasonable completion of a change request (via the WMCA Assurance Process) following completion of a review

The Panel outputs add to the ever increasing level of appraisal and assurance required by the WMCA to inform decision-makers, this information is included in the pack provided to the Investment Board and the WMCA Board to consider approvals within their respective delegations.



For Non-Investment Programme approvals the pack of information above is considered by the WMCA Board.

For Investment Programme approvals the pack of information above is considered by the Investment Board who have the delegated authority to make approvals up to the value of £20 Million, for required approvals above that amount they consider the pack and then make a recommendation for consideration by the WMCA Board.

5.5 Project Lifecycle Stakeholders

There are a number of stakeholders (e.g. Committees, Boards, Panels) that are involved in the Project Lifecycle. These stakeholders are part of the WMCAs overarching system of governance and have distinct and clearly defined roles within the Project Lifecycle. These stakeholders are outlined in the table below:

STAKEHOLDER	PERSONNEL	ROLE
Mayor	The Mayor	Chair of the WMCA Board
Investment Panel	WMCA Officers Constituent Council Officers LEP Officers Non-Constituent Officers	To support the Investment Board and WMCA Board decision-making process
Advisory Panel	WMCA Officers Constituent Council Officers LEP Officers Non-Constituent Officers	To support the WMCA Board decision-making process

Investment Board	Elected Members	To make investment decisions within its delegation and to make recommendations on investments to WMCA Board above its delegation
WMCA Board	The Mayor Constituent Council Leaders Constituent Council Members Non-Constituent Council Representatives LEP Representatives	Provide ultimate sign-off and responsibility on investments and provide political accountability and transparency
Thematic Boards	WMCA Portfolio Lead Elected Members Portfolio Partners and Stakeholders	To provide oversight of project development and delivery, supporting the WMCA Portfolio lead in delivering strategic objectives and developing policy

5.6 Project Lifecycle Documents

There are a number of standard documents that are required to support the project lifecycle, these include:

Project Lifecycle Stage	Documents
Initiation	<ul style="list-style-type: none"> ○ Annual Business Plan ○ Proposal Document for in-year submissions ○ Funding Initiation Document
Business Case Development Stage	<ul style="list-style-type: none"> ○ Strategic Outline Business Case ○ SOC Observations Report ○ Outline Business Case ○ OBC Observations Report ○ Full Business Case ○ FBC Observations Report ○ Business Justification Case ○ BJC Observations Report ○ Programme Business Case ○ PBC Observations Report
Approvals Stage	<ul style="list-style-type: none"> ○ Risk and Investment Appraisal ○ Investment Panel Outputs ○ Advisory Panel Outputs
Contract Award Stage	<ul style="list-style-type: none"> ○ Contractual documentation
Delivery and Monitoring & Evaluation Stage	<ul style="list-style-type: none"> ○ M&E documentation ○ Performance Management documentation
Contract Completion Stage	<ul style="list-style-type: none"> ○ Evaluation and Monitoring Report ○ Lessons Learnt Report

5.7 Prioritisation and Sequencing

The Project Lifecycle described above is specifically designed to support the WMCA to appraise and evaluate the suitability and value for money of individual projects or programmes. It will enable the WMCA to provide assurance to government that its investment decision and expenditure considerations have been made in a robust and consistent manner.

The prioritisation and sequencing of investments is not directly included within the Project Lifecycle and must be considered as a separate exercise.

The WMCA has a strategic planning process which controls the prioritisation and sequencing of its projects and programmes. This has been established through a set of pre-established criteria to ensure consistent and evidence-based decisions for the sequencing of work planned for initiation. The strategic planning pipeline is controlled, assessed and approved by the WMCA Board.

5.8 State Aid

The Assurance Framework has been designed to support the WMCA make an assessment about whether its projects are State Aid compliant.

