



Audit, Risk & Assurance Committee

Date: Tuesday 18 January 2022

Time: 10.30 am **Public meeting** Yes

Venue: To be held remotely via MS Teams

Membership

Mark Smith (Chair)

Councillor Ram Lakha OBE (Vice-Chair)

Councillor Tom Baker- Price

Councillor Nick Bardsley

Councillor Dave Borley

Councillor Alan Butt

Councillor Gary Flint

Councillor John Kraujalis

Councillor Ken Meeson

Councillor Charn Padda

Councillor Carl Rice

Kate Shaw

Councillor Hayden Walmsley

Coventry City Council

Worcestershire Non- Constituent Authorities

Shropshire Council Non- Constituent Authorities

Dudley Metropolitan Council

City of Wolverhampton Council

Walsall Metropolitan Borough Council

Staffordshire Non-Constituent Authorities

Solihull Metropolitan Borough Council

Sandwell Metropolitan Borough Council

Birmingham City Council

Greater Birmingham & Solihull Local Enterprise
Partnership

Warwickshire Non- Constituent Authorities

The quorum for this meeting shall be nine members.

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

Contact Wendy Slater, Senior Governance Services Officer

Telephone 0121 214 7016

Email wendy.slater@wmca.org.uk

AGENDA

No.	Item	Presenting	Pages	Time
Meeting Business Items				
1.	Apologies for Absence	Chair	None	10:30
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.	Chair's Remarks (if any)	Chair	None	
Business Items for Noting/Approval				
4.	Minutes - 2 November 2021	Chair	1 - 8	10:35
5.	Matters Arising	Chair	Verbal Report	
6.	Forward Plan	Chair	9 - 10	10:40
7.	WMCA Strategic Risk Register	Victoria Harman	11 - 26	10:45
8.	Covid-19 Revenue and Capital Costs	Linda Horne	27 - 30	10:55
9.	2022/23 Treasury Management -Policy, Strategy and Practices	Mark Finnegan	31 - 50	11:05
10.	Appointment of External Auditors	Linda Horne	51 - 56	11:15
11.	Internal Audit Update	Peter Farrow	57 - 64	11:25
12.	Draft 2022/23 Internal Audit Plan	Peter Farrow	65 - 78	11:35
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 the financial or business affairs of any particular person (including the authority holding that information)	Chair	None	11:45

14.	Update on Midland Metro Track Replacement	Anne Shaw/ Satish Mistry	Verbal Report	
Date of Next Meeting- 12 April 2022				

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West Midlands
Combined Authority

Audit, Risk & Assurance Committee

Tuesday 2 November 2021 at 10.00 am

Minutes

Present

Mark Smith (Chair)

Councillor Ram Lakha OBE (Vice-Chair)

Councillor Carl Rice

Councillor Alan Butt

Councillor Dave Borley

Councillor Charn Padda

Councillor Hayden Walmsley

Coventry City Council

Birmingham City Council

City of Wolverhampton Council

Dudley Metropolitan Council

Sandwell Metropolitan Borough Council

Warwickshire Non-Constituent
Authorities

Kate Shaw

Greater Birmingham and Solihull Local
Enterprise Partnership

In Attendance

Fiona Bebbington

Mark Finnegan

Victoria Harman

Linda Horne

Ian Martin

Satish Mistry

Lorraine Quibell

Joti Sharma

Helen Lillington

Sandra Kalyan

West Midlands Combined Authority

Grant Thornton

City of Wolverhampton Council

Item Title

No.

18. Apologies for Absence

Apologies for absence were received from Councillors, Flint, Meeson and Baker-Price.

19. Chair's Remarks

The Chair welcomed Members and Officers to this, his first meeting as Chair of the Audit, Risk and Assurance Committee. He advised that it was also the first meeting for Kate Shaw, who represented the Greater Birmingham and Solihull Local Enterprise Partnership. Introductions were made and duly noted.

20. Minutes - 29 September

The minutes of the meeting held on 29 September were approved as a correct record subject to a minor typographical error.

21. Matters Arising

(i) Health and Safety Annual Update (minute no. 8)

The Chair reported that an organisation structure chart identifying health and safety responsibilities across TfWM and the WMCA had been circulated with the papers for this meeting following the request made by the previous Chair.

(ii) Internal Audit Update (minute no. 9)

Further to the consideration of the audit report on General Data Protection Regulations and the amber issue related to the WMCA's cyber accreditation of IT systems expiring in November 2020, the Internal Audit Liaison Officer advised that an application for accreditation had been submitted last week. The Chair asked that the committee be notified when the accreditation has been received.

(iii) Investigations and Whistleblowing Update Report (minute no. 16)

In relation to whether any changes should be made to WMCA employment contracts following consideration of the above report, the Finance Director undertook to report back to a future meeting.

22. Forward Plan

The committee received a report of agenda items to be submitted to future meetings.

The Monitoring Officer, Satish Mistry, advised that members were welcome to propose reports for consideration at future meetings.

In relation to Councillor Walmsley's comment that he would like the committee to consider what Internal Audit reports are scheduled for 2022/23, the Chair reported that members would have an opportunity to input into Internal Audit Plan when the draft plan is considered at its next meeting in January.

Resolved: That the report be noted.

23. Annual Accounts 2020/21 for the West Midlands Combined Authority

The West Midlands Combined Authority's (WMCA) and Midland Metro Limited's accounts for 2020/21 were endorsed by the committee at its meeting on 29 September 2021. However, as the meeting was inquorate, the committee was required to formally approve the accounts for financial year ended 31 March 2021.

The Finance Director, Linda Horne presented the report and referred to an updated Audit Findings Report that had been circulated to the committee.

Helen Lillington, Grant Thornton, reported that the Audit Findings Report had been updated to reflect a late technical adjustment to the movement in

reserves. She also advised of an unadjusted error that related to the understatement of £1.5m of Pension Fund Assets; both items had been highlighted to the committee at its previous meeting.

The committee noted that the unadjusted error regarding the Pension Fund Assets was below materiality and agreed that no amendments were necessary to the accounts or Letter of Representation.

The Finance Director reported that she hoped the audit process would be undertaken in a more timely manner next year but recognised the pressures of the pandemic had caused considerable delays for local authorities and their auditors.

Helen Lillington advised that Grant Thornton was reviewing the audit process to ascertain what worked/did not work well so that a smoother and more streamlined process could be undertaken next year.

The Finance Director also provided an update on the auditor appointment process. Linda Horne reported that an approach has been made to extend Grant Thornton's five-year appointment as the WMCA's auditors (2018/19 to 2022/23) by two years in accordance with the Public Sector Appointments (PSAA) and the Local Audit (Appointing Person) Regulations 2015.

Helen Lillington, Grant Thornton advised that the initial approach for the PSAA contract extension had received ethnics approval and the procurement process would be undertaken in conjunction with the Chair and approval sought from this committee at a future meeting.

Resolved:

1. That the West Midlands Combined Authority's annual accounts for 2020/21 be approved;
2. That the updated Audit Findings Report by Grant Thornton be noted;
3. That Grant Thornton propose to issue an unqualified audit opinion for the accounts be noted;
4. That the signing of the letter of representation by the Finance Director as set out in Appendix E of the Audit Findings Report be noted;
5. That the Chair of Audit, Risk and Assurance Committee be authorised to sign-off any further changes required to the Statement or accounts for 2020/21 prior to publication be approved and
6. That subject to no further changes being raised by Grant Thornton, that the Mayor and the Finance Director be authorised to sign the accounts on behalf of the West Midlands Combined Authority be approved.

24. WMCA Strategic Risk Update

The committee considered a report from the Finance Director and Section 151 Officer that provided an update on the WMCA Strategic Risk Register.

The Strategic Risk Manager, Victoria Harman, reported this was the first time the Register has been presented in its new format and outlined how the Strategic Risk Register was aligned to the new Strategic Risk Framework. She also explained changes to the Register arising from the new scoring framework.

The Chair reported that Strategic Risk Register was a really good document which included all the right features.

Councillors Butt, Lakha and Padda commended Victoria Harman on the new Strategic Risk Register.

Resolved:

1. That the strategic risks contained within the Strategic Risk Register be noted;
2. That the additional consideration of Covid-19 risks shown in the updated Register be noted and
3. That the risks highlighted in section 2.4 of the report which have been subject to significant changes since the register was last presented to the committee in June 2021 be noted.

25. Internal Audit Report

The committee considered a report of the Interim Director of Law and Governance, that provided an update on the work completed by Internal Audit so far, this year.

Sandra Kalyan, Internal Audit, presented the report and outlined the findings of the two internal audit reviews completed this month; Corporate Complaints Process (awarded a satisfactory level of assurance) and Freedom of Information (awarded a substantial level of assurance).

In relation to a request from the Chair for the report to provide further information with regards to the follow-up of previous audit recommendations, Sandra Kaylan advised that a revised section 4 of the report would be presented from the next meeting.

Resolved :That the contents of the latest Internal Audit Update Report be noted.

26. Update on contract issues arising from Digital Retraining Audit 2020/21

The Internal Audit Liaison Officer, Loraine Quibell provided an update on the contract issues arising from the Digital Retraining Audit that was undertaken earlier in the year.

The Internal Audit Liaison Officer outlined the processes that have been put in place relating to the completion, storage and retention of contracts and reported that all actions arising from the audit have been addressed/ are in the process of being completed. It was noted that Internal Audit would also be undertaking independent checks.

The committee confirmed they were reassured that the recommendations arising from the audit review had been implemented.

Resolved: That the update be noted.

27. Draft Internal Audit Charter

The committee considered a report of the Interim Director of Law and Governance that proposed a draft Internal Audit Charter for approval.

The Internal Audit Liaison Officer, Loraine Quibell, outlined the background to the Internal Audit Charter that is required in accordance with the Public Sector Internal Audit Standards.

It was noted that the Internal Audit Charter is a formal document that defines Internal Audit's activities, purpose, authority and responsibility. The document is reviewed annually and is presented to this committee for continued acceptance and ensuring Internal Audit continues to meet the required obligations set by the Public Sector Internal Audit Standards.

The Internal Audit Liaison Officer advised that Internal Audit and Statutory Officers have been consulted on the document and highlighted the key areas for review; management responsibilities, housekeeping and the arrangement for monitoring audit recommendations.

In relation to Internal Audit's responsibility as set out in section 7 of the Charter, and a question from the Chair as to whether the WMCA is satisfied that relevant specialist support could be provided in areas such as ICT and Treasury Management, the Internal Audit Liaison Officer, Loraine Quibell confirmed she believed the expertise was available as Internal Audit was resourced by Wolverhampton City Council who have a large team of auditors.

Resolved: That the draft Internal Audit Charter be approved.

28. Treasury Management Mid-Year Report

The committee considered a report of the Finance Director that provided an update on mid-year Treasury Management position following approval of the Treasury Management Strategy by the committee in January 2021.

The Lead Treasury Accountant, Mark Finnegan, presented the report that had been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The report provided reviews of the WMCA's investment portfolio, borrowing strategy, debt rescheduling, compliance with Treasury and Prudential Limits and the outlook for the remainder of the

current financial year.

In relation to enquiry from Councillor Walmsley as to whether the report could include internal liabilities going forward, Mark Finnegan reported that he was happy to provide a brief update for members in future reports.

Resolved: That the contents of the report be noted.

29. Single Assurance Framework (SAF) Assurance Performance Report- April to September 2021

The Head of Programme Assurance and Appraisal, Joti Sharma, presented a report that updated the committee on the thematic performance from WMCA projects where they have been assured to the Single Assurance Framework (SAF) standards. The report covered the period April 2021 to September 2021.

The Finance Director, Linda Horne introduced the report and advised that new arrangements and processes for reporting had the support and commitment of the WMCA's Senior Leadership Team.

In relation to the business case assurance reviews that were undertaken in respect of 7 projects, Councillor Walmsley commented that he would like to know the context of the projects that were assured and asked if further information could be provided in this regard.

The Head of Programme Assurance and Appraisal undertook to look into providing more detailed information for future reports.

Resolved: That the report be noted.

30. Exclusion of the Public and Press

Resolved:

In accordance with s100A4 of the Local Government Act 1972, the press and the public be excluded from the meeting during the consideration of the following items of business as they involve the likely disclosure of exempt information related to the business affairs of a particular person (including the authority holding that information).

31. Update on Midland Metro track replacement

Further to an enquiry from Councillor Rice at the last meeting regarding the track replacement for Midland Metro in Corporation Street, the committee received an update on the subject from the Interim Director of Law and Governance and Monitoring Officer, Satish Mistry and the Interim Managing Director of Transport for the West Midlands (TfWM) Anne Shaw.

The committee discussed whether it should consider any lessons learnt at a future meeting or, whether the matter should be referred to the WMCA's Overview and Scrutiny Committee.

It was agreed that the Chair would discuss the most appropriate governance

approach with the Interim Director of Law and Governance outside of the meeting. The agreed way forward would be reported to the next meeting.

The meeting ended at 12.35 pm.

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AUDIT, RISK AND ASSURANCE COMMITTEE

COMMITTEE MEETING		REPORT AND AUTHOR	AGENDA SETTING MEETING	
<i>Date of Meeting</i>	<i>Date Final Reports to be submitted to Governance Services</i>		<i>Date of Meeting</i>	<i>Reports to Chair for review</i>
12 April 2022	1 April	<ul style="list-style-type: none"> • Internal Audit Report (Sandra Kalyan) • Final 2022/23 Internal Audit Plan (Sandra Kalyan) • Q3 Assurance and appraisal report (Joti Sharma) • Update on Equalities Scheme (Anna Sirmoglou) • Update on Resources for Delivery of Annual Business Plan (Linda Horne) • Annual Governance Statement (Satish Mistry) • Strategic Risk Register (Peter Astrella) • External Audit Plan (Grant Thornton) 	w/c 14 March	w/c 21 March
<i>Note- new municipal year Provisional date for approval of Annual Accounts 28 June 2022 (TBA)</i>	17 June	<ul style="list-style-type: none"> • Internal Audit Report (Sandra Kalyan) • Q4 Assurance and appraisal report (Joti Sharma) • Annual Accounts (Linda Horne) 	w/c 23 May	w/c 6 June



Audit, Risk & Assurance Committee

Date	18 January 2022
Report title	WMCA Strategic Risk Update
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: laura.shoaf@wmca.org.uk Tel: (0121) 214 7444
Accountable Employee	Linda Horne (Finance Director & Section 151 officer) Email: Linda.Horne@wmca.org.uk Tel: (0121) 214 7508
Report has been considered by	Linda Horne (Finance Director & Section 151 officer)

Recommendation(s) for action or decision: For Information Only

Audit, Risk & Assurance Committee is recommended to:

- (1) Consider and note the strategic risks contained within the WMCA Strategic Risk Register (appendix 1).
- (2) Note the risks highlighted in 2.3 which have been subject to significant changes since the register was last presented to the committee in November 2021.