The business case templates that form a core part of the project lifecycle require projects to confirm that they comply with State Aid Regulations and do not contravene the State Aid Legislation. Projects are also required to outline what advice they have had in relation to State Aid, this has been built into the Legal Service Single Assurance Framework checklist as well. Project Sponsors additionally are asked to confirm their acceptance that:

“All applicants need to take steps to satisfy themselves that any WMCA funding approved does not amount to unlawful State Aid. A declaration of compliance with EU State Aid regulations will be required prior to any WMCA funding being provided. If your project is awarded funds from the WMCA it will be subject to a condition requiring the repayment of any WMCA funding in the event that the European Commission determines that the funding constitutes unlawful State Aid.”

When required the WMCA will also conduct legal due diligence to obtain further confidence that State Aid requirements have been met.

5.9 Monitoring and Evaluating

The WMCA has produced a monitoring and evaluation strategy and approach which is aligned to HMTs guidelines. Monitoring is invoked throughout the development stages of a business case and then subsequently during delivery stages.

All WMCA interventions are then subject to evaluation and the results of which are published and utilised to inform future planning and development of programmes and projects, driving continuous improvement.

5.10 Five Year Gateway Review

The Five Year Gateway Review process is intended to provide evaluation of appropriate project appraisal, assurance and Value for Money processes within Combined Authorities.

Government has suggested that the Five Year Gateway Review process will focus on evaluating the performance of the WMCAs £36.5 Million per annum of Gain Share funding within the Investment Programme.

Glossary

Accumulative Cost	The cost considerations made in the approvals phase
AEB	Adult Education Budget
Additionality	The extent to which something happens as a result of an intervention that would not have occurred in the absence of the intervention.
Affordability	Affordability refers to both the absolute availability of funding to defray the costs of a project (i.e. is there a funding gap?) and the relative cost of the project in relation to other interventions that could otherwise be funded instead. A project can represent Value for Money, but not be affordable, and vice versa.
Alternative Option	A scenario which reflects a different way in which similar objectives could be met. This may include an option with lower costs but fewer benefits, or higher costs with more benefits.
Appraisal	Proportionate process to assess the merits of the application, its strategic fit and value for money
Balance Objectives	A series of objectives designed to ensure that the whole of the region (in terms of geography and people) benefits from growth.
BJC	Business Justification Case
Capital Expenditure	Expenditure on the acquisition or creation of a tangible fixed asset or expenditure which adds to and not merely maintains the value of an existing tangible fixed asset.
Capital Funding	Funding that is hypothecated or ring-fenced for capital expenditure.
Cashability	Refers to the extent to which a change in an outcome or output (e.g. fewer children in care) will result in a reduction in fiscal expenditure such that the expenditure released from that change can be reallocated elsewhere.
Cashable	Cashable fiscal benefits will result in a reduction in fiscal expenditure such that the expenditure released from that change can be reallocated elsewhere. They should be counted in the financial case as reducing the overall budget impact of a project and in the economic case as a benefit to the public (as this resource can be reallocated to productive purposes elsewhere)
C&LG	Cities and Local Growth Unit
Contingency	A special monetary provision in the project budget to cover uncertainties or unforeseeable elements of time/cost in the estimate associated with the normal execution of a project, for example, labour rates and design development.
Demand	A consumer's (or taxpayer) willingness to pay a price for a good or service. Demand can be used to infer the 'need' for a project.
DfT	Department for Transport