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 The WMCA Strategic Risk Register (SRR) supports the identification and management of Strategic Risks faced by the organisation in achieving its organisational or strategic objectives. The SRR captures only the high level strategic risks facing the WMCA which are of such significance they require SLT oversight and assurance. Strategic Leadership Team (SLT) maintains ownership and responsibility for management of the risks housed within the SRR. The 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. The register has been reviewed by SLT at their 5th January 2022 Meeting and is next due for presentation to SLT as a collective on 2nd March 2022.
- 2.2 The updated SRR continues to reflect the current risk environment including the effect and response to strategic risks resulting from the Covid 19 pandemic as at 20th December 2021. The Covid 19 element of each risk previously captured with the letter B as its suffix (in the Risk ID column of the risk register) has now been merged with the main risk where relevant.

The management of the risks identified is essential, the SRR currently houses **22 strategic level risks**. Due to the significance of these risks they are closely monitored by SLT. The register continues to record 9 risks with a materiality level of high. This includes:

- Financial Assumptions of the Investment Programme (SRR-R001)
- External Factors (SRR-R002) which are recorded with the highest residual scoring of 25; and a newly escalated risk from TfWM
- Metro - 2GT fleet crack propagation (Suspension of all services from 13 November) (SRR-R022).

It also records a further 10 risks with a moderate materiality level (amber). The remaining 3 risks are rated as low (green) (see appendix 2 slide 3 for risk heat map).

- 2.3 The Committee's attention is drawn to the following:

There have also been several significant amendments to the register since it was last reviewed by ARAC as a collective and as such ARAC's attention is drawn to the following (see appendix 2 slide 7):

- Overall Delivery of Devolution Objectives (Risk 6) has been substantially rewritten as elements of this risk are duplicated elsewhere. This risk now has a sharper focus on political uncertainty and as a result this has reduced the residual likelihood score from 4 to 1 thus reducing the overall residual risk score from 16 to 4.
- **NEW Escalated Risk** from TfWM -Metro - 2GT fleet crack propagation (Suspension of all services from 13 November) (Risk 22). As this risk has crystallised it has become an Issue and has an entry on the issues log also. A remediation plan is in progress to address the issue.

- 2.4 The following risks have been consolidated with the Covid element previously captured with a B suffix:

- Financial Assumptions for Investment Programme (Risk 1)

- External Factors (Risk 2)
- Overall Delivery of Devolution Objectives (Risk 6)
- Commerciality (Risk 8)
- Governance Arrangements (Risk 10)
- Reputation risk - Adult Education Budget (Risk 20)

3. Financial Implications

N/A

4. Legal Implications

N/A

5. Equalities Implications

N/A

6. Inclusive Growth Implications

N/A

7. Geographical Area of Report's Implications

N/A

8. Other Implications

N/A

10. Schedule of Background Papers

Appendix 1 - Strategic Risk Register

Appendix 2 - High-level Strategic Risk Update –January 2022

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Status	Threat/opportunity	Risk ID	Risk Owner	Risk Category	Likelihood/Probability	Impact	Score	Risk Title	Risk Cause	Risk Description of Uncertain Event	Risk Impact Effect	Controls and measures already in place	Most Significant Risk Impact	Likelihood/Probability	Impact	Current Score	Target Risk Score	Review Date	Risk Response	Further actions required to mitigate risk	Target Resolution Date	Trend	Previous Review Score	Issue Ref	Issue Date	Next Review Date	Additional Risk Impacts	Escalation	Comments	
Open	Threat	SR8-R001 Previously S01	Director of Finance	Financial	5	5	25	Financial Assumptions for Investment Programme & Covid 19 effects and response to risk	Due to the challenge in securing income streams covered by political and economic uncertainty along with additional uncertainties caused by Covid 19	There is a potential risk, given the uncertainty of funding that WMCA may not be able to realise the supplementary (or alternative, equivalent) income streams envisaged in the 2018 Devolution deal, leading to the possibility that the programme may not be delivered as originally intended. There is a secondary risk around the "interest rate risk" and the degree to which any upwards movement in the rate of WMCA borrow at exceeds the purchasing power of the grants / funding it has secured to date. 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. In considering the draft budget report, WMCA Board (January 2020) noted the risks likely to occur in the 2021/22 financial year.	Leading to failure to deliver the Investment Programme as originally intended resulting in potential negative impacts including: reputational damage, impact on political relationships, service, programme delivery, Client Customer Partner Opportunities for growth compromised, Withdrawal of Constituent member, Government claw back of funds if project end dates do not align with funding deadlines, Reputational Damage, Negative media interest Long term / continued existence of the organisation Inability to set high budget Stakeholder relationships compromised/withdrawn Reduced ability to borrow	Use of professional financial modellers and external treasury management experts to continually review the internal / external factors on the Investment Programme model which are then regularly reviewed by senior finance team members. Close working with Government to understand the ongoing financial position and help unlock additional income streams. Assessing opportunities to turn grants to loans and / or maximise 3rd party contributions and land value capture. Identify opportunities to fund Investment Programme schemes through other means (i.e. Levelling Up Fund). WMCA 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. We have built on existing good relationships with central government to successfully bid for new streams of money e.g. Our Britain Building Fund. Opportunities arising from the recent Spending Review are continuing to be assessed.	Reputational	5	5	25	20	Nov/Dec 2021	Reduce/Treat	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 current Mayoral Term) precept options to be explored. We continue to lobby Govt for funding and to explore other opportunities e.g. the Levelling Up Fund announced in November's Spending Review.	01/12/2024	↔	25	N/A	N/A	Jan/Feb 2022	Political Stakeholder Delivery Operations	N/A	Not Escalated	
Open	Threat	SR8-R002 Previously S11	Director of Strategy / Senior Leadership Team	Economic	5	5	25	External Factors	Due to external uncertainties such as changes in policy from global EU or government exacerbated by challenges created by Covid 19 and Brexit	The challenge of Covid19 has brought significant change to most areas of the WMCA operations over a concentrated period. Future predictions over the course of the pandemic and its effects are hard to make. There is a danger that continuing risks of Brexit are isolated or overlooked and insufficient planning is undertaken. Risks to the regional economy remain significant over the immediate and medium term. Economic effects of the pandemic in the WM Region is predicted to be affected more severely compared to other regions. There is still a requirement to monitor the situation on a continual basis due to the significant levels of uncertainty in the external environment due to Covid and following Brexit.	Potentially leading to failure to achieve delivery ambitions Operational impacts short, medium or long term impacts on the economy. Potentially resulting reputational damage. Addressing urgent Covid needs and not the core focus of economic growth and sustainable transport which are the core roles of the Combined Authority. Structural economic change may change the nature, cause and solutions to regional social and economic challenges, meaning the current solutions and programmes may not be reviewed.	Economic Impact Group has been established on a multi agency basis across the public and private sector to track and plan for the impact of Covid on the economy and bring forward proposals to mitigate the effects. It is also playing a role in considering Brexit impacts and responses in the region. Economic Recovery activity is overseen and directed by both the SED Board and the Steering Group, with regular reporting to CA Board and in Feb 21 the WMCA Board endorsed 5 strategic challenges to shape the region's response and recovery plan. This is being aligned with the Economic Growth Board. Established fortnightly monitoring process (in collaboration with WM REU (the University of Birmingham), summarising economic conditions, in addition to monthly reporting to SED Board. 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.	Economic	5	5	25	TBC	Nov/Dec 2021	Reduce/Treat	Maintain measures already in place. Where vulnerabilities are exposed, undertake specific work with partners to explore solutions (e.g. supported Cabinet Office project about impact of introduction of border import controls) the Chamber/LEP led work about issues to trade disruption). Regular scenario and evidence based exercises to assess the situation develops as advised by Government, including the development of a strategy to support the recovery of the economy within the region, supporting the Treasury's wider "Plan for Growth"	Ongoing	↔	25	N/A	N/A	Jan/Feb 2022	Operational Financial	N/A	Not Escalated	
Open	Threat	SR8-R003 Previously S03	Senior Information Risk Owner (MD, IT/IM) / Head of Governance	Operational	5	5	25	Data Protection & Protective Security	There is a potential that data protection requirements and/or appropriate protective security of WMCA assets, information systems, premises and people may not be adequately maintained.	1. Cyber Crime which includes social engineering (phishing, vishing and smishing), malware attack, direct hacking, theft of data, and/or denial of service of ICT systems and services, is an increasing threat and public sector bodies are regular targets. 2. Human error or the failure of an individual/team to follow data protection legislative requirements, resulting in the loss of data and/or access to data by unauthorised persons. 3. Breach of services. A data breach event occurring at a partner organisation with whom we have contracted to process data on our behalf.	Potential impact can include: Harm, damage, loss or misuse of corporate assets resulting in the inability to deliver ICT services to the current requirements, and therefore maintain WMCA operations. A data loss event that results in unauthorised access to data being processed by WMCA. Harm, damage and loss to individuals whose personal data WMCA are responsible for handling. Regulatory and/or legal action against WMCA. Financial and reputational damage.	In accordance with the IA Framework, the WMCA is committed to protect threats and appropriately protect its business and people. 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 relevant National Technical Authorities (National Cyber Security Centre and the Centre for the Protection of National Infrastructure) and other external experts. The Information Assurance Framework provides an internal information governance hierarchy for risk owners, whose function is to consider and manage Protective Security and Data Protection risk at strategic and operational levels. Mandatory requirements in place for all staff to complete Information Security training, including GDPR, with regular staff awareness and monitoring in place.	Financial	4	4	16	8 to 12	Nov/Dec 2021	Reduce/Treat	Organisational acceptance of a baseline measure on physical and Environmental, Policy and Procedural, and Personnel security. Regular implementation of a baseline measure. Review of continuity requirements in the event of risk materialisation. Regular scenario and evidence based exercises in place to support response preparedness. We continue to monitor the progress of obtaining the Declaration of Adequacy at EU/UK level to enable data transfers to take place post Brexit.	Ongoing	↔	16	N/A	N/A	Jan/Feb 2022	Reputation Operational / Colleague / Staff Customer/ Partner Regulatory / Legal/ Governance	N/A	Not Escalated	
Open	Threat	SR8-R004 Previously S04	CEO / Senior Leadership Team	Political	5	4	20	Stakeholder & Political Relations	Changing national politics have the potential to significantly impact the devolution agenda, funding and powers of WMCA	There is a risk that as WMCA continues to expand and absorb new recruits 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, and continued uncertainty on when and how this will be achieved, will increase pressure on financial, operational, governance and scrutiny functions. There may be challenges in maintaining the relationships across the Region which helped to deliver the WMCA. Political relations and expectations will need to be managed.	Potentially leading to Delivery Gaps Budget pressures Financial Governance	Engaging 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, supporting the joint mission made in the Arrangements to be in place to ensure all stakeholders are kept informed & involved with any Devolution Strategy group. The expectations of all members 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. Arrangements that support engagement between Mayor and Portfolio Lead Members are being refreshed to create more time for policy development discussion.	Financial	4	4	16	TBC	Nov/Dec 2021	Reduce/Treat	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 risk despite mitigating actions. A review of engagement and involvement in decision-making and policy development	01/08/2022	↔	16	N/A	N/A	Jan/Feb 2022	Operational Governance Budget/ Funding Political	N/A	Not Escalated	
Open	Threat	SR8-R005 Previously S05	Interim Head of HR / Senior Leadership Team	Operational	5	4	20	Capacity and Capability, & Covid 19 effects and response to risk	Due to the possibility of challenges in staffing structures and resourcing and skill gaps. Due to ongoing Covid 19 pandemic there is an increased level of challenge uncertainty surrounding the WMCA's ability to maintain adequate Capacity and Capability.	There is a risk that the capacity and skills amongst managers and officers may not be sufficient or fully aligned to meet the continuing focus for delivery of new and challenging initiatives within WMCA, particularly there are current limited capacity issues in the Procurement due to resourcing gaps. 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. The impact of HMIS requirement to continue to work from home, coupled with the possibility of further lockdowns is likely to exacerbate this risk. Normal control measures could also be strained during this time due to unusual working conditions.	Resulting in difficulties in the WMCA's ability to achieve delivery and for the organisation. Potentially leading to failure to deliver organisational objectives in line with required deadlines and plans. Organisational inability to respond to changing priorities and new initiatives. Increased demands and pressures on staff could also impact upon wellbeing and attendance / absence levels	Regular communications in place with all staff to maintain engagement across all levels of the organisation. Through the OD work we have done on Business Transformation we have reviewed structures and key resources and capabilities we need and have made significant improvements and recommendations for all enabling services teams. We have recruited a senior and experienced Recruitment partner and will be also recruiting an Audit Recruitment Partner shortly. An approach to talent and succession is being progressed including a skills audit to support a more planned approach and a permanent head of procurement has now been recruited and is in place, with recruitment for the wider team underway. The requirement of Agencies and to focus on better quality direct attraction. Tighter controls on resourcing through the recruiting team will enable us to source quality candidates who will have a better recruitment experience. Detailed plans in place to support the continuation of home working for the foreseeable future with limited office space under Covid safe conditions being provided for critical roles only. Initial results of an All Staff survey on WMCA's management of its Covid response has demonstrated the majority of staff have welcomed working from home and productivity has increased. The results have been reviewed in detail to inform the approach to Agile working plans for future and policy development with regard to future working arrangements. A lessons learnt exercise has been completed to assess WMCA's response and inform plans for the preparedness of future emergencies. This has been reviewed by Health & Safety, Employee Wellbeing, Compliance, Information Security, Communications, Environment, Health & Safety, and the Board.	Operational	4	4	16	12	Nov/Dec 2021	Reduce/Treat	Development and delivery of the organisation wide Transformation Programme Reset: Rebuild has been established to support the review of systems, processes, structure and culture, and will prepare the organisation in its ability to deliver in a continuing changing environment. Recruiting an Associate Recruitment Partner shortly, who will support the Senior Recruitment Partner. Reviewing approaches to Talent Acquisition to ensure that the right skills can be recruited and retained. An approach to talent and succession is being progressed including a skills audit to support a more planned approach. In addition internal promotion and succession/resource requirements is on the CMT agenda for discussion during May 2021. Talent management to be reviewed with SLT during September 2021 following CMT input. Development and insight in Productivity & Skills and underway in Public Services Reform and Connect is also underway. Recruitment is planned to enable robust workforce planning and management. Monitoring of overall levels of productivity and well being will continue, following HMIS latest advice on home working. The roll of our new Wellbeing Strategy has been welcomed by staff, and there has been no variance in either sickness absence rates to the update of our SAP provider Care First, again suggesting that on the whole staff are coping well. The internal audit report of Assurance in how we have responded to the Covid outbreak.	App 22	↔	16	N/A	N/A	Jan/Feb 2022	Delivery Staff	N/A	Not Escalated	
Open	Threat	SR8-R006 Previously S15	Director of Strategy / Senior Leadership Team	Economic	2	5	10	Overall Delivery of Devolution Objectives & Covid effects and response to risk	As a result of political uncertainty and changing political priorities of central government, Covid 19 may exacerbate political and economic uncertainties further. Covid 19 may exacerbate political and economic uncertainties further.	There is a potential risk that Government priorities change, meaning that the case for Mayoral Combined Authorities (MCA) and devolution is undermined. This could mean a re-contraction of MCA functions or new HMIS programmes that cut across our delivery plans or undermine our role. This could limit our ability to deliver on our devolution deals, and cause broad reputational damage. 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 potentially result in significant challenges to the deliverability of the devolution programme within expected timescales	Potentially leading to the failure of WMCA to deliver Devolution in whole or in part resulting in the possibility of detrimental impact to the local economy and reputational damage.	We continue to maintain close relationships with central government at both political and civil service levels to enable us to both inform and respond to the emerging policy response to the "levelling up" agenda. 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. Organisational objectives are monitored and managed by Officers, thematic Boards and also WMCA Board.	Strategic	1	4	4	4	Nov/Dec 2021	Reduce/Treat	Low perceived residual external risk given current government positioning on the devolution agenda. Ongoing	↕	16	N/A	N/A	Jan/Feb 2022	Economic Political Delivery	N/A	Not Escalated		
Open	Threat	SR8-R007 Previously S19	Managing Director / IT/IM / Senior Leadership Team	Economic	4	4	16	Longer term economic impact of Covid 19 on bus service provision.	Due to the impact of Covid 19 on bus patronage and revenue and the potential impact this will have on the commercial viability of bus services in the West Midlands. Due to Covid 19 and reduced patronage levels, uncertainty over longer term government funding support beyond 2022/21.	The budget for the provision of subsidised bus services within the current policy framework (access standards) is forecast to be under significant pressure for 21/22. For Commercial bus operators are currently being supported through the Covid-19 Business Services Support Grant from the DfT. This is time limited funding enabling operators to maintain their pre-Covid service levels despite the loss of revenue from reduced patronage. It is unlikely, on the majority of routes, that patronage will recover to pre-Covid levels and may therefore affect the commercial viability of some services.	It is forecast that patronage will recover to around 85 to 90% of previous, which would create a E20m funding shortfall to repair the current shortfall. This would likely lead to pressure on IT/IM to step in and financially support services which, if deemed appropriate, would lead to increased budgetary pressures. The alternative would be reduced service provision across the region.	Working with bus operators to better understand the likely implications of any reduction or withdrawal of government funding support and assessing this at different levels of patronage. We are proactively engaging with Central Government and the DfT around devolution of funding so that we can better work with operators through the West Midlands Bus Alliance to manage any required changes to the network. Consider review of funding model and access standards in the event of funding not being provided to support uplift and commercial operators making significant changes.	Economic	4	4	16	9	Nov/Dec 2021	Reduce/Treat	We will continue to work closely with bus operators, Government and UTG and ensure that any commercial changes are also considered alongside the tendered network to ensure we make efficient use of all available funding sources. The level of risk to regional bus services will need additional funding to the values between £5m and £35m in 2021/22 (pending rail and £35m to £60m (commercial operator risk) and could result in a review of regional access standards. Preparations are being made to assess a process required to amend access standards in the event of emergency. We will continue to engage with the Central Government and the DfT and lobby for effective funding for bus services during the recovery period to avoid significant impacts to commercial and tendered bus services in the region. In November Government indicated their support for devolving funding for 21/22 but we yet to agree the amount and the terms under which it will be devolved, but indications are positive currently.	10/06/2021	↔	16	N/A	N/A	Jan/Feb 2022	Financial	N/A	Not Escalated	
Open	Threat	SR8-R008 Previously S08	Director of Finance	Financial	4	5	20	Commerciality of Covid 19 effects and response to risk	Due to challenging economic conditions and potential changing customer behaviour, this is potentially exacerbated by Covid 19.	There is a potential risk that, having chosen to use commercial company delivery models in some areas, challenging economic conditions and/or regional 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 exposes the Combined Authority to greater financial risk if the delivery model is unsuccessful. There is a risk the current economic situation due to Covid 19 will have a greater impact on the commercial arrangements currently in place or being established.	Resulting in the potential of reputational impact, delivery risk and financial risk	Formal governance structures in place between WMCA and commercial bodies. CA directors appointed to companies providing regular interface between parties. Compliance of all financial accounting arrangements. Assurance & Governance checklist in place to review and confirm satisfactory arrangements are in place for all 'Arms Length companies' The Investment Director provides a commercial perspective on funding opportunities that are presented to WMCA. Adequate expertise brought into the Finance Team to ensure an appropriate amount of rigor and precision exists within all WMCA commercial finance models, reducing the risk of error.	Financial	3	5	15	10	Nov/Dec 2021	Reduce/Treat	Adopting commercial models will allow the WMCA to become less dependent on government as it can diversify funding income. We continue to lobby government to support commercial operators impacted by the pandemic.	01/08/2022	↔	15	N/A	N/A	Jan/Feb 2022	Reputation and Delivery Benefits/ Evaluation & Performance Management	N/A	Not Escalated	
Open	Threat	SR8-R009 Previously S12	Investment & Commercial Activities Director	Programme Delivery	5	5	25	Project / Programme Appraisal & Assurance - Ensuring Compliance to National Devolution Commitments	Due to: • Higher than originally anticipated volumes of business cases and change requests due to the Pandemic • The introduction of enhanced control requirements increasing resource requirements. • Uncertainty with capacity in the short term in the team following Business Transformation	There is a potential risk that new project and programme proposals are not effectively appraised or assured in line with the Devolution commitments made to Central Government. Business Transformation has resulted in changes in support structures for SAF implementation. In the short term this may have an impact on the capacity to implement and embed the SAF across all WMCA project portfolios. This risk may be exacerbated by new funding streams in response to the Covid pandemic. This may also impact on the ability of the WMCA to secure future funding.	Resulting in the potential of investment decisions being made regarding projects and programme without adequate appraisal having taken place before hand. This could possibly 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. This would also have the possible impact of non compliance with Government requirements. This may also impact on the ability of the WMCA to secure future funding.	An enhanced organisational Single Assurance Framework has been developed and approved by WMCA Board in July 2020. A phased implementation plan was endorsed by SLT in September 2020 for transition to projects to the new assurance framework. This started with the Investment Programme and has now expanded to include a number of portfolios. • Reconstitution of SAF Implementation group with revised membership has been established and will meet on a monthly basis and report progress to SLT. • SAF Implementation Project Manager has now started and is engaging with each Directorate - targeted date to transition existing portfolios in Spring 2022. • SAF Annual refresh will be initiated in line with the terms of WMCA Board Approvals by September 2022. • A revised and enhanced tool kit has been developed to support implementation of the SAF. • Assurance and appraisal processes have been implemented in line with SAF requirements. • Additional guidance is available for guidance on the WMCA Intranet pages. • Activity volumes are being carefully monitored. • Roll out of SAF requirements has been delivered to all Directorates and support teams. • Directors are committed to submitting project pipeline information for each Portfolio and will be working with the Assurance team to plan transition. The Investment Director is establishing a commercial approach to funding opportunities. In addition an Integrated Risk, Assurance and Internal Audit network has been established to share information and intelligence.	Financial	2	5	10	10	Nov/Dec 2021	Reduce/Treat	To mitigate risk there are further elements of the SAF that need to be implemented and embedded. 1. The SAF implementation has now been approved and a Project Manager will be developing the Project Plan fully roll out SAF to all WMCA Portfolios. 2. Continued regular Assurance and Appraisal reporting to SLT and ARAC. 3. Following the review of internal governance arrangements, embedding of future governance arrangements is ongoing as part of a wider review.	31/12/2022	↔	10	N/A	N/A	Jan/Feb 2022	Regulatory Reputation	N/A	Not Escalated	Risk materiality increased in Jul/Aug review

Open	Threat	SR-020 Previously S05	Head of Governance	Operations	4	5	20	Governance Arrangements & Covid 19 effects and response to risk	Failure to adopt or challenges in adopting and embedding adequate formal governance arrangements. Covid 19 may exacerbate potential challenges with governance arrangements further	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. Whilst Government guidance on social distancing has been relaxed/adjusted, WMCA continue to adopt a socially distanced hybrid approach to meetings. Allowing only essential Committee/Board members for formal decision-making (for quorum) to be present within the physical meeting room. With other attendees attending the meeting remotely. Such meetings are still held in a transparent way and are live streamed for public engagement.	Leading to potential of: inadequate governance Negative Financial Impact Legal/Regulatory Impact Delivery Failure	Comprehensive governance arrangements are in place and contained in the WMCA constitution, approved by the Board. A governance review is currently being undertaken to ensure current governance arrangements are satisfactory. The Director of Law & Governance and Monitoring Officer is a member of the Strategic Leadership Team and attends all meetings of the WMCA Board, and responsibility for oversight of assurance activities, including Internal Audit. A WMCA single assurance framework has been agreed. Governance requirements for Adult Education Budget, Housing and 5G have been established to ensure the adoption of streamlined approaches where required. Governance activities are managed centrally to ensure robust arrangements are in place and conform to all legal requirements. Statutory Officers Group meets to moderate and review compliance of governance arrangements. Membership includes the CEO, Section 151 Officer (Director of Finance) and the Monitoring Officer (Director of Law & Governance). WMCA is currently adopting a hybrid approach to meetings. Allowing only essential Committee/Board members for formal decision-making. (for quorum) to be present within the physical meeting room. With other attendees attending the meeting remotely to ensure a safe meeting environment. Hybrid meetings are being managed on a case by case basis to ensure that they continue to be socially distanced and secure.	Governance	3	4	12	TRC	Nov/Dec 2021	Reduce/Treat	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. Corporate Assurance Team and Governance continue to liaise with new functions to establish appropriate assurance and governance arrangements. A Review of Governance has commenced, with initial findings to be reported in November 2021. We will continue to monitor national guidance on this from Govt and the LGA and work with the Met Authorities to maintain a consistent approach where possible. The Regulations on remote meetings expired on 7th May. Although the High Court challenge of professional bodies representing local government legal and professional officers seeking to continue with remote meetings was unsuccessful, it is likely that the government will	Ongoing	↔	12	N/A	N/A	Jan/Feb 2022	Financial Operations & Delivery Legal/Regulatory	N/A Not Escalated
Open	Threat	SR-021 Previously S09	Director of Productivity and Skills/ interim Head of IT	Operations	4	4	16	Capacity of Leadership Team	Due to potentially challenges in recruitment with excessive workloads which may be exacerbated by the on-going Pandemic.	This risk may be exacerbated by the departure of two of the three Statutory Officers for the CA for those vacant positions are not filled in a timely manner. Please refer to risk ref SR-008 for information on Covid 19 effects and response.	Resulting in difficulties in the WMCA's ability to achieve delivery of the organisation's priority activities. Leading to potential delays in delivery.	Leadership team is fully established with key individuals who have an expertise in their specific field and have established relationships with key stakeholders to support the continued delivery of the WMCA agenda. Continued oversight of all functions is maintained by the CEO with weekly individual and Leadership Team review meetings to enable early intervention. 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. An Integrated Performance Management Framework has been established to provide SLT with early trigger warnings affecting delivery. A programme of Business Transformation is underway to improve the efficiency and effectiveness of the CA. An interim Director of Law and Governance took up post during the 1st week of May 2021 and has completed a full handover with the existing Director of Law and Governance. A permanent CEO has now been appointed and, a recruitment plan in place with anticipated permanent post for Director of Law & Governance to be appointed by November 21. Interim arrangements are also in place to cover the new CEO previous role as MD for Transport for West Midlands following an appointment in July. Interim arrangements for both of the above roles will remain in place until the permanent candidates take up their roles, this provides a level of continuity, additionally in the case of Director of Law and Governance there has been a commitment to support a handover period.	Operations	3	4	12	6	Nov/Dec 2021	Reduce/Treat	Close working arrangements in place with member authorities in order for all parties to provide mutual support as required. Following appointment of an interim Director of Law and Governance who took up post during the first week of May, plans are now underway for recruitment of a permanent replacement for the role later in the year. A review of phase 1 of business transformation is set for October 2021. There is an ongoing review of governance to enable decision making and cross authority process works to best efficiency. There is an increased focus on ensuring in the following areas: HR, Commercial & Investment and Strategic Workforce and succession plans will be in place for end of September and will focus on specialist skills and recruitment plan, this risk can now be managed.	Feb-21	↔	12	N/A	N/A	Jan/Feb 2022	Delivery Staff	N/A Not Escalated
Open	Threat	SR-022 Previously S13	Director of Housing and Regeneration / Managing Director THWM	Operations	4	4	16	WMCA Resilience	There is a possibility that regular events and circumstances affecting WMCA services, buildings and facilities may disrupt operations and activities. Unanticipated events or operating conditions.	Meaning that WMCA may not be able to respond in an effective and timely manner to events that have the potential to disrupt operations and activities, causing service outages. Also potentially that WMCA cannot respond in an effective and timely manner to events that disrupt transport network operations and activities.	Which may lead to the potential of negative impacts on operational delivery and communication throughout the organisation. Impact on service delivery which may lead to financial loss (or failure to realise expected benefits or funding) reputational damage, service outages, legal or regulatory breach.	An incident management team and out of hours On Call arrangements are in place with alternative workspace identified at alternative WMCA locations. 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. Hybrid working arrangements and increased resilience from operational methods put in place as a result of remote working have provided mitigation of some of these effects. An incident management team and out of hours On Call arrangements are in place with alternative workspace identified at alternative WMCA locations. Independent review by Internal Audit provided 'substantial' rating for corporate business continuity arrangements. Raising business continuity awareness and embedding the programme within the business. Consistent messaging and comes throughout organisation. Establishment of multi agency partnerships with monthly progress updates and review of risk exposure. Major event emergency planning and associated governance structure to review on an ongoing basis.	Operations	3	3	9	6	Nov/Dec 2021	Reduce/Treat	Raising business continuity awareness and embedding the programme within the business, a 'task and finish' group has been established which is being led by the FM team to review and refresh our business continuity key documents. A new 'all staff updates' messaging service has been established in teams and a new business continuity teams site is being established with ICT. All incidents are now reported to CA's part of the 'organisational health' dashboard and share with 'Security Steering Group'. FM are now working closely with Network Resilience to share best practice on THWM plans. ICT to review disaster recovery plan to ensure consistency between ICT and operational requirements are met and update following Covid-19 and in light of the new remote working policies and procedures. WMCA FM team are working on an updated Business Continuity Plan and ICT are now working with FM as part of the 'task and finish' group for the IT plan in conjunction with business requirements. Phase 2 of the Business Continuity Strategy is the review and refresh of the 16 Summer Lane emergency plan (over Q3 2021). Phase 3 of the plan is the development of a wider corporate and organisational resilience plan (Q4 2021).	Ongoing Q4 2021/22	↔	9	N/A	N/A	Jan/Feb 2022	Service Delivery Reputational Damage Legal/Breach	N/A Not Escalated
Open	Threat	SR-023 Previously S08	Head of Communications / Senior Leadership Team	Programme Delivery	4	5	20	Reputation	Failure to adopt effective and efficient processes including clear and effective communications strategy.	Where the WMCA has significant monetary investment and proposals run by partners, for example the Commonwealth Games, or parts of the transport network, the operation of Arms Length Companies or high profile sporting or cultural events in the region, the WMCA has a responsibility to manage the additional indirect reputational risks that are posed by association with these projects/proposals. 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. External political and economic uncertainties may potentially contribute to residual risk.	Leading to the potential of negative media coverage and poor stakeholder perception. Resulting in the potential of Reputational damage to the WMCA. Delivery gaps	An organisational communications strategy is due to be approved by SLT and will be regularly reviewed. The communications strategy outlines principles, objectives, channels and delivery etc. of robust communications. The communications department is engaged in all business activity (including the group, such as CWG & Directorate projects, providing regular updates with the Mayor's office to ensure pro-active and consistent messaging is delivered by all, at all times. Head of Communications and all WMCA spokespersons provided with media training. Regional Communications Group established ensuring the sharing of best practice and to facilitate strong relationships with key partners. Progress of financial contributions monitored to enable coverage of all WMCA successes or early intervention of possible challenges. Close engagement with wider organisations with ongoing management and forward planning of all communication activities. 24/7 Media Office is available.	Reputational	4	2	8	8	Nov/Dec 2021	Reduce/Treat	Communications strategy is reviewed regularly to ensure it is consistent with the organisation's corporate objectives. Ensure that major regional initiatives e.g. Commonwealth Games have clear and transparent governance arrangements in place. SLT are taking on responsibility for ensuring positive relationships with key partners. Building better relationships with journalists and a continuous programme of staff training to ensure they are delivering best practice.	N/A	↔	8	N/A	N/A	Jan/Feb 2022	Political Stakeholder	N/A Not Escalated
Open	Threat	SR-024 Previously S07E	Managing Director, THWM	Programme Delivery	4	4	16	Delivery Commonwealth Games Regional and Spectator Transport Operations (THWM)	Failure of the WMCA to secure adequate financial resources.	The BAU Public Transport Network and it's recovery period as a result of COVID-19 (medium/long term) may not be sufficient to support proposed Public Transport strengthening plans. Periodic funding (short term) may not be sufficient to support proposed PT strengthening plans.	The BAU Public Transport Network and it's recovery period as a result of COVID-19 (medium/long term) may not be sufficient to support proposed Public Transport strengthening plans. Periodic funding (short term) may not be sufficient to support proposed PT strengthening plans.	THWM chairs the multi-agency Joint Transport Group (JTG) which includes relevant central government departments (DfM, DfT, Local Authorities and the CA, WMCA CEO and THWM MD are members of the Chief Executive Officers Group (CEOOG) for Games. Budget for Transport Operations was agreed with HMG as part of its Major Project Review Group and THWM continues to work in partnership with DfM 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 THWM's remit for Games. COVID-19 impacts have been assessed and OMS are being validated to ensure relevant contingency can be drawn down if required.	Reputational	3	4	12	8	Nov/Dec 2021	Reduce/Treat	We are continuing to work in partnership with Government, the Organising Committee, Birmingham City Council, other authorities and operators to ensure a successful Games for the region. The impact of COVID-19 on this programme of work has been reviewed and is reflected in the risk scoring. We are assessing and mitigating these impacts/risks through the programme and cost partner as part of the Games Governance. The recovery of the PT Network and it's resilience for games time operations is being considered alongside development of Games time service levels to enable mitigations planning as progress towards delivery in 2022.	30/06/2021	↔	12	N/A	N/A	Jan/Feb 2022	Delivery Program Delivery	N/A Not Escalated
Open	Threat	SR-025 Previously S14	Director of Inclusive Growth and Public Service Reform/ CEO	Programme Delivery	5	5	25	Delivering the 2041 Carbon Budget reduction	Due to a variety of challenging and uncertain structural and operational factors including the pace of transition within key industries and sectors, and the scale of government investment and legislation.	This is a collective regional commitment relevant across the three LEP areas it is underpinned by a number of pre-conditions and determinants that are outside of WMCA's direct control.	There are profound implications for the region as part of a headline global risk of severe warming which evidence suggests will be costly to human and economic terms. The potential impacts are: • contributing to climate change with potential for extreme weather events, • contributing to effect adversely the health of the population by increasing symptoms of respiratory (e.g. asthma) and cardiovascular disease (e.g. lung cancer, strokes, heart disease) in some cases leading to death. Air pollution can also impact on child development and development of dementia. This increases pressure on NHS resources e.g. increase hospital admissions, • contributing to lower productivity in the region due to work absence for health reasons • exacerbating health inequalities as certain groups in society are more susceptible to high levels of air pollution e.g. elderly, children, those with disabilities, lower income groups who tend to live in housing in urban areas near roads • Potential disruption to supply chains.	Annual monitoring of progress will be put in place by the WMCA Environment Team, who have also undertaken to report annually to the Carbon Disclosure Project. But the scale of the renewed commitment of WMCA (alongside that of its members and partners) requires a step change. A climate change strategy has been developed and priorities identified through a paper presented to the CA Board in June 2020 (WMCA24: a programme for implementing an environmental recovery). Actions from this paper are now being taken forward and a Five Year Plan was presented to the CA Board and agreed in March, outlining the actions that will be required from 2021-2026 to stay on course for net zero by 2041. As part of the approval of the Five Year Plan, budget was provided to create 3 new roles for the Environment Team and five new roles for Energy Capital, this will significantly enhance our ability to deliver against the programmed targets. Supporting progress with sustainability partners in aligning the five year budget cycles required under the UK Climate Change Act.	Economic	2	5	10	10	Nov/Dec 2021	Reduce/Treat	The next steps for the delivery of the climate change work will be to develop a Five Year Action Plan (there will be 4 of these in total, up to 2041). This will set out clearly the policies and investments required to adhere to the carbon reduction timetable. This was presented to the CA Board in March (and approved), along with the action that needs to be taken to start delivery of the plan. Next steps are to implement this plan. We continue to press the Government for additional funding for the work on energy and environment in connection with any review of public spending. 2026	2026	↔	10	N/A	N/A	Jan/Feb 2022	Environmental People	N/A Not Escalated
Open	Threat	SR-026 Previously S07D	Investment & Commercial Activities Director	Programme Delivery	4	4	16	Delivery - West Midlands 5G	Due to uncertainties around the continued funding for WMGSG and its complexities in a multi-stakeholder project which is part of the national Testbeds and Trials programme within DCMS.	Additionally WMGSG has currently no secured guaranteed funding in place beyond March 2022, there is a possibility that continued delivery can not be guaranteed beyond March 2022 if alternative funding is not secured.	Potential resulting in the delivery failures and the need to wind down WMGSG if alternative funding is not secured impacting on Staff, Skills levels within the CA. Operational impacts beyond the SLT Team caused by the 5G sites created if there are staff losses. With a low potential of reputational impact. There is a significant potential Financial Loss for two reasons. 1. If no further funding is received to continue the work of WMGSG, then the start up costs have not been spread over many years. 2. Any future digital initiative that could have utilised the WMGSG skill and knowledge base would need to incur new start up costs.	Finances throughout the project are drawn down subject to robust business case criteria within both DCMS (via an over-arching part 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. As funding is in arrears and targets met to date, the risk of any failure to deliver is falling. WMGSG has a staff retention plan in place to mitigate chances and impact of staff leaving before March 2022. Some small amount of funding has been identified to provide a short scaled back service from WMGSG after March 2022 and more funding is being sought.	Delivery	2	4	8	6	Nov/Dec 2021	Reduce/Treat	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. WMGSG is funded until March 2022. A plan is being put in place to address potential retention issues as it is important to retain focus on delivering results for the 2022/23 year. Partial funding of staff leaving before March 2022. Some small amount of funding has been identified to provide a short scaled back service from WMGSG after March 2022 and more funding is being sought. The outcome is likely to be known Feb 2022.	18/06/2022	↔	8	N/A	N/A	Jan/Feb 2022	Operations & Reputational	N/A Not Escalated
Open	Threat	SR-027 Previously S07F	Director of Housing and Regeneration	Programme Delivery	4	4	16	Delivery Milestones - Housing and Regeneration	Funding secured from HMG for housing and land delivery programmes is subject to robust monitoring and governance. Failure to comply with HMG and WMCA governance.	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 Boards are regularly updated on progress. This 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.	This could potentially cause or result in funding gaps, delivery gaps, reputational damage. This could lead to an inability to secure further funding, inability to deliver key projects, impact on wider benefits delivered or planned from HBS programmes such as affordable housing, zero carbon housing, jobs and skills development.	The WMCA, its local authority partners and business sector representatives are currently co-developing a number of business cases to HMG to secure further funding and support, as commissioned by the Housing and Land Delivery Board. This builds on the approved Covid 19 recovery plan which assessed and analysed the challenges and opportunities brought about from Covid-19 and a series of interventions, including asks of HMG to mitigate risk and maximise public value. Regular dialogue with local servants to establish WMGSG progress, provide assurance of delivery and secure further opportunities for funding programmes. Development of stakeholder engagement tools and engagement plan for Whitehall. Close working relationships with Members and Officers of local authorities especially on priority projects and sites. Communications plan for Housing & Regeneration to ensure consistent messaging and that LA and other partners are included and engaged in relevant work. Recent measures adopted include: Introduction of Slide Pack for LA & Developer awareness, promotion and consistent messaging. Updated SCF Brochure for new development partner awareness/marketing. Single document of priority housing and regeneration projects for each council. Roll out of Delivery & Spend programmes for continued monitoring across all successful applications. Roll out of individual Risk Registers on all projects, providing early engagement and efficient mitigation measures with all relevant stakeholder from conception to completion. Increased team capacity and experience, including additional external specialist support, to deliver timely, effective and continued monitoring of the SCF process and delivery of successful applications. Improved due diligence processes and procedures during the SCF application process. New business process reported in real time. Funding Schedule monitoring group.	Delivery	1	4	4	4	Nov/Dec 2021	Reduce/Treat	Continued dialogue with civil servants to establish WMGSG progress, provide assurance of delivery and secure further opportunities for funding programmes. Regular reports & programme updates to HMG to demonstrate delivery & outcomes secured. Development of a regional investment prospectus with local authorities, West Midlands Growth Company and LEPs to maximise private sector investment into key projects and programmes. Development of stakeholder engagement tools and engagement plan for Whitehall and private sector investors and developers. Continue close working relationships with Members and Officers at local authorities. Meetings of officer steering group to include workshops and task and finish sessions. Communications plan for Housing & Regeneration to be further developed to ensure consistent messaging and that LA and other partners are included and engaged in relevant work.	Ongoing	↔	4	N/A	N/A	Jan/Feb 2022	Benefits Realisation Environmental Delivery Stakeholder Funding People Skills Reputational	N/A Not Escalated
Open	Threat	SR-028 Previously S10	Managing Director, THWM & Director of IT	Operations	2	4	8	Health & Safety	Failure of the WMCA to adopt and embed adequate Health & Safety arrangements.	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.	Health & safety duties are delivered to ISO45001 standard with ongoing compliance externally assessed 6 monthly. Audit & Inspection of all assets undertaken against set schedule to ensure H&S compliance is maintained. Monthly H&S position statement provided to satisfy Board of the Organisation's Corporate responsibilities, including review and analysis of accident, incident and near miss reports. 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.	Health & Safety	2	3	6	4	Nov/Dec 2021	Reduce/Treat	Expansion of scope of ISO45001 accreditation to incorporate all WMCA activities. 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 operational norms. Further enhancements to PPE resources introduced to assist staff with Remote Working including the supply of ergonomic equipment if required. Latest H&M 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 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 16 Summer Lane Working Group in relation to the recovery of 16 Summer Lane including production of Covid-19 Secure Risk Assessment.	Ongoing	↔	8	N/A	N/A	Jan/Feb 2022	Reputational legal People Staff	N/A Not Escalated	