Displacement	The number or proportion of intervention outputs (occurring under the reference case and the intervention options) accounted for by reduced outputs elsewhere in the target area.
FBC	Full Business Case
FID	Funding Initiation Document
Financing	The set of financial arrangements put in place to provide committed capital to meet the costs of a project as they are incurred
Funding	The sources of income to be used to meet the capital and operating costs of a project over time.
Funding Gap	The amount of the funding requirement that has no identifiable funding sources (measured in Pounds Sterling or as a percentage of total funding requirement).
Golden Thread	Refers to the direct link between the strategic objectives of the organisation and the outputs that are delivered.
Governance	The systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of the WMCA
Interest Payable	Amount of interest repaid in a given period.
Leakage	The number or proportion of outputs (occurring under the reference case and the intervention options) that benefit those outside of the intervention's target area or group should be deducted from the gross direct effects.
Lifecycle/ Whole Life Costs	Sum of all recurring and one-time (non-recurring) costs over the full life span or a specified period of a project.
Loan Drawdown	Amount of funds drawn from a loan facility in a given period.
MCA	Mayoral Combined Authority
MHCLG	Ministry for Housing, Communities and Local Government
Multiplier Effect	Further economic activity (jobs, expenditure or income) associated with additional local income, local supplier purchases and longer term development effects
Net Cash Position	Sum of the total cashflows for a given period.
Non-Cashable	Non-cashable fiscal benefits should be quantified as these represent a benefit to the public from freeing up resource for other productive purposes (even if public expenditure is not reduced). In this case, the fiscal benefit is assumed to be equal to the 'opportunity cost' of resources under business as usual which are expected to change as a result of the proposed project, i.e. the value of the forgone alternative use of resource under business as usual. For example, staff time in treating avoidable A&E attendances which is freed up for other purposes (i.e. other more serious A&E cases) as a result of a project could be counted as a non-cashable fiscal benefit. These non-cashable fiscal benefits are counted in the economic case in addition to any cashable benefits.

OJEU	Official Journal of the European Union. Public sector procurements above a certain value must be published in this Journal.
Optimism Bias	There is a demonstrated, systematic, tendency for project appraisers to be overly optimistic. To redress this tendency project appraisers should make explicit, empirically based adjustments to the estimates of a project's costs, benefits, and duration.
Opportunity Cost	'Opportunity cost' is a concept used in economics to describe the trade-off between different choices, or the cost associated with making one choice over another.
Outcome	The benefits and other impacts resulting from specific outputs (e.g. reduced journey times, jobs created, homes built, reduction in pollution, access to employment, reduced offending etc.). Some outcomes are tangible and measurable, but some may be more intangible. Outcomes can be used to measure the WMCA's success in delivering its strategic objectives.
OBC	Outline Business Case
Output	Specific and clearly measurable products resulting from an investment (e.g. metres of train track, square metres of remediated land, number of educational places created, etc.). In isolation outputs do not necessarily enable the WMCA to meet its strategic objectives
PBC	Programme Business Case
Programme	Group of related projects managed in a coordinated way to obtain outcomes not available from managing projects individually
Project	A distinct scheme that is required to provide a specific service(s) or deliver a specific output(s).
Proportionality	The allocation of resources to the production of evidence should be clearly related (i.e. proportional) to the scale of the resources associated with the activity in question.
Proposed Option	Details of the assumptions and forecasts made under the investment case.
Reference Case	The 'but for' or baseline scenario: The reference case requires a set of assumptions and forecasts about a future in which the intervention is not made. It is used to determine the net benefits of a project or investment.
Payment of Principle	Amount of principle repaid in a given period.
Revenue Expenditure	The operating costs incurred by the authority during the financial year in providing its day to day services. Distinct from capital expenditure on projects which benefit the authority over a period of more than one financial year.
Revenue Funding	Funding that is hypothecated or ring-fenced for revenue expenditure
Risks	A probability or threat of liability, loss or other negative occurrence that may affect the funding and deliverability of a project, with knock on implications for the project sponsor and/or the WMCA.

Risk and Investment Appraisal	Specific appraisal undertaken by specialist appraisers to identify key risks and key lines of enquiry to support the decision-making process
SOC	Strategic Outline Case
Stakeholder	The range of public and private organisations and individuals who have a definitive interest or role in a project/programme or who will be impacted by it.
Strategic Economic Plan	A document that sets out the actions that need to be taken in order to deliver the WMCA vision.
Substitution	Arises where a firm substitutes one activity for a similar one (such as recruiting a jobless person while another employee loses a job) to take advantage of public sector assistance.
TAG (WebTAG)	Transport Appraisal Guidance from the Department for Transport
TfWM	Transport for West Midlands
Total Debt Service	Sum of interest and principle repaid in a given period.
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 1981
Value for Money (VfM)	Value for Money can be assessed using three criteria: Economy (i.e. minimisation of resource usage, or "spending less"); Efficiency (i.e. the relative level of outputs and the resources used to produce them, or "spending well"); and, Effectiveness (i.e. the relationship between the intended and actual results of public spending, or "spending wisely")