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West Midlands
Combined Authority

ARAC High-level Strategic Risk Update – January 2022

Victoria Harman – Strategic Risk Manager
Finance & Business Hub

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Strategic Risk Heat Map

Very High Rated Residual Risks

Strategic Risk Trends

Key Changes/ Escalated Risks

Material Changes Since November 2021 Review

Risk Heat Map

Current Threats						
Likelihood	5	Very high	0			3
	4	High	0	1	0	4
	3	Medium	0	0	1	3
	2	Low	0	1	1	1
	1	Very low	0	0	0	2
			1	2	3	4
			Minimal	Minor	Significant	Major
			Impact			

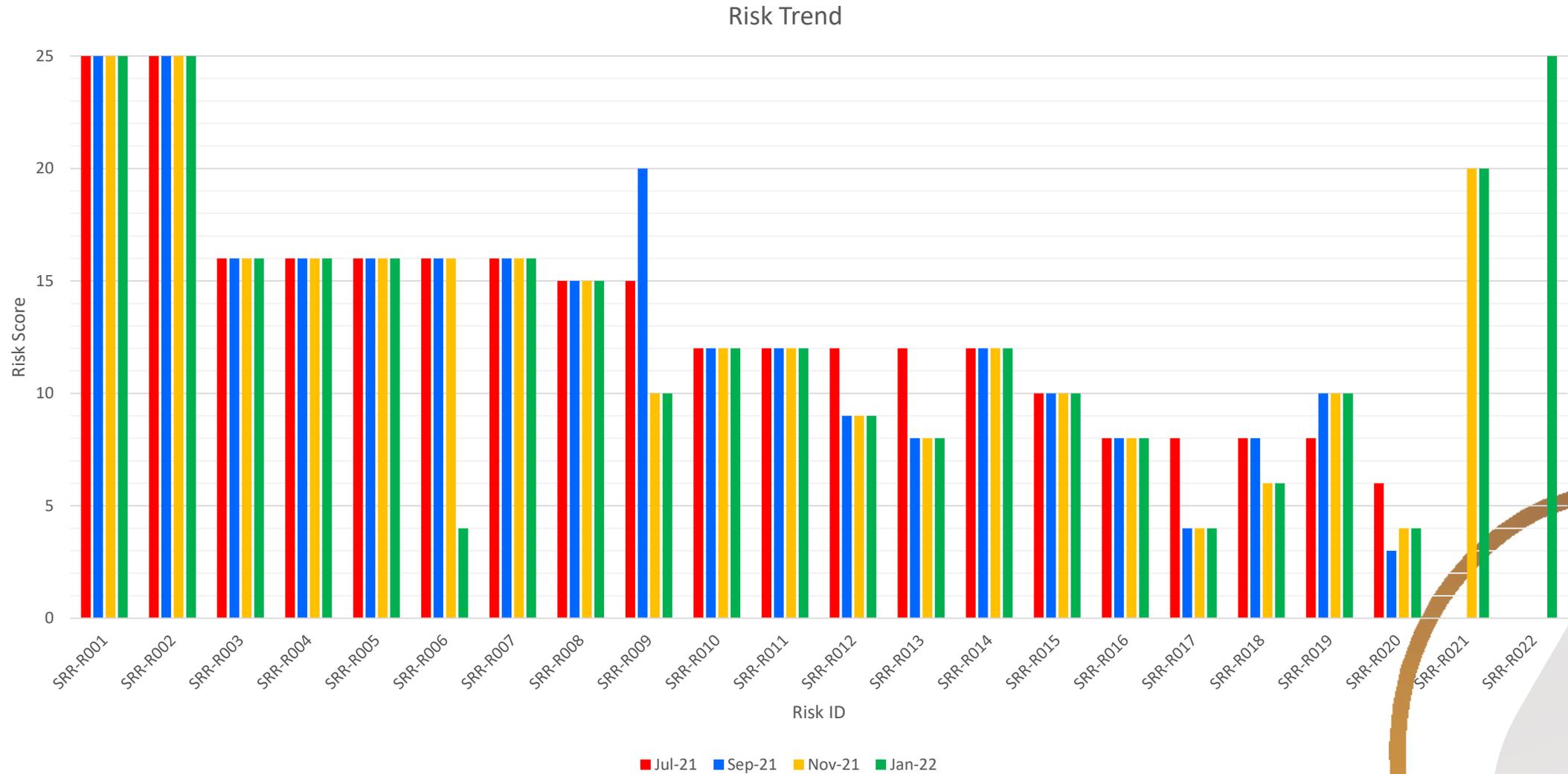
Threat Rating	Score Range	Count
Limited	1-5	3
Medium	6-12	10
Very High	15-25	9
Total		22



9 highest rated risks

- SRR-R001 Financial Assumptions for Investment Programme
- SRR-R002 External Factors
- SRR-R003 Data Protection & Protective Security
- SRR-R004 Stakeholder & Political Relations
- SRR-R005 Capacity and Capability
- SRR-R007 Longer term economic impact of Covid-19 on bus service provision.
- SRR-R008 Commerciality
- SRR-R021 Financial resilience of WMCA to absorb fiscal shocks (New Oct 21)
- **SRR-R022 Metro - 2GT fleet crack propagation (Suspension of all services from 13 November). TfWM Risk ID: 1142. (New December 2021)**

Risk Trend



Risk Trend Detail

9 Very High rated residual risks (scoring 15-25)

- 7 of which have remained static in the last 4 review cycles.
- Risk mitigation strategies are in place for all risks with a Very High residual rating have been carefully reviewed by individual risk owners during October & December and have been reviewed by SLT collectively during January for adequacy.
- 1 risk is a newly escalated risk from TfWM.
- Risks are monitored on a bi monthly basis by individual risk owners and SLT.

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1 Previously Very High rated residual risk has reduced to Low

- Overall Delivery of Devolution Objectives – This risk previously duplicated elements of risk that were captured elsewhere within the risk register, the focus of this risk has been narrowed to cover the risk of changing Government priorities around Mayoral Combined Authorities. This has led to a reduction in the risk score.

10 Medium rated residual risks (scoring 6-12)

- 4 of which have reduced in materiality during the last 4 review cycles. All risks have mitigation plans in place and are reviewed by individual risk owners and SLT on a minimum of bi monthly basis.

3 Limited rated residual risk (score 1-5)

- 2 of the 3 risks have remained limited in the last 3 review cycles so will be de-escalated for ongoing management to appropriate Directorate Risk Registers.

Key material changes (since November 2021 review)

RISK ID & Name	Change	Details	Score Trend
Overall Delivery of Devolution Objectives & Covid effects and response to risk (SRR-R006)	Residual Likelihood score reduction from 4 to 1 (Overall score down from 16 to 4)	The risk has been substantially rewritten to focus on political uncertainty impacts on devolution objectives as other elements previously captured are duplicated elsewhere in the risk register.	
New Risk Escalation from TfWM Metro - 2GT fleet crack propagation (Suspension of all services from 13 November). TfWM Risk ID: 1142. (SRR-R022)	Previously a score of 15 on the originating risk register now escalated scoring 25 (5x5)	This risk has been escalated as it has materialised and has a corresponding issue with a remediation plan.	

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Audit, Risk & Assurance Committee

Date	18 January 2022
Report title	COVID-19 Revenue and Capital Costs
Accountable Chief Executive	Laura Shoaf, Chief Executive Email: Laura.Shoaf@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	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) note the contents of this report.

1.0 Purpose

- 1.1 This report has been prepared to set out the financial implications of COVID-19 on WMCA's revenue and capital monitoring position in 2021/22.

2.0 Background

- 2.1 Although COVID-19 restrictions began to ease during 2021, the COVID-19 pandemic continues to have a detrimental impact on the Combined Authority's finances. The day to day financial position has been and will continue to be closely monitored through the Executive team and in consultation with the Finance and Investments Portfolio Holder. The Chairs of Audit, Risk and Assurance Committee and Overview and Scrutiny Committee will continue to be briefed on actions taken as a result of the crisis as necessary.

2.2 At the time of writing, whilst it is not yet clear what further restrictions will be put in place moving into 2022 with new variants of the virus emerging, there remains potential that further restrictions will continue to impact WMCA's finances for the foreseeable future.

2.3 The most significant financial impacts of the pandemic to date are the loss of commercial revenue within the Transport Portfolio and the impact on delivery of the Transport for West Midlands Capital Programme, although it is not possible to isolate the financial impact of COVID-19 on the Capital Programme with any particular degree of accuracy.

3.0 Revenue impact

3.1 Transport for West Midlands is continuing to see drops in income and the commercial bus and metro network is still seeing reduced levels of patronage, however, the Government has put in place a package of funding to support the loss of commercial revenue and the loss of income from fees and charges for services. This intervention has helped to mitigate losses of commercial revenue as well as losses of transactional income from customer and client receipts such as car parking charges and bus station departure charges.

3.2 Short term Government support for metro operations has been awarded by the Department for Transport in the form of Light Rail Revenue Restart Grant to provide support to enable services to continue and ensuring the short-term financial viability of Midland Metro Limited operations. Grant awarded in 2021/22 to date as at 30 November 2021 amounts to £3.08m, offsetting MML's coronavirus related loss of commercial fare revenue in the year to date.

3.3 Short term Government support for the bus network has also been awarded by the Department for Transport in the form of Coronavirus Bus Services Support Grant which has partially met the costs of additional cleaning regimes and Coronavirus marketing campaigns on the network in 2021/22 to date.

3.4 A summary of the revenue cost impact of the pandemic on WMCA in the 2021/22 financial year is set out in the following table:

COVID-19 Revenue Impact 2021/22 as at 30 November 2021	Revenue Impact £'000	Grant awarded £'000	Net impact £'000
Loss of income			
Car parking fees	179	61	118
Bus station departure charges	246	187	59
Ticketing fees	131	97	34
Information charges	63	47	16
Sub-total	619	392	227
Additional expenses			
Additional cleaning on the transport network	106	87	19
Marketing costs on the network	68	68	-
Office costs and signage at 16 Summer Lane	62	-	62
Meeting room equipment at 16 Summer Lane	135	-	135
Sub-total	371	155	216
Grand total	990	547	443

- 3.5 The office costs and signage at 16 Summer Lane (£62k) includes the purchase of office furniture and redecoration where required as well as general repairs and removals. The costs of signage to reflect the new layout of the building are also included.
- 3.6 The meeting room equipment costs (£135k) include the purchase, installation and service costs for the mounted display equipment and cabling to allow hybrid meetings to take place at 16 Summer Lane as well as the purchase of headsets to facilitate hybrid working.
- 3.7 The overall net impact on revenue in the year of £443k has either been met from savings elsewhere within the Transport Portfolio or alternatively met from existing earmarked reserves.
- 3.8 The latest full year forecast (expected outturn) for 2021/22 as reported to WMCA Board on 14 January 2022 reflects a surplus of £0.699m compared with the approved budget, mainly owing to residual savings on the English National Concessionary Travel Scheme and child concessions.

4.0 Capital Programme impact

- 4.1 There are a number of macro-economic factors which are placing stress on major capital projects both regionally and nationally. These include the Covid-19 pandemic which is disrupting supply chains (affecting the availability / price of materials and labour), BREXIT (also affecting the availability / price of labour) and the global and local demand / competition for resources, which regionally is impacted (for example) by HS2.
- 4.2 All of these macro-economic factor's over-lap contributing to schedule delay and potential increased cost where these matters cannot be contained within the relevant contingency allowances for schemes. It is difficult, however, to quantify a precise number on the impact Covid-19 in isolation will have on WMCA capital programme delivery.
- 4.3 There is then the secondary impact on the Capital Programme where investment is underpinned by forecast, future passenger revenues. Where these projections are seen to be deviating adversely from the pre-pandemic position, or are uncertain, this limits WMCA's ability to make investment decisions with the confidence around affordability.
- 4.4 With respect to cost escalation alone, since the onset of the pandemic, WMCA has undertaken regular desk top assessments to establish the approximate cost any severe disruption and delay to the Capital Programme would have based on whether schemes were in the design / delivery stage and the extent to which they may be exposed to potential issues. This situation is being regularly monitored.
- 4.5 In recent months, there been a number of cost pressures emerging on key projects, including University Station, Perry Bar Station and Westside Metro Extension which have been reported to WMCA Board. WMCA are closely monitoring all other schemes for emerging impacts and expect there will be a requirement in the future for additional funding.
- 4.6 The West Midlands Finance Director Group have been consulted on the risks and are supportive of the assessment made by WMCA that there are likely to be further impacts which will cause a deterioration in the financial resilience of WMCA. To this end, WMCA have been consulting with DfT and Local Authorities to enable use of the City Region

Sustainable Transport Settlement capital funding where these pressures emerge and are unavoidable.

- 4.7 As members are aware, the risk to delivery of WMCA's Investment Programme is monitored in the authority's Financial Monitoring report, Strategic Risk Register (which documents issues such as financial resilience) and monthly Progress reports to WMCA Investment Board. For those projects in the Investment Programme being delivered by local authority partners the WMCA financial contribution is a capped award as part of overall blended project funding with the risk being managed the individual Authority. At this stage No projects are reporting impacts however this will continue to evolve as the long-term implications of COVID-19 play out and Officers will continue to develop the documents through regular review.

5.0 Financial Implications

- 5.1 The financial implications are set out in the report.

6.0 Legal Implications

- 6.1 Not applicable.

7.0 Equalities Implications

- 7.1 Not applicable.

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 Not applicable



Audit, Risk & Assurance Committee

Date	18 January 2022
Report title	2022/23 Treasury Management Policy, Strategy and Practices.
Portfolio Lead	Cllr Bob Sleigh OBE
Accountable Chief Executive	Laura Shoaf Chief Executive Email: Laura.Shoaf@wmca.org.uk Tel: 0121 214 7552
Accountable Employee	Linda Horne WMCA Finance Director Email: Linda.Horne@wmca.org.uk
Report has been considered by	Not Applicable

Recommendation(s) for action or decision:

ARAC is recommended to:

- 1 Review and endorse the draft 2022/23 Treasury Management Policy Statement (TMPS) (Section 2 of this report) for onward approval by WMCA Board in February 2022.
- 2 Review and endorse the Draft 2022/23 Treasury Management Strategy (TMS) (Appendix 1) for onward approval by WMCA Board in February 2022.
- 3 Note and agree the arrangements for ensuring Treasury Management Practices are adequately maintained (Section 4).

1. Purpose

- 1.1 WMCA as a public body is required to have regard to the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) in discharging all its financial responsibilities. At the time of writing this report an updated Code (2021 edition) is currently due for publication following consultation. CIPFA has indicated that it will have a 'soft launch' and therefore authorities have until March 2023 to adopt the Code and implement its recommendations. A further report noting changes to the Code for approval will be presented to both ARAC and Board at the earliest opportunity during financial year 2022/23.
- 1.2 In relation to Treasury Management, the Code states that the organisation delegates responsibility for the implementation and regular monitoring of its Treasury Management Policies to Audit, Risk & Assurance Committee (as an independent scrutiny function). Officers are subsequently obliged to operate within the Treasury Management Strategy parameters as set and monitored by the scrutiny function.
- 1.3 ARAC members received an overview of the regulatory environment and WMCA's Treasury Management Practices in January 2021 and a subsequent presentation/training session will be arranged with our treasury advisors, Link Treasury Services Ltd, in the early part of 2022 to coincide with the publication of the revised Code.
- 1.4 The report sets out WMCA's Treasury Management Policy Statement (below) and Treasury Management Strategy (Appendix 1) for review and endorsement by ARAC prior to submission to WMCA Board in February 2022.

2 Treasury Management Policy Statement

- 2.1 The CIPFA Code of Practice on Treasury Management in the Public Services (the Code) was revised in December 2017. As mentioned in Section 1 a further update is planned for publication in late 2021 for adoption prior to 31st March 2023. The Code requires the setting out of the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. This Authority had adopted the original Code and has similarly adopted the revised 2017 Code in December 2018. The Code recommends the creation and maintenance of:
 - A Treasury Management Policy Statement, stating the policies and objectives of its treasury management activities,
 - Suitable Treasury Management Practices setting out the manner in which the organisation will seek to achieve those policies and objectives and prescribing how it will manage and control those activities.
- 2.2 The 2017 CIPFA Code recommends that authorities should:
 - Put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

- Policies and practices make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.
- Acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

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

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

2.4 The draft 2022/23 Treasury Management Policy Statement is shown below for review and endorsement by ARAC.

2022 / 2023 Treasury Management Policy Statement

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

- (1) Treasury management activities are defined as the management of the Authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and pursuit of optimum performance consistent with those risks.

- (2) WMCA regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their implications for WMCA, and any financial instruments entered into to manage these risks.
- (3) WMCA acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employ suitable comprehensive performance measurement techniques, within the context of effective risk management.

3. WMCA 2022/23 Treasury Management Strategy

- 3.1 Following on from the Treasury Management Policy Statement above, the Treasury Management Strategy defines how the policy will be adhered to and provides a framework for WMCA treasury practitioners to operate within.
- 3.2 ARAC are requested to review and endorse the Draft 2022/23 Treasury Management Strategy which features as Appendix 1 to this report; for onward approval by WMCA Board in February 2022.

4. Treasury Management Practices

- 4.1 Finally, recommendation 3 within this report requests that ARAC note and agree the arrangements for ensuring Treasury Management Practices (TMP) are adequately maintained. The revised 2017 CIPFA Code recommends that authorities should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.
- 4.2 WMCA maintain (TMPs) in line with the relevant guidance. These practices set out the manner in which the organisation will seek to achieve the policies and objectives and documents how it will manage and control those activities.
- 4.3 There are currently twelve individual practices which cover:
 - Risk management;
 - Performance measurement;
 - Decision-making and analysis;
 - Approved instruments, methods and techniques;
 - Organisation, clarity and segregation of responsibilities and dealing;
 - Reporting requirements and management information arrangements;
 - Budgeting, accounting and audit arrangements;
 - Cash and cash flow management;
 - Money laundering;
 - Training and qualifications;
 - Use of external service providers;
 - Corporate governance.