Audit, Risk & Assurance Committee

Date	14 July 2020
Report title	Internal Audit Plan 2020-2021 Update
Accountable Chief Executive	Deborah Cadman, OBE Chief Executive Email: Deborah.Cadman@wmca.org.uk Tel: (0121) 214 7200
Accountable Employee	Tim Martin, Chief Audit Executive Email: Tim.Martin@wmca.org.uk Tel: (0121) 214 7435
Report has been considered by	WMCA Strategic Leadership Team

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

- (1) Review the changes to the draft Internal Audit Plan for 2020-2021 made since it was approved at the Audit, Risk and Assurance Committee meeting in January 2020.

1.0 Purpose

- 1.1 The purpose of internal audit is to provide WMCA with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.
- 1.2 The purpose of this document is to update the committee on the changes made to the 2020-2021 Internal Audit Plan since it was approved in January 2020.

2.0 Background

- 2.1 Since the plan was initially approved, a number of factors have contributed to the changes made, not least the impact of Covid-19 on both the audit resource and the priorities of WMCA.
- 2.2 These changes have been reviewed in liaison with directors and the WMCA Leadership Team and reflect the need for prioritisation and the building in of greater flexibility to address the emerging risks, as a result of both the changing risk and control environment and the forthcoming recovery arrangements.
- 2.3 Post Covid-19 recovery and the emerging risk profile will no doubt continue to have a significant impact upon the activities of WMCA throughout 2020-2021 and therefore the plan will remain fluid.
- 2.4 The methodology followed by internal audit in compiling the plan was detailed in the January 2020 paper. Therefore, it has not been replicated here.

3.0 Wider WMCA Implications

- 3.1 There are no implications

4.0 Financial implications

- 4.1 There are no implications.

5.0 Legal implications

- 5.1 There are no implications.

6.0 Equalities implications

- 6.1 There are no implications.

7.0 Other implications

- 7.1 Not applicable.

8.0 Schedule of background papers

- 8.1 None.

9.0 Appendices None

Revised Internal Audit Plan 2020-2021

Auditable area	Purpose	Rating	QTR	ARAC Meeting (indicative)
Cross Service				
Risk Management	A review of the risk management arrangements in operation within WMCA regarding the effective identification, assessment and management of risks as part of good corporate governance, statutory compliance and effective decision making.	High	4	June 2021
Key Financial Systems	To provide assurance that the key financial processes are operating, including: <ul style="list-style-type: none"> • Payroll • Accounts Payable • Accounts Receivable • General Ledger • Budgetary Control • Treasury Management 	High	3	January 2021
Procurement	A high-level review of the implications of the Covid-19 Government directions regarding procurement and contract arrangements, to the application of WMCA's Contract Procedure Rules.	High	2	October 2020
Employee Management Arrangements (Covid-19)	The scope has been amended to include the response of the employee management arrangements to the impact of the Covid-19 including business continuity arrangements and new ways of working.	High	2	October 2020

Transport for West Midlands				
Commonwealth Games Strategic Transport Plan	This is a new review and will focus upon the governance, risk management, monitoring and reporting arrangements in operation within the WMCA to support the delivery of the Commonwealth Games Strategic Transport Plan. As a result of Covid-19 this will also consider any new risks and implications.	High	2	January 2021
Sprint Programme Management Arrangements	A review of the governance, programme management, risk management and control systems in operation for the Sprint Programme. As above, as a result of Covid-19 this will be extended to take into account any new risks and implications.	High	2	September 2020
Productivity and Skills				
Adult Education Budget	A high-level review of the bid management framework to ensure effective governance, risk and support arrangements are established at the outset for major bids to facilitate effective, efficient and consistent transition to service delivery. This has been carried forward from 2019/20 while WMCA awaits the outcome of an external review regarding Further Education College sub-contracting.	High	tbc	tbc
Digital Retraining Fund	A review of the strategy, governance, management, funding and operational arrangements for delivery of the strategic objectives and outcomes of the Digital Retraining Fund.	High	3	April 2021
Housing and Regeneration				
Friar Park Project Management Arrangements	A review of the governance, project management, risk management and control systems in operation for the Friars Park Project.	High	2	January 2021
Environmental Management System	This is a new review and has been added in order to provide assurance to WMCA regarding the development and maintenance of an Environmental Management System and the demonstration of how the organisation addresses and minimises its environmental impacts, manages its legal compliance and continuously improves its environmental performance as part of adherence to ISO 14001.	High	3	January 2021

Strategy				
Local Industrial and Economic Strategy	This audit has been carried forward from 2019-2020 and will include a high-level review of the Local Industrial and Economic Strategy governance, risk management and monitoring and reporting arrangements established. It will also be further developed to encompass a wider strategic response to the economic impact of the Covid-19 impact.	High	3	April 2021
Bid Management	This audit has also been carried forward from 2019-2020 and will focus on a high-level review of the bid management framework to ensure effective governance, risk and support arrangements are established at the outset for major bids to facilitate effective, efficient and consistent transition to service delivery.	High	4	April 2021
Investment Programme Monitoring and Evaluation Arrangements	A review of the monitoring and evaluation arrangements in operation for programmes and projects funded by the Investment Programme, and integration with wider WMCA monitoring and evaluation arrangements.	High	4	April 2021
Corporate				
Consultancy and advice	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested, including where appropriate, review of WMCA's response to Covid-19 regarding governance, risk management, business continuity, monitoring and reporting, and lessons learnt arrangements.	-	-	-
Counter Fraud	Where required: <ul style="list-style-type: none"> the carrying out of investigations into areas of suspected or reported fraudulent activity across WMCA. Undertaking a series of pro-active fraud activities, including the targeted testing of areas open to the potential of fraudulent activity The development of a fraud risk register Organising raising fraud awareness seminars fraud surgeries. Assisting in the Cabinet Offices NFI data matching exercise. Representing WMCA at national and local fraud related events. 	-	-	-

Recommendation follow up	The follow up of key internal audit recommendations made in 2019-2020 including continued oversight of limited opinion audit reports.	-	-	-
Audit Management	Day to day management of the internal audit service, quality control, client and external audit liaison and preparation for, and attendance at various meetings. Preparation and presentation of papers for the Audit, Risk and Assurance Committee, and providing advice and training to committee members as and when required.	-	-	-

The following reviews initially formed part of the proposed internal audit plan. However, taking into account the changes made to the initial plan and the reallocation of resources and changing risk profile in response to Covid-19, alongside the current stage of some of the below areas, they have been provisionally deferred until 2021-202. Although this will continue to be kept under review during the year as a larger contingency has been set aside within 2020-2021 in order to address any new and emerging risks predominantly arising from Covid-19.

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<ul style="list-style-type: none"> • ICT Strategy *
<ul style="list-style-type: none"> • Corporate Complaints Process
<ul style="list-style-type: none"> • Single Commissioning Framework - Land Fund
<ul style="list-style-type: none"> • Affordable Housing Delivery Vehicle
<ul style="list-style-type: none"> • Dudley Interchange Project Management Arrangements**
<ul style="list-style-type: none"> • Longbridge Park and Ride Income Management and Charging Arrangements***
<ul style="list-style-type: none"> • Environment Action Plan
<ul style="list-style-type: none"> • Inclusive Growth Investment Toolkit

* Requested by ICT due to resource prioritisation and ICT involvement in the business continuity plan update as part of Covid-19 tactical groups.

** Project currently awaiting decisions regarding funding and design. Areas of good practice and lessons learnt from the planned Sprint Programme review will be shared.

*** Due to Covid-19 the car park may not be operational until later in 2020-2021 and usage of the car park is expected to be revisited once opened.

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

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