- 4.4 Other Schedules supporting these practices and other documents held at an operational level specify the systems and routines to be employed and the records to be maintained in fulfilling WMCA treasury functions (Treasury Management Operational Procedures).
- 4.5 ARAC are requested to note and agree the approach:
- Which delegates responsibility for the implementation and monitoring of its treasury management policies and practices to TMG (consisting of the WMCA Finance Director, The WMCA Head of Financial Planning, the Lead Treasury Accountant and other WMCA technical experts as required)
 - Which delegates the execution and administration of treasury management decisions to the Director of Finance, who will act in accordance with the WMCA's policy statement and TMPs and CIPFA' Standard of Professional Practice on Treasury Management.
- 4.6 ARAC will receive independent assurance that the TMPs are fit for purpose and operating effectively from the annual Internal Audit of key financial systems. However, the actual TMPs are also available for ARAC review upon request.

APPENDIX 1

Treasury Management Strategy 2022/23

Introduction

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

Treasury risk management at WMCA is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires WMCA to approve a treasury management strategy before the start of each financial year. At the time of writing this report an updated Code (2021 edition) is currently due for publication following consultation. CIPFA has indicated that it will have a 'soft launch' and therefore authorities have until March 2023 to adopt the Code and implement its recommendations. A further report noting changes to the Code for approval will be presented to both ARAC and Board at the earliest opportunity during financial year 2022/23.

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

The strategy for 2022/23 covers the following main areas:

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

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

Current Treasury Position

The overall treasury management portfolio as at 31st March 2021 and for the position as at 31st December 2021 are shown below for both borrowing and investments.

Table 1 Treasury Management Portfolio

	<u>Actual</u>	<u>Actual</u>	<u>Current</u>	<u>Current</u>
	<u>Mar 21</u>	<u>Mar 21</u>	<u>Dec 21</u>	<u>Dec 21</u>
<u>Treasury Investments</u>	<u>£m</u>	<u>%</u>	<u>£m</u>	<u>%</u>
Banks	48.97	20	120.00	28
Local Authorities	135.70	55	293.00	68
Housing Associations			10.00	2
Money Market Funds	60.00	25	5.00	1

Total Managed In House	244.67	100	428.00	99
Property Funds / REITs	-	-	5.10	1
Total Managed Externally	-	-	5.10	1
Total Treasury Investments	244.67	100	433.10	100
Treasury External Borrowing				
PWLB	(108.43)	87	(263.24)	94
Banks	(10.00)	8	(10.00)	4
Transferred Debt	(5.59)	5	(5.59)	2
Total External Borrowing	(124.02)	100	(278.83)	100
Net treasury investments/(borrowing)	120.65		154.27	

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

Table 2: WMCA Gross External Debt vs. CFR

£M	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Opening External Debt	124	279	404	739	784	804
New Borrowing	155	125	335	45	20	0
Forecast Closing External Debt	279	404	739	784	804	804
Capital Financing Requirement (CFR)	634	871	1,073	1,110	1,105	1,076
Under Borrowing	355	467	334	326	301	272

WMCA has an increasing CFR – rising from a forecast £634m at the end of 2021/22 to £1,110m at the end of 2024/25 - due to its capital programme, mostly driven by the delivery of the Investment Programme. The Authority is currently 'under borrowed', meaning that internal cash-backed resources such as balances, reserves, and working capital (predominantly capital grants received in advance) can be deployed to offset external borrowing. Working capital levels have been above £400m for much of 2020/21 as new grants received in advance of expenditure have been received. Short-term interest rates are currently much lower than long-term rates and forecast to remain so for a considerable period. This makes it more cost effective in the short-term to continue to use internal resources and to borrow externally only when required. However, decreasing values of investments over time, as these capital grants received in advance are spent, will require WMCA to borrow up to £680m (net of investment income) over the forecast period.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that WMCA's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that WMCA expects to comply with this recommendation during 2022/23 to 2024/25.

Prospects for Interest Rates

The Council has appointed Link Treasury Services Ltd as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. PWLB forecasts are for certainty rates, 20 basis points below PWLB standard rates, to which WMCA has agreed access.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

The level and pace of the change forecast remains modest in comparison with recoveries from historical recessions. Minutes from recent MPC meetings suggest there has been a marked change in concern over price inflation, particularly relating to gas and electricity. Nonetheless, it should be remembered that the rate cut to 0.10% at the beginning of the pandemic was an emergency measure and taking it away can be seen as a signal of a return to normalisation. In addition, any Bank Rate below 1% remains highly unusual and highly supportive of economic growth.

Borrowing Strategy

As at 31 December 2021 WMCA currently holds £278.8m of loans, an increase of £153.8m on the previous year. The forecast in table 2 shows that WMCA expects to borrow up to £125m in 2022/23. WMCA may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

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

Strategy: WMCA's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently much lower than long-term rates and forecast to remain so for a considerable period. It is likely therefore to be more cost effective in the short-term to continue to use internal resources and to borrow a proportion of the debt requirement using short-term loans instead.

By doing so, WMCA can reduce its net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Link Treasury Group will assist WMCA with this 'cost of carry' and 'borrow now/borrow later' analysis. Its output may determine whether WMCA borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

WMCA has previously raised the majority of its long-term borrowing from the PWLB, but will consider long-term loans from other sources including banks, pension funds and local authorities, and will also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets held primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans. WMCA Finance Directors and their respective treasury teams continue to work collectively also, ensuring the buying power of the region is fully exploited in the capital markets.

It should be noted that following two competitive processes during 2019/20 and 2020/21, WMCA were notified by HM Treasury that it would qualify for Infrastructure Rate Funding. This guaranteed WMCA access to debt at 0.40% below the currently published PWLB standard rate levels. £155m of this facility has been utilised in 2021/22 and a further £45m remains available prior to November 2022. Access to this financing together with the use of short-term debt will provide WMCA with a bridge whilst the most competitive sources of long-term finance are identified.

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

In addition, WMCA may borrow using further short-term loans to cover unplanned cash flow shortages.

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

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

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

- leasing

- hire purchase
- Private Finance Initiative
- sale and leaseback

Short-term and variable rate loans: These loans leave WMCA exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits set out in the treasury management indicators below. Consequently, financial derivatives may be used to manage this interest rate risk (see section below).

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

Policy on Borrowing In Advance of Need

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

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

HM Treasury External Debt Cap

WMCA has acquired approval from HM Treasury and the Dept for Levelling Up, Housing and Communities (DLUHC) to borrow for all of its functions subject to it operating within an agreed external debt cap. The debt cap runs coterminous with the 5-year gateway review period and the caps for 2022/23 and beyond are expected to be finalised with HM Treasury during 2021/22. On the basis it remains unchanged, WMCA do not expect to breach the debt cap during 2022/23 based on the current external debt and projections for the 2020/21 financial year. For information, the existing agreed limit is £1,042 million.

Treasury Investment Strategy

WMCA holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 WMCA's treasury average monthly investment balance has ranged between £233m and £477m, and similar levels are expected to be maintained throughout parts of 2022/23 largely due to the profile of Government grant receipts in quarter one.

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

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

Negative interest rates: The COVID-19 pandemic demonstrated the risk that the Bank of England would set its Bank Rate at or below zero, which in turn would likely feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested. Whilst WMCA would seek to avoid exposure towards negative interest rates in these circumstances, it must first meet the security and liquidity requirements of all investment holdings.

Strategy: Investments will be made with reference to WMCA core balances and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed. Given that Bank Rate is forecast to rise incrementally over the investment time horizon consideration will be given to keeping most investments as short term and/or variable. The regular stream of maturing investments brought about by this ‘laddering’ approach should provide opportunities to consistently improve underlying yield, while still allowing flexibility to adjust if market circumstances alter. This is particularly the case if the MPC do not follow the increasingly more “aggressive” path that markets are continuing to price in.

Investment returns expectations: Based on the current prospects for interest rates appraisal by Link Treasury Services Ltd the suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

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

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

Approved counterparties: WMCA may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	50 years	Unlimited ¹	Unlimited
Secured investments *	25 years	£20m ¹	Unlimited
Banks (unsecured) *	13 months	£20m ¹	Unlimited
Building societies (unsecured) *	13 months	£20m ¹	£20m
Registered providers (unsecured) *	5 years	£5m	£20m
Money market funds *	n/a	£20m	Unlimited
Strategic pooled funds	n/a	£5m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other investments	5 years	£2m	£10m

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

¹ Normal operating levels will not exceed £10m per counterparty but adequate headroom has been provided to accommodate potential peak cashflow requirements. The Combined Authority will look to keep an even spread of investments across counterparties to minimize exposure to defaults.

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

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

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are *deemed* to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

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

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

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

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

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

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

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

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

be bailed in than made insolvent, increasing the chance of WMCA maintaining operational continuity.

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

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

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

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

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

Investment limits: In order that WMCA's reserves will not be put at significant risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £20 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Additional Investment limits

	Cash Limit
Any group of pooled funds under the same management	£20m per manager
Negotiable instruments held in a broker's nominee account	£20m per broker
Foreign countries	£5m per country

Liquidity management: WMCA utilises short, medium-term, and long-term cash flow forecasts to determine the maximum period for which funds may prudently be committed. The

forecast is compiled on a prudent basis to minimise the risk of WMCA being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to WMCA's medium-term financial plan and cash flow forecast.

Commercial Investment Funds

WMCA operate commercial loan funds on behalf of the Constituent Local Authorities. The investment funds limit is £210m and provide loans at a commercial rate to developers where the more traditional financial institutions are not willing to lend on agreeable terms. The primary objective of the investment funds is to stimulate economic regeneration. The loans are held on the WMCA balance sheet under standard accounting regulations and as at December 2021, the cumulative value of loan commitments approved by WMCA totals £166.4m (including £56m of loans which have since been repaid). The value of loans drawn and earning interest as at December 2021 is £20.4m.

Whilst these developers do not have a credit rating in the traditional sense, WMCA employ fund managers West Midlands Development Capital to ensure adequate due diligence is undertaken and that each loan agreement will be adequately secured, usually on the land / buildings underpinning the requirement. Furthermore, each loan agreement requires approval by Investment Board and protections around concentration risk (i.e. limiting the cumulative value of loans to any one developer) were reviewed and approved by WMCA Investment Board in July 2019.

Use of External Providers

£5m of WMCA funds is externally managed on a pooled basis by CCLA Local Authority Property Fund and Fundamentum Social Housing Real Estate Investment Trust (REIT)

The Authority fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager(s). In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager(s). This includes:

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

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

Treasury Management Indicators

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

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

Credit risk indicator	Target
Portfolio average credit	A minus

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

Liquidity risk indicator	Target
Total cash available within 3 months	£20m (min)

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

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

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

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

Price Risk Indicator	2022/23	2023/24	2024/25
Limit on principal invested longer than a year	£10m	£10m	£10m

Related Matters

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

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

WMCA will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that WMCA is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting

transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

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

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

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

Investment Training The needs of the Authority's treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Treasury Services Ltd and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

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Treasury Management is the management of the Authority’s cash flows, borrowing and investments, and the associated risks. Of necessity, the Authority borrows and invests substantial sums of money and is therefore exposed to financial risks including the effects of changing interest rates. The successful identification, monitoring and control of financial risks are therefore central to WMCA’s prudent financial management.

INVESTMENTS – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

- To achieve the best secure investment returns
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of investment vehicles

Market Intelligence

- Bank of England reports
- Market Outlook by the Authority’s advisers Link Treasury Services Ltd

Statutory and Performance Framework

Rules that guide us

Investments

- Sterling only
- Can use UK Government, Local Authority or a body/security of high credit quality
- The Authority defines “high credit quality” organisations and securities as those having a credit rating of **A-** or higher

Investment Limits – subject to Counterparty table on page 12

- **Unlimited** UK Government
- **£20m** Money Market Fund
- **Unlimited** any single local authority or government entity
- **£20m** secured investment
- **£20m** per Bank/Building Society (unsecured)
- **£5m** Registered Providers (Housing Associations)
- **£5m** Strategic Pooled Funds
- **£5m** Real Estate Investment Trust

Treasury Management Indicators

- £20m rolling 3-month liquidity
- Maximum investment limit beyond 1 year: £10m

Key WMCA Budget Assumption for 2022/23

- Investments make an average rate of return of 0.5%

Approach

Choices made within the framework

Objective - Security first, Liquidity second and then Yield

Strategy - to maximise returns, reduce risk. and diversify investments. Investments will be ‘laddered’ (short term, regular maturities) to take advantage of forecast rising yields in year

Risk Assessment and credit ratio - Our advisors monitor credit ratings daily so any new investments will be made using the latest credit information

Other information on security of Investments - Market intelligence from our advisors may give warnings before credit warning changes e.g. credit default swaps information

BORROWING – FACTS AT A GLANCE

Principles and Objectives of the Treasury Management Strategy

- To minimise the cost of borrowing
- To achieve a balanced spread of maturities and commitments
- To achieve the right mix of borrowing vehicles

Market Intelligence

- Bank of England reports
- Gilt market / forward yield curve
- Market Outlook by the Authority’s advisers Link Treasury Services

<p>Statutory and Performance Framework <i>Rules That Guide Us</i></p>	<p>Borrowing</p> <ul style="list-style-type: none"> • £348m Total Capital Expenditure in year (financed by grants, contributions, receipts, and borrowing) • £871m cumulative Capital Finance Requirement by 31st March 2023 (need to borrow, internal and/or external) • £125m Expected Borrowing In Year • £404m Total Debt by 31st March 2023
	<p>Treasury Management Indicators</p> <ul style="list-style-type: none"> • Maturity Structure of Borrowing – 0% to 75% Lower/Upper Limits maturing within 12 months, 24 months, 5, 10, and more than 10 years
	<p>Key Council Budget Assumption</p> <ul style="list-style-type: none"> • New Long Term Loans will cost an average of 2%
<p>Approach <i>Choices Made Within The Framework</i></p>	<p>Objective - Balance low interest rates with long term certainty</p> <p>Strategy – to have a balanced portfolio that utilises the benefits of internal borrowing, low interest rates for short term borrowing together with the security of longer-term fix rate borrowing</p> <p>Sources of Finance - Banks or Building Society, Public Works Loan Board, Pension Funds, Capital Market Bonds, Municipal Bonds Agency, UK Infrastructure Bank and any entity with whom we would invest.</p> <p>Debt Restructuring A present value calculation based on current rates for the same period of loan may result in a discount or premium.</p> <p>Borrowing in Advance of Need Any decision to borrow in advance will be within the forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.</p>



**West Midlands
Combined Authority**

Audit, Risk & Assurance Committee

Date	18 January 2022
Report title	Appointment of External Auditors
Accountable Chief Executive	Laura Shoaf, Interim Chief Executive Email: Laura.Shoaf@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	N/A

Recommendation(s) for action or decision:

Audit, Risk & Assurance Committee is recommended to:

- (1) approve that WMCA opts into Public Sector Audit Appointments' national scheme for external auditor appointments for the 5 year appointing period commencing 1 April 2023.

1.0 Purpose

- 1.1 This report has been prepared to seek approval for WMCA to opt into the Public Sector Audit Appointments national scheme for auditor appointments for the 5 years commencing 1 April 2023.

2.0 Background

- 2.1 Since the abolition of the Audit Commission in 2015, local authorities have had the choice of procuring and appointing their own External Auditors or opting into a national scheme operated by Public Sector Audit Appointments (PSAA).
- 2.2 WMCA opted into the national scheme in 2017 along with the majority of bodies eligible; 484 bodies out of the 494 eligible took the decision to opt in including all seven of WMCA's Constituent Authorities. For audits of accounts from 2018/19 onwards, PSAA appointed Grant

Thornton as WMCA's external auditor for the duration of a five-year appointing period. The current appointing period ends on 31 March 2023 and a decision is now required to determine whether WMCA opts into the national scheme again from 1 April 2023.

- 2.3 If WMCA determines not to opt-into the national scheme, alternative arrangements would need to be made. Two options exist:
- 1) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the authority;
 - 2) To commence work on exploring the establishment of local joint procurement arrangements with other local authorities.
- 2.4 The preferred option is to opt-in to the PSAA's national scheme as it is considered that this offers the best value for money and assures the appointment of suitably qualified and independent auditor.
- 2.5 In 2017/18 the deadline for issuing audit opinions was brought forward from 30 September to 31 July. Since this point there has been a reduction in the number of local government audit opinions delivered on time, with significant reductions from 2018/19 onwards. This downward trend accelerated during the COVID-19 pandemic, with only 45% of 2019/20 audits completed by the extended deadline of 30 November 2020 and, most recently, only 9% of 2020/21 audits completed by the extended deadline of 30 September 2021.
- 2.6 The Department for Levelling Up, Housing and Communities (DLUHC) therefore issued a package of measures designed to improve local audit delays on 16 December 2021. These measures are summarised in an appendix to this report for members further information.

3.0 Public Sector Auditor Appointments

- 3.1 In the past, auditors were appointed by the Audit Commission under the Audit Commission Act 1998. When the Audit Commission was abolished in 2015, the existing external audit contracts were transferred to PSAA.
- 3.2 PSAA is an independent not-for-profit company limited by guarantee and was established by the Local Government Association. PSAA is now specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015.
- 3.3 WMCA agreed to opt-into the national appointment scheme for the first appointment period which commenced on 1 April 2018 and ends on 31 March 2023. A decision on whether to opt-into the national scheme needs to be made by 11 March 2022. WMCA has a duty to appoint new external auditors before the end of December 2022 in readiness.
- 3.4 There are advantages and disadvantages for each of the options. The main benefit of opting into the national scheme is that it offers good value for money and assures the appointment of a suitably qualified and independent auditor. The two alternative options noted in paragraph 2.3 overleaf would be considerably more resource intensive to implement and could lead to higher costs owing to:
- the requirement to establish an Audit Panel and undertake a procurement exercise;
 - the lack of ability to offer a material contract value to the market; and
 - the lack of appetite for a joint procurement.

3.5 WMCA's influence in specifying the external audit service is also severely limited. The National Audit Office is responsible for the Code of Audit Practice which all firms must follow. The scope of public sector audit is also wider than for private sector organisations. For example, the external auditor is required to form a conclusion on the authority's arrangements for securing value for money as part of the annual audit process.

3.6 It is therefore recommended that WMCA opts into the PSAA national scheme as it is considered that this offers the best value for money and assures the appointment of suitably qualified and independent auditor.

4.0 Financial Implications

4.1 The anticipated costs of external audit arrangements are contained within WMCA's draft budget for 2022/23 onwards. The anticipated total audit fees for the 2020/21 audit year are approximately £67,000, including the cost of additional value for money audit work under the new National Audit Office Code.

5.0 Legal Implications

5.1 The appointment of an external auditor is a statutory requirement.

6.0 Equalities Implications

6.1 Not applicable.

7.0 Inclusive Growth Implications

7.1 Not applicable.

8.0 Geographical Area of Report's Implications

8.1 Not applicable.

9.0 Other Implications

9.1 Not applicable.

10.0 Schedule of background papers

10.1 Not applicable

Department for Levelling Up, Housing and Communities (DLUHC)

Summary of ‘Measures to improve local audit delays’ publication – issued on 16 December 2021

Section 1: Measures relating to audit firms and timely completion of audit

- Financial Reporting Council to publish updated Key Audit Partner guidance by spring 2022, including new routes for an experienced Registered Individual to become a Key Audit Partner.
- Work with CIPFA to further develop the proposal for a new local audit training diploma in local government financial reporting and management aimed at different levels of auditor, and a new technical advisory service that could provide support to firms, and in particular new entrants.

Section 2: Measures relating to local bodies and quality of accounts preparation

- DLUHC to provide further funding of £45 million over the course of next Spending Review period to support local bodies with the costs of strengthening their financial reporting, new burdens related to appointment of independent members and other recommendations set out in Sir Tony Redmond’s independent review of local authority financial reporting and external audit and increased auditing requirements.
- Chartered Institute of Public Finance and Accountancy (CIPFA) to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.
- DLUHC to provide via the Local Government Association sector grant for a number of targeted training events for audit committee chairs.

Section 3: Proposed measures relating to accounting and audit requirements

- National Audit Office rolling over of amendments to 20/21 Auditor Guidance Note 03 and 07 to allow for altering the timing of elements on the Value for Money arrangements work and enable more focus on fully delivering opinions on the financial statements.
- CIPFA and the Local Authority Scotland Accounts Advisory Committee (LASAAC) is undertaking a project to improve the presentation of local authority accounts to inform the development of the 22/23 Accounting Code and comply with International Financial Reporting Standards and statutory accounting principles.
- Her Majesty’s Treasury to undertake a thematic review of financial reporting valuations for non-investment properties to inform development of the Accounting Code from 22/23 onwards.
- The government has asked CIPFA/LASAAC to consider the merits of a time-limited change to the Accounting Code for 21/22.
- Delaying implementation of standardised statements of service information and associated audit requirements.

Section 4: Longer term measures to help stabilise the market and address long term supply issues

- PSAA to progress their proposed procurement strategy for the next round of local audit contracts from 2023/24.
- Extending the deadline for publishing audited local authority accounts to 30 November 2022 for 21/22 accounts and the 30 September date for 5 years from 2023/24 – 2027/28.
- National Audit Office to prepare for a re-laying of the Code of Audit Practice 2020 in parliament, so that it will apply for the whole of the next appointing period.
- Developing an industry-led workforce strategy, working with the system leader and audit firms, to consider the future pipeline of local audits, and associated questions related to training and qualifications.

The full publication can be viewed at the following link:

<https://www.gov.uk/guidance/measures-to-improve-local-audit-delays>

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Audit, Risk and Assurance Committee Meeting

Date	18 January 2022
Report title	Internal Audit Update – January 2022
Accountable Chief Executive	Laura Shoaf, Chief Executive
Accountable Employee	Satish Mistry, Interim Director, Law and Governance
Report has been considered by	N/A

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

Note the contents of the latest Internal Audit Update Report.

1.0 Purpose

- 1.1 The purpose of this report is to present the Committee with an update on the work completed by internal audit so far, this financial year.

2.0 Background

- 2.1 In accordance with the agreed work programme for internal audit, the reports provide an independent and objective opinion on the Combined Authority's effectiveness in managing their risk management, governance, and control environment.
- 2.2 The reports will also feed into the Annual Internal Audit Report that will be prepared at the end of the financial year. The Annual Report will provide an overall audit opinion on the adequacy and effectiveness of the governance, risk management and internal control processes, based upon the outcome of the reviews completed during the year. This opinion can then be used to feed into the Combined Authority's Annual Governance Statement that accompanies the Annual Statement of Accounts.

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

- 9.1 None



West Midlands Combined Authority

Internal Audit Update Report – January 2022
2021-2022

Delivered by City of Wolverhampton Council – Audit Services

1 Introduction

The purpose of this report is to bring the Audit and Risk Assurance Committee up to date with the progress made against the delivery of the 2021 - 2022 internal audit plan.

The Audit, Risk and Assurance Committee has a responsibility to review the effectiveness of the system of internal controls and to monitor arrangements in place relating to corporate governance and risk management arrangements. Internal audit is an assurance function which provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control, and governance.

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

The information included in this progress report will feed into and inform our overall opinion in our internal audit annual report issued at the year-end. Where appropriate each report we issue during the year is given an overall opinion based on the following criteria:

No Assurance	Limited	Satisfactory	Substantial
Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

2 Summary of progress:

The following internal audit reviews have been completed or are currently underway.

Auditable area	AAN Rating	Status and level of assurance	ARAC Meeting (indicative)
2020-2021 Internal Audit Reviews previously reported (will feed into the 2021-2022 opinion)			
Commonwealth Games Transport Plan – TfWM Governance and Management Arrangements	High	Final Issued - Substantial	June 2021
Risk Management	High	Final Issued - Satisfactory	June 2021
Digital Retraining Fund	High	Final Issued - Satisfactory	June 2021
Adult Education Budget	High	Final Issued - Satisfactory	September 2021

Auditable area	AAN Rating	Status and level of assurance	ARAC Meeting (indicative)
2021-2022 Internal Audit Reviews previously reported			
General Data Protection Regulations	High	Final Issued – Satisfactory	September 2021
Corporate Complaints Process (appended)	High	Final Issued – Satisfactory	November 2021
Freedom of Information	High	Final Issued - Substantial	November 2021
2021-2022 Internal Audit Reviews completed			
Single Commissioning Framework - Land Fund	High	Final Issued - Substantial	January 2022
TfWM COVID 19 Response – Management and Decision-Making Arrangements	High	Final issued - Substantial	January 2022
WMCA Key Financial Systems	High	Draft reports issued (Substantial / Satisfactory)	April 2022
2021-2022 Internal Audit Reviews in progress			
Dudley Interchange	Medium	Fieldwork in progress	April 2022
Longbridge Park and Ride Income Management and Charging Arrangements	Medium	Fieldwork in progress	April 2022
WM2041 Delivery Programme (Environmental Recovery)	High	Schedule for January 2022	April 2022
Investment Programme Monitoring and Evaluation Arrangements	High	Scheduled for February 2022	June 2022
Inclusive Growth Investment Toolkit	High	Scheduled for February 2022	June 2022
ICT Strategy	High	Scheduled for March 2022	June 2022
Affordable Housing Delivery Vehicle	High	Planning commenced, scheduled for March 2022	June 2022
Adult Education Budget – Community Learning Fund Procurement	High	Deferred to May 2022 (pending completion of procurement exercise)	September 2022

Summary

Single Commissioning Framework - Land Fund

The Single Commissioning Framework (SCF) was introduced in April 2019 to provide a consistent end to end process for managing projects seeking investment from Devolved Housing and Land Funds. Our review focused on the governance, risk, and management arrangements in operation for the administration of the Land Fund within the SCF and its applications to funded projects. We found no major issues, making two green recommendations as enhancements regarding completion of

project monitoring reports and development of route maps detailing timelines for decisions and processes to be undertaken.

TfWM COVID 19 Response – Management and Decision-Making Arrangements

Our review sought assurance on the effectiveness of the management and decision-making arrangements operated by TfWM as part of the response to the ongoing Pandemic. We are pleased to report an overall assurance opinion of substantial.

Several areas of good practice were identified through clear demonstration of effective arrangements supported by multi agency and organisational engagement within the TfWM led Transport Cell (established within the framework of the Local Resilience Forum consisting of category one and two responders and including representation from TfWM). These arrangements operated in alignment with existing TfWM governance and management arrangements.

The above was further supported by use of timely data and management information, review of risk and mitigating actions and record keeping regarding decisions and actions as well as review of decision outcomes and impacts whilst also seeking feedback from customers and stakeholders to inform ongoing management and decision-making arrangements as the response to and implications of the Pandemic continued.

We made two green recommendations as further enhancements to existing practices for logging decisions and recording presentation of risk registers within governance arrangements.

3 Follow-up of previous recommendations

Through an ongoing cycle of reviews, we continue to monitor the implementation of previous key recommendations, and any major issues of concern relating to their non-implementation, will be reported back to the Audit, Risk and Assurance Committee.

As part of a new working arrangement, the WMCA Internal Audit Liaison Officer will be undertaking the initial preparatory work for each follow-up review, obtaining progress updates, and supporting evidence as and when agreed implementation dates arrive. This is in support also of the WMCA management monitoring arrangements of progress with implementation.

Internal Audit upon referral from the Internal Audit Liaison Officer, will then independently review the progress and supporting evidence, and report accordingly on the progress made with implementation of recommendations. Ultimately, Internal Audit will retain the responsibility for determining if sufficient action has been taken.

Follow up action of the following reviews forms part of this ongoing cycle, details of reviews completed or commenced by Internal Audit, or progress monitoring updates collated by the Internal Audit Liaison Officer are provided below.

Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Implementation Progress
				Red	Amber	Green	
Completed (Internal Audit) – previously reported							
Devolution Deal Objectives and Financial Assumptions, including Business Planning	Satisfactory	09/07/19	31/12/19	-	2	-	Follow-up report issued - Action still in progress

Progress Monitoring Update (Internal Audit Liaison Officer)							
Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Progressed*

Progress Monitoring Update (Internal Audit Liaison Officer)

Auditable area	Overall Opinion	Report Issue Date	Action Date	Agreed Actions			Number Progressed*
				Red	Amber	Green	
Midland Metro Limited Operational Transfer	Satisfactory	19/08/19	31/12/19	-	2	-	2
West Midlands Rail Limited - WMCA Governance and Management Arrangements	Satisfactory	05/05/20	30/06/20	-	3	-	#Change in responsible officers
Programme and Project Management Framework	Satisfactory	26/05/20	01/09/21	-	3	-	2
WMCA Accessible Transport Services	N/A	06/07/20	31/12/20	-	4	2	#Change in responsible officers
Sprint Programme Management Arrangements	Substantial	30/09/20	31/12/20	-	-	4	4
Third Generation Tram Procurement Project Management	Satisfactory	16/10/20	31/12/20	-	2	3	5
Human Resources Pre-employment checks	N/A	27/11/20	31/12/20	-	2	-	# Change in responsible officers
Environmental Management System	Satisfactory	06/01/21	30/06/21	-	1	1	1
Procurement (Covid-19 Response)	Substantial	24/02/21	Immediate	-	-	1	1
Harvesttime Project Management Arrangements	Substantial	22/03/21	30/06/21	-	-	5	5
Commonwealth Games Transport Plan - TfWM Governance and Management Arrangements	Substantial	09/06/21	28/05/21	-	-	3	3
Risk Management	Satisfactory	10/06/21	21/07/22	-	1	3	3
Digital Retraining Fund	Satisfactory	10/06/21	01/11/21	-	3	1	3
WMCA Devolved Adult Education Budget	Satisfactory	07/09/21	30/09/22	-	3	2	4
General Data Protection Regulations	Satisfactory	16/09/21	31/01/22	-	1	9	3
Corporate Complaints Process (appended)	Satisfactory	12/10/21	01/01/22	-	3	4	1
Freedom of Information	Substantial	19/10/21	30/11/21	-	-	5	4

* Stated number of actions progressed reflects the opinion of the auditee as of 30 November 2021, and where appropriate an independent sense check by Audit will be undertaken in key areas to confirm status of delivery.

Review of action owners and status required due to changes in responsible officers.

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Audit, Risk & Assurance Committee

Date	18 January 2022
Report title	Draft Internal Audit Plan 2022-2023
Accountable Chief Executive	Laura Shoaf, Chief Executive WMCA email: laura.shoaf@wmca.org.uk tel: 0121 214 7552
Accountable Employee	Satish Mistry, Interim Chief Audit Executive email: satish.mistry@wmca.org.uk tel: 0121 214 7435
Report to be considered by	WMCA Senior Leadership Team

Recommendation(s) for action or decision:

The Audit, Risk and Assurance Committee is recommended to:

1. Review and approve the draft Internal Audit Plan for 2022-2023.

1.0 Purpose

- 1.1 The purpose of internal audit is to provide the 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 provide the WMCA with a draft risk-based internal audit plan, incorporating a strategic statement for internal audit, and based upon an assessment of assurance needs. The initial assessment of assurance needs exercise was undertaken by the WMCA's Internal Audit Liaison Officer. The assessment is then used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.
- 1.3 In addition, the WMCA Senior Leadership Team has been consulted as part of development of the draft risk-based internal audit plan prior to presentation to the Audit, Risk and Assurance Committee.

2.0 Background

- 2.1 Internal audit is a statutory requirement for all Local Authorities. The audit service provided to the WMCA is in accordance with the Local Government Act (1972), the Accounts and Audit Regulations Act and the Public Sector Internal Audit Standards.

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

- 9.1 None



West Midlands Combined Authority

DRAFT Internal Audit Plan – 2022-2023

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How the internal audit service will be delivered
The internal audit plan

A quick guide to the audit and assurance planning process

Step 1- Audit universe/auditable areas

WMCA's Internal Audit Liaison Officer identifies the audit universe (i.e., a list of themes and areas within them that may require assurance) using a variety of methods:

- Areas of potential risk identified through a variety of sources (including the strategic risk register) as having the potential to impact upon the WMCA's ability to deliver its objectives.
- Key Financial Systems - work undertaken in close liaison with the external auditors, to help inform and support the work they are required to undertake.
- Areas where past knowledge, management requests and experience etc. is used.



Step 2 – Ranking

Using an assessment of the assurance need the WMCA Internal Audit Liaison Officer identifies each auditable area as a high, medium, or low assurance need.



Step 3 - Next Year's Plan

List the themes and where appropriate the types of work that will be undertaken in the 2022-2023 internal audit plan.

A glossary of terms

Definition of internal auditing

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.

Governance

The arrangements in place to ensure that the WMCA fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in an economical, effective, efficient, and ethical manner.

Control environment

Comprises the systems of governance, risk management and internal control. The key elements include:

- establishing and monitoring the achievement of the WMCA's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws, and regulations – including how risk management is embedded
- ensuring the economical, effective, and efficient use of resources and for securing continuous improvement
- the financial management of the WMCA and the reporting of financial management
- the performance management of the WMCA and the reporting of performance management.

System of internal control

The totality of the way an organisation designs, implements, tests, and modifies controls in specific systems, to provide assurance at the corporate level that the organisation is operating efficiently and effectively.

Risk Management

A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring, and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

Risk based audit and assurance reviews

A review that:

- identifies and records the objectives, risks, and controls
- establishes the extent to which the objectives of the system are consistent with higher-level corporate objectives
- evaluates the controls in principle to decide if they are appropriate and can be reasonably relied upon to achieve their purpose, addressing the organisation's risks identifies any instances of over and under control and provides management with a clear articulation of residual risks where existing controls are inadequate
- tests the effectiveness of controls i.e., through compliance and/or substantive testing
- arrives at conclusions and produces a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.

Audit, Risk and Assurance Committee

The governance group charged with independent assurance of the adequacy of the internal control environment and the integrity of financial reporting.

Assurance

A confident assertion, based on sufficient, relevant, and reliable evidence, that something is satisfactory, with the aim of giving comfort to the recipient. The basis of the assurance will be set out and it may be qualified if full comfort cannot be given. The Head of Audit may be unable to give an assurance if arrangements are unsatisfactory. Assurance can come from a variety of sources and internal audit can be seen as the ‘third line of defence’ with the first line being the WMCA’s policies, processes, and controls and the second being managers’ own checks of this first line.

Internal Audit standards



The internal audit team comply with the standards as laid out in the Public Sector Internal Audit Standards.

Introduction

- The purpose of internal audit is to provide the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the WMCA's agreed objectives.
- We also need to review on a cyclical basis, the operation of the internal control systems. It should be pointed out that internal audit is not a substitute for effective internal control. The true role of internal audit is to contribute to internal control by examining, evaluating, and reporting to management on its adequacy and effectiveness.
- There is a statutory requirement for internal audit to work in accordance with the 'proper audit practices'. These 'proper audit practices' are in effect the 'Public Sector Internal Audit Standards'. The WMCA has an Internal Audit Charter which was reviewed and approved by the Audit, Risk and Assurance Committee and defines the activity, purpose, authority, and responsibility of internal audit, and establishes its position within the WMCA. This document sits alongside the charter and helps determine how the internal audit service will be developed.
- The purpose of this document is to provide the WMCA with an internal audit plan, based upon an assessment of its assurance needs. The initial assessment of assurance needs exercise was undertaken by the WMCA's Internal Audit Liaison Officer. This exercise is undertaken to identify the systems of control and determine the frequency of audit coverage. The assessment will also be used to direct internal audit resources to those aspects of the WMCA which are assessed as generating the greatest risk to the achievement of its objectives.

Assessing the effectiveness of risk management and governance

The effectiveness of risk management and governance will be reviewed annually, where appropriate within each audit review, to help gather evidence to support our opinion to the Chief Executive, Director of Finance and Audit, Risk and Assurance Committee. This opinion is reflected in the general level of assurance given in our annual report and where appropriate within separate reports in areas that will touch upon risk management and governance.

Assessing the effectiveness of the system of control

- To be adequate and effective, management should:
 - Establish and monitor the achievement of the WMCA's objectives and facilitate policy and decision making.
 - Identify, assess, and manage the risks to achieving the WMCA's objectives.
 - Ensure the economical, effective, and efficient use of resources.
 - Ensure compliance with established policies, procedures, laws, and regulations.
 - Safeguard the WMCA's assets and interests from losses of all kinds, including those arising from fraud, irregularity, or corruption.
 - Ensure the integrity and reliability of information, accounts, and data.

- These objectives are achieved by the implementation of effective management processes and through the operation of a sound system of internal control.
- The plan contained within this report reflects the assessment of the audit work required to measure, evaluate, and report on the effectiveness of risk management, governance, and internal control.

Assessment of assurance needs methodology

- Internal audit should encompass the whole internal control system and not be limited only to financial control systems. The scope of internal audit work should reflect the core objectives of the WMCA and the key risks that it faces. As such, each audit cycle starts with a comprehensive analysis of the whole system of internal control that ensures the achievements of the WMCA's objectives.
- Activities that contribute significantly to the WMCA's internal control system, and to the risks it faces, may not have an intrinsic financial value necessarily. Therefore, our approach seeks to assign a relative assurance need value. The purpose of this approach is to enable the delivery of assurance to the WMCA over the reliability of its system of control in an effective and efficient manner.
- The assessment has been undertaken using the following process:
 - Identifying the core objectives of the WMCA and, where available, the specific key risks associated with the achievement of those objectives.
 - WMCA's Internal Audit Liaison Officer identifying auditable themes and areas that impact significantly on the achievement of the control objectives.
 - Assigning assurance need values to the auditable themes and areas, based on the evidence obtained.
- The audit plan is drawn out of the assessment of assurance need. The proposed plan covers the 2022-2023 financial year and is detailed at the end of this document.

The assessment of assurance needs - identifying the WMCA's priorities and the associated risks

- The following are the WMCA's key priorities:
 - Transport
 - Housing and Land
 - Skills and Productivity
 - Economy and Innovation
 - Environment and Energy
 - Public Service Reform and Social Economy
 - Wellbeing
 - Culture and Digital
 - Inclusive Communities

- Supported by the WMCA's values:
 - Be collaborative
 - Be innovative
 - Be driven
 - Be inclusive
- The WMCA has identified the following strategic risks (scoring 20 or above) as potentially impacting upon its ability to achieve its key priorities:
 - Financial assumptions for Investment Programme (SRR* R001)
 - External challenges and policy changes (R002)
 - Data Protection and Information Security (R003)
 - Stakeholder and political relations (R004)
 - Employee capacity and capability (R005)
 - Commerciality through use of company delivery models (R008)
 - Project and programme appraisal and assurance (Single Assurance Framework) (R009)
 - Governance arrangements (R010)
 - Reputation (R013)
 - Delivering the 2041 Carbon Budget reduction (R015)
 - Investment Programme delivery – reputational impact (R019)
 - Financial resilience of the WMCA to absorb fiscal shocks (R021)
 - Metro tram service suspension (R022)

The above risks consider and reflect within their respective risk scores, the impact and likelihood of Covid19 effects and response to risk including long term economic and service delivery impact.

*Strategic Risk Register ID

Developing an internal audit plan

- The internal audit plan is based, wherever possible, on management's risk priorities, as set out in the WMCA's own risk analysis/assessment. The plan has been designed to, wherever possible, cover the key risks identified by such risk analysis.
- In establishing the plan, the relationship between risk and frequency of audit remains absolute. The level of risk will always determine the frequency by which auditable themes and areas will be subject to audit. This ensures that key risk themes and areas are looked at on a frequent basis. The aim of this approach is to ensure the maximum level of assurance can be provided with the minimum level of audit coverage.
- It is recognised that a good internal audit plan should achieve a balance between setting out the planned audit work and retaining flexibility to respond to changing risks and priorities during the year. This continues to be of particular importance for 2022-2023 as WMCA will continue to respond to the effects of the Covid-19 pandemic and the impact of this on its business.
- Auditor's judgement will be applied in assessing the number of days required for each audit identified in the plan.
- The assessment of assurance need's purpose is to:

- determine priorities and establish the most cost-effective means of achieving audit objectives.
 - assist in the direction and control of all audit work.
- This exercise builds on and supersedes previous internal audit plans.
 - Included within the plan, in addition to audit days for field assignments are:
 - a contingency allocation, which will be utilised when the need arises, for example, special projects, investigations, advice and assistance, unplanned and ad-hoc work as and when requested.
 - a follow-up allocation, which will be utilised to assess the degree of implementation achieved in relation to key recommendations agreed by management during the prior year.
 - an audit management allocation, which is used for management, quality control, client, and external audit liaison and for preparation for, and attendance at various member meetings and Audit, Risk and Assurance Committee etc.

Considerations required of the Audit, Risk and Assurance Committee and the WMCA's Senior Management Team

- Are the objectives and key risks identified consistent with those recognised by the WMCA?
- Does the plan include all the themes which would be expected to be subject to internal audit?
- Is the allocation of audit resource accepted, and agreed as appropriate, given the level of risk identified?
- Does the plan cover the key risks as they are recognised?

How the internal audit service will be delivered

Staffing

The audit team follow the City of Wolverhampton Council's core behaviours. They are recruited, trained, and provided with opportunities for continuing professional development. Employees are also sponsored to undertake relevant professional qualifications. All employees are subject to the Council's Professional Conversation scheme, which leads to an identification of training needs. In this way, we ensure that employees are suitably skilled to deliver the internal audit service. This includes the delivery of specialist skills which are provided by staff within the service with the relevant knowledge, skills, and experience.

Resources required

It is estimated that approximately 185 internal audit days (including fraud, assurance, and contingency work) will be required to deliver the audit plan.

Quality assurance

All audit work undertaken is subject to quality assurance procedures as required by the Public Sector Internal Audit Standard and reports are subject to review by professionally qualified accountancy staff.

The internal audit plan 2022-2023

Auditable area	Purpose	Rating
Cross Organisation		
Bid Management Framework	A high-level review of the application of the Bid Management Framework by Directorates to bid preparation and submission to Senior Leadership Team to ensure effective governance, risk and support arrangements are established at the outset of bid preparation.	High
Business Continuity	A review of the business continuity arrangements in place within WMCA to ensure it reflects and can respond to the business needs of an agile workforce in the event of disruption to ICT services and/or the working environment.	High
Information Assurance and Cyber security	A review of the Security policy framework to demonstrate appropriate Information security management arrangements are in place in order to protect WMCA's data assets.	High
Organisational change	A review of the management arrangements for recruitment and changes to the establishment, including departmental restructuring, ensuring the adoption of and compliance with the Managing Organisational Change Policy and Changes to Establishment Policy.	High
Key Financial Systems	To provide assurance that the key financial processes are operating, including: <ul style="list-style-type: none"> • Payroll (full systems audit due to system change) • Accounts payable • Accounts receivable • General ledger • Budgetary control • Treasury Management 	High
Procurement Exemptions	A review of the policy and procedure for Exemption forms, ensuring compliance with Delegations of Authority, Public Procurement Regulations, and financial obligations with contractor supply.	High

Auditable area	Purpose	Rating
IR35	A review of the management of IR35 to ensure WMCA has robust systems and procedures in place to manage compliance with IR35 to avoid the risk of financial penalties.	High
Corporate Asset Acquisition and Disposal Framework	To review the structure of, and operational compliance with the Corporate Asset Acquisition and Disposal Framework.	High
Environmental Management System	A review of the Environmental Management System to ensure an effective system is in place within the organisation demonstrating how it addresses and minimises environmental impacts and manages legal compliance as part of the compliance obligations for retention of ISO 14001.	Medium
Transport		
Bromsgrove Rail Station	A high-level review of the management and contractual arrangements for the operation of the Bromsgrove Rail Station including compliance with the contractual obligations of the WMCA and its partner organisations.	High
Land and tenant management	A review of the arrangements in place for retail lettings and management of tenancies across TfWM's infrastructure.	Medium
Housing		
Single Commissioning Framework	A review of the effectiveness of the Single Commissioning Framework in delivering value for money and desired outcomes to meet funding aims and associated strategic objectives.	High
Productivity and Skills		
Adult Education Budget	A review to seek assurance on the robustness of provider performance management arrangements and controls in ensuring compliant and effective use of funding and delivery of education provision by suppliers.	High

The following reviews and associated services will be delivered corporately across WMCA:

Auditable Area	Purpose
Consultancy and advice	Special projects, advice and assistance, unplanned and ad-hoc work as and when requested.
Counter Fraud	Where required the carrying out of investigations into areas of suspected or reported fraudulent activity across the WMCA.
Recommendation follow up	The follow up of key internal audit recommendations 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.